

Public Governance and Financial Communication

Luca Bisio *

1. Public Governance and the Financial Statement System

Local authorities adopt numerous tools to implement public governance¹, including a system of financial statements (forecasts and final results) that supports political-technical decision-makers at the programming, operating, control and reporting stages.

In the document ‘Goals and postulates of the accounting principles of local authorities’², the Observatory of the Finance and Accounting of local authorities of the Interior Ministry clarifies that, “The goals of a financial statement system are to provide information regarding future and ongoing programmes, and the financial results of the authority for the benefit of a broad universe of users in the process of political, social and economic decision-making (Point 20)’.

The financial statement system must perform a triple function:

- political-administrative, because the accounting documents are essential in the exercise of the prerogatives of guidance and control that the political organ of the authority, the Council, must exercise over the executive organ, the “city board”;
- economical-financial, which consists in analysing the destination of resources in the budget and verifying that they are employed correctly;
- informative, in respect of the authority’s various stakeholders (points 21 to 24).

If we focus on the informative function, we can see that it has its origins in Legislative Decree 267/00 (Consolidating Law of Local Authorities), art. 162, para. 1 of which establishes that ‘Every year Local authorities shall approve a budget drawn up during the year for the coming year, observing the principles of unity, annuity, universality and integrity, truthfulness, financial balance and publicity.

The principle of publicity, defined in the legislation, is supported by Point 54 of the Accounting postulates which underlines that, because the financial statement system has a duty to inform the users of the accounting documents, ‘it is the authority’s duty to perform this function, informing the public and participatory

* Assistant professor of Management, University of Milan-Bicocca

bodies about the significant and characteristic contents of the annual budget and its appendices, even by supplementing the compulsory publications’.

The need for supplementary information is also underlined in Points 24 and 25 of the same Postulates, which, referring to the budget and to its appendices, establish that:

- the financial statement system does not provide all the information that users might need to take decisions, because the information is limited to financial information (in annual and long-term reports³) and to programming/financial information (in the budget and planning report⁴);
- it is also essential to provide information about the asset and financial position and any changes occurring to it, and the authority’s programmed economic results, because it cannot be deemed satisfactory to achieve overall financial breakeven (art. 162, para. 6 of the Consolidating law for Local authorities - TUEL⁵) for the formulation of a rational judgement on the authority’s future results.

The same problem regarding the incompleteness of information is underlined in the Postulates with regard to the report on operations⁶. In fact, on one hand, Point 30 clarifies that ‘from a corporate viewpoint, the report is particularly significant because it makes it possible to effectively verify the degree to which objectives have been reached and programmes have been implemented, and that economic and financial equilibrium has been respected’.

On the other hand, it points out that ‘the report does not provide all the information that users might need to take their decisions, because it primarily presents the economic and financial effects of past events (Point 32).

In order to overcome this limitation, Point 33 clarifies that ‘the report must also highlight the socially significant results produced by the administration. In this context, the report on operations⁷ plays an essential role, and must provide the qualitative-quantitative information necessary to understand the authority’s achievements and to convey not only the degree to which it achieves its economic-financial objectives, but also the overall level of social well-being achieved’.

2. Development Factors of Economic-Financial Communication

The analysis performed reveals the growing importance of the informative role of the financial statements, which is part of the process of constant openness⁸ of public authorities to the population and other stakeholders. This evolution is underpinned by the many changes put in place with the introduction of Law 142/90 (Legislation of autonomous local authorities) which clearly show that the system of local government:

- is oriented to the creation of public value⁹ for the population, to meet the needs of the various stakeholders;
- is evolving towards a network system that produces benefits and delivers services in a context of relative financial autonomy and horizontal (with the presence of public and private bodies that support the responsible authority at both the decision-making and the delivery stage) and vertical

decentralisation (leading to the distribution of functions among authorities by the principle of subsidiarity);

- increasingly poses the problem of verifying responsibilities related to value creation, so as to be able to ‘account for’ its own administrative operations, according to principles of public accountability¹⁰.

