

**Pandemic, Economic Crisis and public revenue: the impacts of
Complementary Law 173/2020 on personnel costs in the municipalities
of the northeastern region of Santa Catarina**

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ABSTRACT

In addition to being a sanitary crisis, the COVID-19 pandemic has also led to an economic crisis in Brazilian society. An obvious consequence of this economic crisis resulting from the pandemic is the fall in public revenue. The reduced consumption of goods and services by families in times of crisis has a negative fiscal impact, which in turn affects government expenditure and investments, leading to even less economic activity. In an attempt to mitigate the effects of the crisis, the Federal Program to Confront the SARS-CoV-2 Coronavirus (Covid-19) was created through Complementary Law 173/2020 to bring relief to municipalities and other subnational entities, but under the imposition of a number of controls on personnel costs. The present study sought to analyze the impact of the economic crisis caused by the pandemic on municipal tax revenues in the northeastern region of Santa Catarina State. The study also evaluated the extent to which Complementary Law 173/2020 helped to sustain the personnel costs of the executive branch of these municipalities. The results of the study showed that there was an average reduction of 4.21% in municipal Current Net Revenues, especially in Joinville, with a reduction of 6.86%, and Campo Alegre (10.51%). The study also showed that Complementary Law 173/2020 helped to sustain personnel costs in the executive branch of the municipalities in question. Personnel costs remained within the maximum and prudential limits set by the Fiscal Responsibility Law. Nevertheless, five municipalities registered an increase in terms of percentages, notably related to the fall in Current Net Revenues during the period under study.

KEYWORDS: Pandemic. Municipal revenues. Personnel costs

1 INTRODUCTION

Since early 2020, Brazil has been constantly concerned over the epidemiological crisis caused by SARS-CoV-2, which was first identified in China. In March 2020, the disease was elevated to the status of a pandemic by the World Health Organization (WHO) and, ever since, the world has sought solutions to halt the spread of the disease and provide treatment for those affected by it (WORLD HEALTH ORGANIZATION, 2020).

In addition to being a sanitary crisis, COVID-19 has also caused an economic crisis in Brazilian society. The social isolation recommended by the World Health Organization, despite its positive results in reducing the spread of the virus, has prevented businesses in a number of sectors from operating normally. Thus, the exponential rise in cases in many countries caused a downturn in the international financial market, with a later negative spill over into other regional financial centers, transforming fear into a vicious circle of global economic deceleration (SENHORAS, 2020, p.39).

Faced with the growing sanitary and economic crisis, the public authorities were forced to take steps that would not only help to prevent, contain, treat and mitigate the severity of the infection, but would also have serious social and economic repercussions. Public policies to protect jobs, preserve the business fabric, provide social protection and help education and learning systems adapt to the new circumstances were then implemented to soften the impact of the social and economic consequences of the pandemic (SILVA, 2020, p.67).

Gross Domestic Product (GDP) estimates for 2021 remain uncertain, especially because they depend on the actual duration of the pandemic and the effectiveness of sanitary, political and economic responses to it. There will be numerous difficulties, as the negative effects unfold, on both the supply and demand side in 2021. After the period of social isolation, there is hope for a slow and gradual recovery of the economic activities that were hit hardest (SANTOS et.al. 2020, p.114).

One of the obvious consequences of the economic crisis resulting from the pandemic is the drop in public revenue. In accordance with Hewings et al. (2020, p.2), the shrinking economy will lead to a drastic reduction in tax revenues, the rate of which will depend on the gravity and duration of the pandemic. The reduced consumption of goods and services by

families in times of crisis compromises tax revenues, which in turn affect government expenditure and investments, leading to even less economic activity.