The reasons that have made it necessary to focus on the issue of ‘accountability’ regarding the achievement of results and the ways public resources are used, may be summed up briefly as follows: dynamism of the environmental context and importance of the constitutional principle of subsidiarity, evolution of the relevant institutional and electoral context, changes to the public finance systems.

2.1 Dynamism of the Environmental Context and Principle of Subsidiarity

Local authorities have gone from a relatively static situation characterised above all by a low perception of their negotiating power, which translated into almost passive acceptance of the levels of service provided by the national government, to a situation of strong environmental dynamism linked to a new understanding of the public and stakeholders generally, who act as a stimulus to public action and with whom it becomes ‘compulsory’ to achieve a dialectic, dynamic relationship.

At the same time, the traditional functions established rigidly and restrictively by law, exercised under the supervision of relevant external controls, have been joined by other, more innovative functions that derive from granting the institutional organs a good level of autonomy, based on the principle of vertical and horizontal subsidiarity¹¹.

Local authorities are gradually abandoning the forms of direct intervention in the delivery of services; their goal is increasingly to strive for the best means of satisfying public needs, also activating other entities. As a result, activities increasingly entail the governance of complex interrelations in which numerous public and private bodies converge, individual citizens, associations and companies, which represent interests, and contribute the values, resources and skills necessary to solve the problems related to the development of the local community. An authority’s success therefore depends increasingly on its ability to relate with all the forces that operate in society, which prove to be increasingly necessary for the achievement of public goals, and not only with the users of public services and the population who take on the role of the authority’s main interlocutors.

To this end, it becomes increasingly important to be able to communicate with the relevant economic-social environment – even in economic-financial terms – to identify the needs and priorities for intervention, and to simplify access to the local network by public and private organisations that may prove more suitable to intervene in the relevant context to solve specific problems.

2.2 Evolution of the Institutional and Electoral Context

The institutional structure of public sector agencies was for years characterised by coalition governments controlled only by the political parties. Law 81/93¹², which introduced the direct election of Mayors, brought an evolution towards a

mixed system, halfway between a presidential and a parliamentary approach, and the emergence, in certain situations, of charismatic figures of Mayors who have exerted themselves over their Municipal Councils.

Councillors are often ‘technicians’ – university professors, professional people, businessmen – and the government is presented as the Mayor’s ‘team’. Similarly, the executives and general manager of the entity are chosen by the Mayor through a ‘fiduciary’ appointment.

At a national level, ‘the party of the mayors’ is active and proactive, laying claim to a central role for the municipalities in local development.

In this new scenario, the Mayor is therefore:

- given responsibility for running the entity;
- guaranteed, by the appointment of councillors and managers, a group of collaborators whom he can trust more than prior to the 1993 reform;
- guaranteed political support to his proposals and activities through his relationship with the Council.

It is therefore clear that guaranteeing a new, direct relationship between the voting public and the Mayor is necessary to guarantee that local governments have the stability they were lacking in the past and which must make possible the programming and implementation, over a five-year period, of initiatives and intervention to develop the community. Without it, we would lose both the trusting relationship that is expressed by direct elections, and the sense of the mandate to govern the town which the voter (a component of the economic subject of the territorial public entity) confers on the Mayor through our system of representative democracy.

In this context, the mandate programme becomes extremely important; it can no longer constitute a mere declaration of intent, but must be a pact that the administration enters into with the population and the community. In fact, at a legislative level, the Mayor is obliged to present to the Council the state of implementation of his programme during each year of his term of office. Economic-financial communication is one of the tools to monitor the achievement of the stated objectives that a Mayor can use in his governance relations with the territory.

2.3 From ‘Derived’ Finance to Regulated Finance

The process that took Italian local authorities from a ‘derived’ finance system¹³ of centralised state transfers, to a more evolved situation of financial autonomy, has been ramified and complex. We need to briefly examine the main stages of its evolution to understand it better.

When the Republic was declared, the framework legislation for Local Authorities was the Municipal and Provincial Consolidating Law¹⁴, arts. 93 and 94 of which established that the income of the authorities should derive from local tax revenues, equity income and a share of national tax revenues, always within the limits of and in line with national legislation.

All this appeared to contrast with the dictates of art. 5 of the Constitution which envisaged that ‘the Republic, one and indivisible, recognises and promotes local

autonomies; implements in those services which depend on the State the fullest measure of administrative decentralisation; accords the principles and methods of its legislation to the requirements of autonomy and decentralisation.¹⁵

The legislative structure therefore gave a glimpse of an apparent structural autonomy at local level (linked to the principle of autonomy and decentralisation) but, in fact, the resources collected:

- still respected very stringent rules that were defined at a national level;
- were therefore not sufficient to meet the growing expenses;
- could not sustain a straightforward investment policy that was implemented centrally and, only marginally, by the municipalities with specific loans guaranteed by the State or by the Regional government.

The effects of this framework were not slow to emerge: in fact, as early as the 1950s there were the first signs of unbalance in the accounts of the Provincial and Municipal Councils, which were not yet obliged to break even.

As a result the State had to pass Law no. 30 of February 12, 1958¹⁶ to salvage the entities, authorising them to take out loans to balance the deficits and guaranteeing these loans to 80%.

This contingent intervention was followed by a structural reform of the system, which led to the approval of Law 1014¹⁷ of September 16, 1960 which:

- abolished many of the taxes that had been attributed to the Municipalities by the Consolidating Law of 1934;
- transferred certain services from the Municipalities to the State;
- ordered the compensation of the drop in income due to the abolished taxes, with a share of IGE (General tax on income).

This reform marked the start of a period of strong centralism on the part of the State, representing the particularly significant application of the so-called 'derived finance' system.

In parallel with this, from all sides there was a call for tax reform to overcome certain serious deficiencies of the tax system of the time, such as:

- the many direct and indirect taxes of the state and the local authorities, even focusing on the same target, which underlined the need for transparency;
- the number of different entities imposing taxes, thus delegitimising the level of government further from the population;
- the 'dual' contribution capability, which was expressed by greater resources and, therefore, investment in the North, and reduced capacity in the South.¹⁸

The tax Reform of 1972 attempted to remedy these problems, by providing the central government with more tools to control the economy. This, however, entailed a drastic reduction in local tax autonomy. Basically, local governments were stripped of their authority to impose taxation, with the sole exception of INVIM (National tax on real estate value), a tax on advertising, and a tax on dogs that generated negligible revenues.

To compensate for the fall in income caused by the elimination of the main taxes administered autonomously by the municipalities, the State devolved state funds (revenue sharing) in proportion to the income received in the years prior to

the application of the reform. This revenue sharing, however, proved totally inadequate to cover local requirements, forcing local entities to make improper use of the tool of medium-long term indebtedness to finance current spending; all this triggered a vicious circle of growing deficits and indebtedness.

To ease this situation, which was financially unsustainable, the so-called 'Stammati Decrees' were issued¹⁹. They cancelled local indebtedness by eliminating accumulated debts and introduced the principle of the 'unitary nature of public finances', also envisaging the implementation of general plans to reorganise offices and services, and the obligation to balance the budget.

With these measures, the State pursued the goal of limiting expenditure, setting a ceiling each year on the expansion of current expenses, and establishing the permissible growth rate, anticipating an approach that returned twenty years later when the domestic stability pact was introduced.

The Stammati Decree ushered in the historical period of transfers, when local authorities were financed on the basis of the criterion of 'past expenditure', i.e., meeting the requirement plan declared by each entity for its own expenses, regardless of any analysis of their consistency or utility.

Although this practice did give local governments a guaranteed income, it also proved unfair because it rewarded the local authorities that were in greater debt; it did not generate efficiency or productivity, and it did not resolve financial unbalance. The combination of these phenomena led to a gradual decrease in the accountability of local governments²⁰.