In an attempt to balance the budgets of the national, state and municipal governments, the federal government created the Federal Program to Confront the SARS-CoV-2 Coronavirus (Covid-19), exclusively for the financial year of 2020, earmarking R\$ 60,000,000,000 (sixty billion reais) for the states, Federal District and municipalities to combat Covid-19 and soften its financial effects. In addition to the financial aid, the Federal Program determined, among other measures, the suspension of the payment of debts to the federal government, the restructuring of internal and external credit operations in the financial system and the suspension of the payment of instalments of social security debts. Nevertheless, these financial benefits, the tax deferrals and non-tax debt suspension did not come without a cost. Municipalities had to give in to a number of demands, mainly austerity measures. To contain personnel costs, they were forbidden from enacting laws that could increase this kind of expenditure until 31 December 2021, except under certain circumstances related to combatting the public calamity resulting from the pandemic (BRASIL, 2020).

In this respect, the present study seeks to analyze the impact of the economic crisis caused by the pandemic on municipal tax revenues in the northeastern region of Santa Catarina State. It will then evaluate to what extent Complementary Law 173/2020 helped to sustain the personnel costs of the executive branch of the municipalities under study.

This article is divided into five sections. Following this brief introduction, the aims of the study are presented, along with the methodological procedures. The results of the study are then shown, along with conceptual remarks that aid how the subject is perceived. The study is brought to a close with the conclusions.

2 OBJETIVES

As shown in the previous section, the main goal of the present study is to analyze the impact of the economic crisis resulting from the COVID-19 pandemic on tax revenues in the municipalities of the northeastern region of Santa Catarina. It also seeks to evaluate the extent to which the limits imposed by Complementary Law 173/2020 helped to sustain the personnel costs of these municipalities.

3 METHODOLOGY

The present study can be classified as descriptive because it seeks to describe the research object without interference from the researcher, addressing it from four angles: description, register, analysis and interpretation (MARCONI; LAKATOS, 2017, p. 27). It also includes document research through the use of primary bases as a source of data.

To conduct the study, a bibliographic review was initially conducted of authors who research subjects related to the theme of this article. Consequently, the necessary data for the study were collected through the E-Sfinge Platform (Integrated Management Inspection System of the Santa Catarina State Court of Auditors), especially data on Current Net Revenue and personnel costs of the executive branch of the municipalities in question.

Through the aforementioned platform, information was collected on the Current Net Revenue of the municipalities in 2019 and 2020, as well as their personnel costs during that time. The 2019 data were then updated using the Broad Consumer Price Index (IPCA) of 5.72% for the period of January to December 2020.

Finally, the results for the periods were analyzed to gauge whether the municipalities' Current Net Revenue were negatively affected by the economic crisis resulting from the

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pandemic and whether Complementary Law 173/2020 helped to keep the percentages of expenditure on staff by the municipal executive branch within the legal limits.

The study is limited to the northeastern region of Santa Catarina State, comprising nine municipalities: Joinville, Garuva, Itapoá, Campo Alegre, Rio Negrinho, São Bento do Sul, Araquari, Balneário Barra do Sul and São Francisco do Sul.

Some information on the municipalities will now be presented, such as population, per capita GDP, Human Development Index (HDI) and the percentage of municipal revenue from external sources. For purposes of comparison, at the end of the table the average for the northeastern region of the state is presented, in addition to information regarding Santa Catarina State and Brazil.

Table 1 – Economic information on the selected municipalities

Municipality	Population (Estimated in 2020)	Per capita GDP (2018)	HDI 2010	% of revenue from external sources (2020)
Araquari	39,524	R\$ 113,080.67	0.703	67.10%
Balneário Barra do Sul	11,035	R\$ 17,626.61	0.716	68.60%
Campo Alegre	11,981	R\$ 41,005.32	0.714	68.10%
Rio Negrinho	42,495	R\$ 27,502.30	0.738	66.80%
São Bento do Sul	85,421	R\$ 38,266.83	0.782	59.30%
Itapoá	21,177	R\$ 39,735.17	0.761	47.10%
São Francisco do Sul	53,746	R\$ 80,165.53	0.762	69.90%
Garuva	18,484	R\$ 60,183.18	0.725	76.30%
Joinville	597,658	R\$ 52,792.59	0.809	50.50%
Northeast of SC	881,521	R\$ 53,779.00	0.790	55.00%
Santa Catarina	7,252,502	R\$ 42,152.00	0.774	
Brazil	211,755,692	R\$ 33,593.82	0.699	

Source: Prepared by the authors based on IBGE Cidades (2021)

4 RESULTS

4.1 Variations in Current Net Revenue between 2019 and 2020

The economic impact of the COVID-19 pandemic on the public revenues of the municipalities in this study will be analyzed by gauging the variation in current net revenue published in reports from the third quarters of 2019 and 2020, as stated in the previous section.