In the 1990s, starting with Law 142/1990, political and economic considerations induced the government to completely review the institutional structure of the local administrations, granting the local authorities:

- on one hand the necessary power to levy tax, duties and charges to guarantee real autonomy to local finances;
- on the other, the certainty of resources no longer based on 'transfers' but on taxes, duties and charges defined autonomously, albeit within the limits of national law and budget balancing constraints.

In line with the law to reform local government, in 1992 the government was given the mandate to review local finances in order to allow the Regional, Provincial and Municipal authorities to generate a consistent part of their financial requirements through their own resources.

This mandate was only the start of a far-reaching process of reform, which finally guaranteed the constitutional principle of financial autonomy.

In particular the so-called 'Bassanini Laws' (Laws 59/1997 and 127/97²¹) anticipated the constitutional provisions of Constitutional Law 3/2001²², proving to be a fundamental step in the decentralisation of functions and roles to local governments, focusing, at an administrative and legislative level, on the legislative power of the regional authorities where tax was concerned. Their innovative power coined the term 'federalism with an unvaried constitution'²³. The use of the term 'federalism' was due to the fact that for the first time a law was based on a concept typical of a federalist state: the principle of vertical subsidiarity according to which all the tasks (and resources) must be attributed at

the forms of government closest to the population, while the State guarantees cohesion and 'macro' services (defence, justice, etc.).

It is no chance that the five years of innovation that lasted from 1992 to 1996 coincided with the passing of Law 81/93 for the direct election of the Mayor. In this institutional framework, a mayor is responsible – as we noted earlier – for proposing goals and objectives to the population. But he also has to ask them for a significant part of the resources to finance the budget (taxes, rates and tariffs accounted for up to 60/70% of municipal income).

It is clear that the principle of subsidiarity, increasingly autonomous local finance and direct elections concentrated in the figure of the Mayor the responsibilities for the governance and accountability of the authority before the public it administered, making it increasingly necessary to establish a clear procedure for the use of resources and the achievement of objectives.

However, even if the policies adopted more recently reveal an intention to encourage the decentralisation and financial autonomy of lower levels of government, we must remember that the obligation of financial rectitude that derives from membership of the European Economic and Monetary Union has made, and continues to make any reform in a federalist direction more difficult. For a country like Italy, in which the need to strive constantly to reduce the Debt/GDP ratio demands a policy of strict financial rigour, the central government is faced with the problem of finding the resources necessary to respect the Maastricht parameters. For this reason, the Domestic Stability Pact was introduced in 1998, envisaging a commitment by decentralised entities to make a decisive contribution to the achievement of the central government's goal in terms of net indebtedness. In spite of the criticism aimed at the Pact, art. 28 of Law 448 of 1998²⁴, which decreed its birth, marked a turnaround in relations between the State and the Local Authorities. It could be seen as a first attempt by a national law to achieve synergies between the efforts of the entire public sector in a single direction: to clean up public sector accounts.

This reduced the degree of financial autonomy of the local authorities, making management of their budgets complex and uncertain because of continuous changes to the rules regulating the Pact each year.

However, the constraints and cuts to expenditure, and the return to a partial concentration under the Ministry of Finance of issues related to local finance, did not decrease the responsibility of the Mayors or the Presidents of the Provinces regarding:

- programmed goals and objectives;
- the results to be reached;
- use of resources and maintenance of related financial balance.

On the other hand, a more complex, differentiated system of relations with stakeholders made it necessary to structure communications in differentiated channels and tools, which were able to establish better relations with stakeholders.

3. Public Communications and Economic-Financial Communication

The information contained in economic-financial corporate communication may be classified according to various benchmark parameters: the compulsory or voluntary

nature of the content; the complementary or supplementary nature of the information in relation to the minimum content of the documents; stakeholders' expectations.

The compulsory nature of the information is established by legislative constraints, whose aim is to protect third parties and to guarantee information for the stakeholders. Voluntary information complements the previous information, with the goal of increasing the accountability of the entity by increasing the range of information made available, improving the segmentation of the target public, and optimising the frequency of the information communicated.

In territorial public entities, these communications are primarily 'due', in the sense that they communicate on the basis of obligations imposed by codes of practice or provisions issued by other levels of government or control organisms. However, as relations with stakeholders have changed, there has been a considerable increase in the voluntary communication tools adopted by authorities and, in particular, demanded by Mayors and the Presidents of the Provinces.

In order for the economic-financial information to respond consistently and completely to exhaustive communication models, it appears advisable to introduce additional and supplementary elaborations designed specifically to provide a brief representation of the phenomena that impact most on corporate monetary and financial dynamics.²⁵ It might also be useful to supplement the concise information provided in the various documents by highlighting particular variations and specific relations between values that express correlated phenomena, particularly to achieve widespread transparency and to meet specific expectations²⁶.

The importance of complementing the communications envisaged in standards emerges from the need to meet stakeholders' expectations. These expectations may be broken down into essential expectations, which are substantially the same from all parties interesting in financial statement information, and particular expectations, expressed by specific classes of the public and qualified by clearly defined, interactive relationships with the entity²⁷.

In Italy, communications by public organisations are regulated by Law 150/00²⁸, art. 1, paragraph 5 of which defines the goals of information and communications as:

- illustrating and encouraging understanding of legislative provisions, in order to simplify their application;
- illustrating the activities and functions of the institutions;
- encouraging access to public services, promoting understanding of them;
- promoting extended and detailed knowledge of issues of particular public and social interest;
- fostering internal processes to simplify procedures and to modernise systems, as well as understanding of the start and evolution of administrative formalities;
- promoting the image of the administrations and of Italy, in Europe and in the rest of the world, making events of local, regional, national and international importance known and visible.

We can note that the legislators have concentrated primarily on the clarity of the functions of the entities, access to the services, the simplification and transparency of administrative procedures, the dissemination of information of general interest and the development of the image of the entities nationally and internationally.

At the same time, the communication of financial statement information and related financial communications is completely overlooked. To find references to the subject, we must concentrate on specific legislation such as:

- Leg. Decree 267/00, which also regulates the accounting systems of local authorities;
- the financial laws of the state;
- other local financial legislation.

This legislation must be supplemented by the Postulates and Accounting principles issued by the Observatory of the Finance and Accounting of local authorities (Interior Ministry) which interprets them and supplements them with applications and notations.

In addition to recognising the importance of the complementary and supplementary information that must back up the information required by law, the Postulates stress the need to segment the recipients of financial information in Point 19, specifying that ‘The users of the financial statement system include ordinary citizens, councillors and administrators, watchdogs and public entities, employees, financiers, suppliers and other creditor. They use the financial statement system to meet some of their own information requirements’ (Table 1).

Table 1: Information Needs of Users of the Financial Statement System

<i>Users of financial statement system</i>	<i>Information needs</i>
<i>Citizens</i>	The right to have access to a document that allows them to understand the concrete orientation of the administration (in terms of services, effectiveness and costs), the levels of fiscal pressure programmed and achieved by the local authority, the results of public territorial policies.
<i>Councillors and administrators</i>	The Council is the organ of political-administrative policy and control, and is responsible for the entity’s fundamental actions (programmes, financial plans, annual and long-term budgets, reports, etc.). This function may be exercised in full only if the financial statement system is structured to provide a truthful, correct picture of the programmes and results of administrative activities.
<i>Watchdog and other public entities</i>	The financial statement system is an essential document to understand how the administration functions. Both public entities and the watchdogs must have access to information that allows them to understand the economic, financial and equity performance of the entity.
<i>Employees</i>	Employees and their representative groups want information about programmes and about the economic, financial and equity performance of the local authority. In particular, service managers need access to a tool that enables them to understand and therefore implement the programme policies and to verify the results.
<i>Financiers</i>	Financiers are interested in information that enables them to understand whether their loans and the related interest will be serviced at the set deadlines.
<i>Suppliers and other creditors</i>	Suppliers and other trade creditors are interested in information that enables them to assess the entity’s solvency. Even for suppliers and other creditors, the institution of bankruptcy makes it indispensable to receive information about the operations of the entity.