The Complementary Law 101, enacted on 4 May 2000 and known as the Fiscal Responsibility Law, defines current net revenue as the sum of tax revenues and contributions from property, industry, farming, services,, transfers and other current revenues deducted by the federal government, states and municipalities, the contributions from civil servants towards the cost of their social security and the welfare system, as well as revenues from financial compensation mentioned in Clause 9 of Article 201 of the Federal Constitution (BRASIL, 2000).

Current net revenue is calculated by the sum of taxes collected during the month of reference and the eleven previous months, excluding double payments. According to Silva (2009, p.87), current net revenue is the basis for calculation or the parameter for all the limits of the Fiscal Responsibility Law and will be used to calculate the percentages of expenditure determined by the law.

The following table presents data taken from the E-Sfinge Platform of the Santa Catarina State Court of Auditors regarding the current net revenues of the municipalities under study.

Table 2 – Current Net Revenue of the municipalities in the northeast of Santa Catarina State

Município	2019	2020	Variação
Araquari	170,656,435.92	175,878,229.43	3.06%
Balneário Barra do Sul	48,000,864.43	47,948,140.24	-0.11%
Campo Alegre	56,428,227.02	50,498,282.12	-10.51%
Rio Negrinho	145,982,876.52	153,275,001.19	5.00%
São Bento do Sul	340,287,820.42	354,373,684.92	4.14%
Itapoá	140,701,585.90	130,811,266.58	-7.03%
São Francisco do Sul	278,637,159.93	276,198,433.57	-0.88%
Garuva	73,831,509.36	77,746,325.25	5.30%
Joinville	2,454,932,777.22	2,286,543,324.82	-6.86%

Source: Prepared by the authors based on the Santa Catarina State Court of Auditors (2021)

The data presented above indicate that the northeastern region of the state saw a fall in municipal revenues of 4.21% (four point two one percent). Of the municipalities that experienced a reduction in revenue, Joinville stands out, as it is the most populous town and has the highest GDP in the state and the third-highest in the south of Brazil, and suffered a fall of 6.86%. The cooling of the industrial activity of the large conglomerates in the metal and mechanical, chemical, plastics and textile sectors in the municipality in the early days of the pandemic, combined with the drop in the consumption of goods and services, may account for this reduction, which in monetary terms was almost R\$ 170 million reais.

In addition to Joinville, the municipalities of Itapoá and Campo Alegre also registered expressive decreases in current net revenue, especially Campo Alegre, which in terms of percentages experienced the biggest drop (10.51%).

4.2 Variations of personnel costs during the period in question

One of the main goals of the Fiscal Responsibility Law is to control the expenditure and excessive indebtedness of subnational governments (states and municipalities). To this end, the federal law set a number of government spending, such as personnel costs, debts and loans. It also determined that budgetary laws should set goals for tax collection and expenditure to avoid spending more than is collected (FIORAVANTE; PINHEIRO; VIEIRA, 2006, p.12).

Regarding public administration personnel costs, the Federal Law traced all the agencies that exercised typically political functions and enjoy administrative, functional and budgetary autonomy and put caps on their spending (CRUZ, 2002, p. 77). In specific terms, the norm determined which expenses were included in expenditure of this nature, establishing controls and adaptation mechanisms and imposing institutional sanctions in cases of non-compliance with these limits.

Concerning the definition of total personnel costs, Article 18 of the Fiscal Responsibility Law states that:

Article 18. For the purposes of this Complementary Law, total expenditure on personnel is understood as the sum of the municipality's expenditure on active and inactive staff and pensioners, related to elected office, positions, functions or employment, both civil and military, and authorities, regarding any kind of remuneration, such as fixed and variable salaries and benefits, subsidies, retirement benefits, reforms and pensions, including additional payments, bonuses, overtime and personal benefits of any nature, as well as social security deductions and contributions paid by the entity (BRASIL, 2000).

In turn, Article 19 of the Fiscal Responsibility Law set a limit on personnel costs of 60% of current net revenue for the states and municipalities, and 50% for the federal government. As for the limit imposed on the municipalities, it must be shared between the executive and legislative branches, with 54% (fifty-four percent) and 6% (six percent), respectively. The limits are set in relation to the current net revenue, which is the sum of all the revenues of the municipality and current transfers received from other entities, deducting, in the case of the municipalities, their public servants' contributions to their own social security system and revenue from financial compensation between social security schemes (BRASIL, 2000).

Nevertheless, despite the limits set on personnel costs by the Fiscal Responsibility Law and the various control mechanisms and numerous sanctions on municipal managers who do not comply with the law, it was deemed necessary to tighten the rules that control personnel costs with the advent of the Federal Program to Confront the SARS-CoV-2 Coronavirus (Covid-19). The program, established by the Federal Government through Complementary Law 173, on 27 May 2020, created a kind of provisional tax regime, seeking to rebalance public finances. In this respect, it created a number of benefits for municipalities, providing that they restricted the growth in their expenditure, especially personnel costs.

In this respect, the federal law, in Article 8, established the following norms:

Article 8. In accordance with Article 65 of Complementary Law No. 101, of May 4, 2000, the Federal Government, States, Federal District and Municipalities affected by the public calamity resulting from the Covid-19 pandemic are prohibited, until December 31, 2021, from:

I - granting, in any form, an advantage, increase, adjustment or revision of remuneration to members of the government or agencies, civil servants and public and military employees, except when resulting from a final legal ruling or a legal determination prior to the public calamity;

II – creating positions, jobs or functions that will result in increased costs;

III – altering career plans that will result in increased costs;

IV – hiring new staff in any capacity, except for the replacement of leadership, management and advisory positions that does not entail an increase in costs, with the replacement resulting from vacancies in effective or lifelong positions, the temporary hiring referred to in Item IX of the determination of Article 37 of the Federal Constitution, the hiring of temporary staff to provide military service and the hiring of students from military training schools;

V – holding civil service tests except to fill vacancies as determined in Item IV;

VI - creating or increasing aid, advantages, bonuses, allowances, representation fees or benefits of any kind, including indemnities, that members of the government, the Public Prosecutor's Office or the Public Defender's Office and public and military civil servants and employees or their dependents, except as the result of a final legal ruling or legal determination prior to the calamity;

VII - creating mandatory expenses of a continuous nature, except to meet the provisions of Clauses 1 and 2;

VIII – adopting measures that increase mandatory expenditure above the rate of inflation as calculated by the Broad National Consumer Price Index (IPCA), observing the preservation of the purchasing power referred to in item IV of the determination of Article 7 of the Federal Constitution;

IX - considering this time as an acquisition period necessary exclusively for the granting of annuities, triennials, quinquennials, leave of absence and other equivalent mechanisms that increase personnel costs as a result of public servants completing a certain period of time served, without any loss in terms of time served, retirement or any other purposes (BRASIL, 2020).

Thus, according to the terms of the Law, the municipalities are forbidden to adopt a series of measures related to personnel costs from 28 May 2020 to 31 December 2021. This time lapse will not be counted for the purpose of acquiring rights and advantages that result in higher

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costs, suspending rights and advantages acquired as a result of the counting of time. As exceptions to the rule, the legal text considered two situations: when the right or advantage is derived from a final legal ruling; or when it is the result of a legal determination prior to the public calamity.