Source: Observatory of the Finance and Accounting of local authorities (Interior Ministry), Goals and postulates of the accounting principles of local authorities, Point 19 (July 4, 2002).

This segmentation underlines the search for ever greater consistency between the content and timing of economic and financial information, stakeholders' expectations, and the decision-making processes of managers of local governance.

4. Tools and Channels of Economic-Financial Communication

In order to structurally analyse the main economic-financial communications tools that local entities use to support relations with their stakeholders, they first need to be classified within the three stages into which all the activities of the territorial public authority can be grouped:

- programming;
- management and control;
- reporting²⁹.

Most of them derive from legislation and they often use forms and channels of communication that are defined centrally (Interior Ministry, Ministry of Finance, Corte dei Conti (Court of Auditors) etc.). However, over the years, voluntary tools have been introduced to provide complementary and supplementary information that facilitates the management of relations with stakeholders (Table 2).

4.1 Economic-Financial Communications at the Programming Stage

The budget and its appendices must be made known to the public and to other participatory organisms 'by the means envisaged by the articles and regulations' of the entity (art. 162, paragraph 7 of Leg. Decree 267/00). What is more, 'the regional and provincial governments and towns with more than 20,000 inhabitants [...] must publish an extract of their budgets in at least two daily papers circulated in the relevant area, and in at least one national paper and one periodical (art. 6, paragraph 1 of Law 67/87³⁰).

The authorities must prepare and present to the Prefecture (territorial representative of the Government) a budget proposal compiled on a computerised form, submitting it both electronically (floppy) and on paper because it represents an essential documentary form for the acquisition of the certificate (Circular FL 11/06)³¹.

In addition to these formalities, over the years at least two other voluntary tools have been developed to facilitate understanding of the financial statements of the local authority:

- the budget report, which is not envisaged by any regulations but is nearly always used by the relevant councillor to support the presentation of the budget and its appendices to the Council;
- the guide to the budget, a tool that typically addresses external stakeholders, designed to make more comprehensible the goals, the target of the expenditure and the related sources of funding.

Table 2: Economic-Financial Communications Tools and Compulsory Nature of Information

	Tool	Nature of Information	
		Required by legislation	Complementary and supplementary
Programming	Budget and appendices	x	
	Budget report		x
	Budget certificate	x	
	Knowledge of significant and characteristic contents of budget	x	
	Publication of budgets of public authorities	x	
	Guide to budget		x
Operations/Control	Periodical cash flow data	x	
	Certificate of degree of coverage of cost of services requested individually	x	
	Off-balance sheet payables	x	
	Liquid assets	x	
	Monitoring of respect of domestic stability pact	x	
	Management reporting systems	x	
Reporting	Transmission of accounting agents' account and Treasurer's account	x	
	Report on operations (Balance Sheet, Statement of operations and Property account)	x	
	Management report	x	
	Management report certificate	x	
	Management control report	x	
	Social report		x
	Environmental report		x
	Gender budgeting		x
	Consolidated financial statements		x
	Communication of failure to respect domestic stability pact	x	
Tables of annual balances of pact	x		

4.2 Economic-Financial Communication at the Operations/Control Stage

During the year, numerous formalities must be completed regarding economic-financial communication, the most important being:

- periodical transmission of treasury flows and cash operations, in order to define the quarterly and yearly results of public sector accounts and to prepare the statement of operations of the public authorities as envisaged by art. 32 of Law 289/02³²;
- certification, for entities that are structurally deficient, of the ratio of coverage of the cost of services requested individually (Circular FL no. 3/06)³³;