The following table contains information regarding the current net revenue and personnel costs of every municipal government involved in the study:

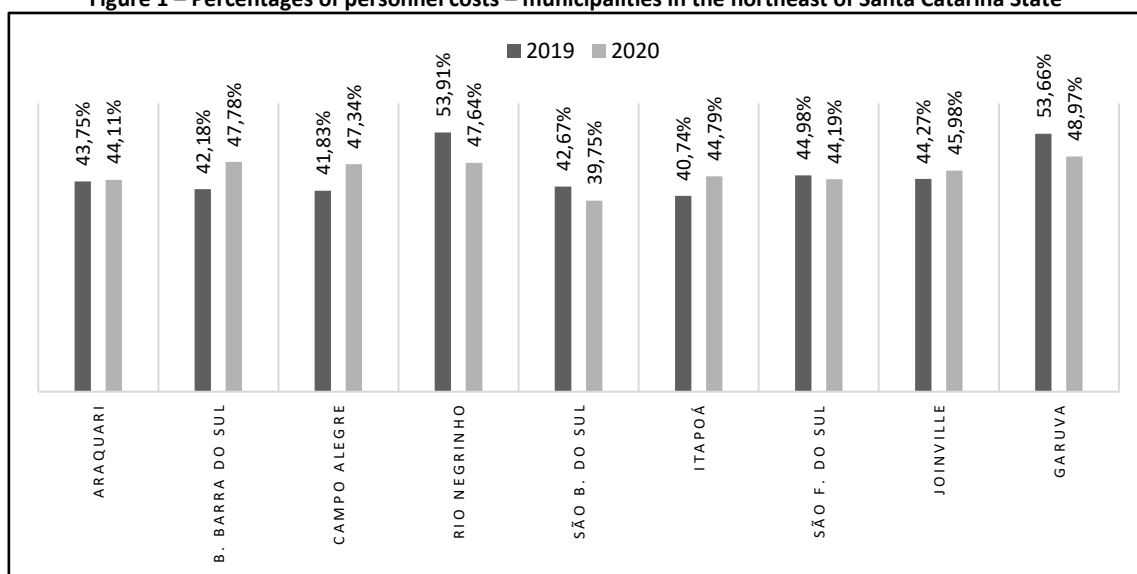
Table 3 – Current Net Revenue and Expenditure of the Municipalities

Municipality	Year	Current Net Revenue of last 12 months (IPCA)	Expenditure (IPCA)	Percentage of Current Net Revenue	% applied (higher/lower)
Araquari	2020	175,878,229.43	77,583,093.78	44.11%	-9.89%
	2019	170,656,435.92	74,664,715.56	43.75%	-10.25%
Balneário Barra do Sul	2020	47,948,140.24	22,909,816.56	47.78%	-6.22%
	2019	48,000,864.43	20,246,309.40	42.18%	-11.82%
Campo Alegre	2020	50,498,282.12	23,907,796.09	47.34%	6.66%
	2019	56,428,227.02	23,603,227.44	41.83%	12.17%
Rio Negrinho	2020	153,275,001.19	73,021,737.42	47.64%	6.36%
	2019	145,982,876.52	78,698,884.66	53.91%	-0.09%
São Bento do Sul	2020	354,373,684.92	140,868,653.79	39.75%	-14.25%
	2019	340,287,820.42	145,195,573.97	42.67%	-11.33%
Itapoá	2020	130,811,266.58	58,589,599.32	44.79%	-9.21%
	2019	140,701,585.90	57,317,164.84	40.74%	-13.26%
São Francisco do Sul	2020	276,198,433.57	122,064,722.37	44.19%	-9.81%
	2019	278,637,159.93	125,328,940.48	44.98%	-9.02%
Joinville	2020	2,286,543,324.82	1,051,321,128.18	45.98%	-8.02%
	2019	2,454,932,777.22	1,086,841,852.16	44.27%	-9.73%
Garuva	2020	77,746,325.25	38,070,307.95	48.97%	-5.03%
	2019	73,831,509.36	39,616,685.33	53.66%	-0.34%

Source: Prepared by the authors based on the Santa Catarina State Court of Auditors (2021)

The information in Table 3 was used to prepare Figure 1, below, presenting the percentages of personnel costs (executive branch) of the municipalities in the northeast of Santa Catarina State.

Figure 1 – Percentages of personnel costs – municipalities in the northeast of Santa Catarina State



Source: Prepared by the authors based on the Santa Catarina State Court of Auditors (2021)

The data in Figure 1 show that, in 2020, the personnel costs of the executive branch of the municipalities in the study remained within the maximum legal limit permitted by the Fiscal Responsibility Law, given that they all presented numbers lower than 54% of their Current Net Revenue. Furthermore, it should also be highlighted that none of them reached the prudential limit set by the Fiscal Responsibility Law, which is 95% of the maximum limit, or 51.3%.

Regarding the alert threshold (90% of the maximum limit, or 48.6%), only the municipality of Garuva registered numbers above this percentage. However, the personnel costs of this municipality are very close to this limit, demonstrating that the municipality will have no difficulty in returning to expenditure lower than the alert threshold.

Meanwhile, concerning the variation in percentages of personnel costs in relation to current net revenue, between 2019 and 2020, the municipalities of Rio Negrinho, São Bento do Sul, São Francisco do Sul and Garuva registered a drop in these numbers, especially Garuva, with a decrease of almost 5%. On the other hand, Araquari, Balneário Barra do Sul, Campo Alegre, Itapoá and Joinville showed an increase in the percentages for personnel costs, especially Campo Alegre and Balneário Barra do Sul, with an increase of over 13% in 2020 compared with the previous year.

It should be highlighted that most of the municipalities that registered lower percentages for personnel costs increased their current net revenue, with the exception of São Francisco do Sul, which even with a lower revenue managed to reduce the percentage of this expense. On the other hand, the municipalities that registered an increase in the percentages of personnel costs were those that saw a drop in their current net revenue, with the exception of Araquari, which registered an increase in current net revenue and an increase in the percentage of this cost.

5 CONCLUSION

The present study enabled an analysis of the impact of the economic crisis resulting from the pandemic on tax revenues in municipalities in the northeastern region of Santa Catarina. Indeed, the northeastern region of Santa Catarina recorded a drop of 4.21% in municipal current net revenues. Among the municipalities that registered a reduction, Joinville stands out. It is the most populous city, with the highest GDP in the state and the third in the South of Brazil, and it saw a decrease of 6.86%. Itapoá and Campo Alegre also experienced a drop, the latter with the greatest decrease in percentage terms (10.51%).

On the other hand, it was possible to assess the extent to which Complementary Law 173/2020 helped to sustain the personnel costs of the executive branch of the municipalities under study. Indeed, the personnel costs of the municipalities remained within the maximum and prudential limit determined by the Fiscal Responsibility Law. However, five municipalities in the region registered an increase in the percentage of these expenses, notably related to the drop in net revenue recorded during the period.

These findings lead to the conclusion that Complementary Law 173/2020 helped the municipalities in northeast Santa Catarina to maintain the percentages of their expenditure on personnel costs within the limit set by Complementary Law 101/2000. Nevertheless, the bans imposed by the law will remain in place until 31 December 2021. Therefore, the municipalities need to create means of increasing their tax revenues and seek to maximize the efficiency of public services, with a view to delivering quality services to society without unnecessary increases in the number of public servants.

A limitation of the study is that it only included data obtained from the E-Sfinge Platform of the Santa Catarina State Court of Auditors, with information on current net revenue

and personnel costs. Therefore, it is impossible to generalize the results presented in this study, meaning that more studies are required for a closer analysis of the economic impact of the COVID-19 pandemic on municipal public accounts and an evaluation of the impact of Complementary Law 173/2020 on public expenditure. In this respect, further studies could gauge whether other factors have contributed to the fall in municipal tax revenues. Such studies would also be important tools for a more in-depth analysis of the relationship between the requirements of Complementary Law 173/2020, such as the ban on creating new jobs and the counting of time for benefits, and the variation in the percentages of personnel costs.

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