- recognition of legitimacy of off-balance sheet payables, by Council resolution (art. 194 of Leg. Decree 267/00);
- information about consistency of liquid assets, performed by the 20th day of each month. The treasurers transmit to SIOPE³⁴ coded information about the consistency of the liquid assets of each entity at the end of the previous month, according to an established layout. By the same date, the local authorities communicate the information about the financial assets on deposit with other banks at the end of the previous month to their treasurer who then transmits said data to SIOPE (Decree February 18, 2005)³⁵;
- monitoring of respect of the domestic stability pact. Every quarter, within thirty days from the end of the relevant period, the regional governments and the autonomous provinces of Trento and Bolzano, provinces and municipalities with populations above 20,000 inhabitants and mountain communities with populations above 50,000 inhabitants, shall transmit to the Ministry of Finance – General Accounts Department (RGS));
- the information regarding both their operations and cash flows, using the prospectus and methods established by a decree of the same Ministry, together with the Interior Ministry, with the approval of the Joint Conference referred to in article 8 of Legislative Decree 281 of August 28, 1997, and ISTAT (Law 331/04³⁶).

This system of compulsory reckoning is backed up by the management control reporting systems which, although envisaged by art. 196 of Leg. Decree 267/00³⁷, are applied very differently depending on the degree of privatisation of each local authority. The internal auditing services communicate the ‘conclusions of said audit to the administrators in order to verify the state of implementation of the programmed objectives, and to the service managers so that they have the elements necessary to evaluate how the services they are responsible for are being managed (art. 198 of Leg. Decree 267/00).

4.3 Economic-Financial Communication at the Reporting Stage

Although the activities of local authorities are concentrated primarily in forecasting documents, granting authority, reporting on operations also has a certain importance, in management and communication terms.

In fact, local authorities are obliged bylaw to produce and submit the following documents: accounting agents’ account and treasurer’s account; report with appendices; report certificate; possible communications regarding failure to respect the targets of the Stability Pact; tables of the significant annual balances for the purposes of the Pact; management control report.

The obligation to submit the Treasurer’s account is set out in art. 226 of the Consolidating Law (TUEL), which states that the authorities must submit the operating account of the treasurer, within 60 days of approval of the report, to the legal department of the Corte dei Conti (Court of Auditors). This submission must include all the documentation necessary to provide a correct picture of

management trends during the year, i.e.: appendices regarding the performance of each resource and operation, collection and payment orders, original bills, etc..

Paragraph 6 of article 227 of the TUEL requires the authorities to transmit both the management report and certification of said report to the Local Authorities Section of the Interior Ministry electronically.

Among the main compulsory documents that the authorities are bound to communicate at year-end, we should certainly mention all the reporting activities undertaken to demonstrate the authority's contribution to the objectives contemplated by the Domestic Stability Pact. In particular, art. 227, paragraph 6 of the TUEL refers to the need to send the Interior Ministry tables regarding the balances for the Stability Pact, a requirement that is reiterated in art. 1, paragraph 32 of Law 311/2004 (Finance law for 2005), which establishes that, in the event of a failure to respect the objectives set out in the Stability Pact, the entity, or rather the auditors, are obliged to inform the Interior Ministry, by fax or regular mail, by March 31. This is also underlined by the Ministerial Decree of January 12, 2006³⁸.

We also have to consider the 'annual' monitoring of the Pact, which is basically a final, closing chapter of the quarterly reports seen earlier which, like those, must be sent electronically to the General Accounts Department).

And finally, in times when there is greater emphasis and attention focused on reducing public sector spending and its efficiency and effectiveness, the management control tool with which the structure responsible for management control communicates the results of the entity's operations takes on even greater importance. As required by Decree 168/2004³⁹ which introduced art. 198 *bis* of the TUEL, it must be sent not only to the administrators and service managers, but also to the regional audits section of the Corte dei Conti (Court of Auditors)⁴⁰.

In addition to these tools required by law, other tools are evolving, which supplement/complement those seen earlier, whose main goal is to give external and internal stakeholders a comprehensive overview of the operating dynamics and results of the Administration; these include social reports, environmental reports, gender budgeting and consolidated financial statements.

Table 3: *Economic-Financial Communications Tools and Relevant Stakeholders*

	Tools	Stakeholders	
		Internal	External
Programming	Budget and appendices	Board of auditors, Council, Executives and employees	All
	Budget report	Board of auditors, Council, Executives and employees	-
	Budget certificate	-	Prefecture (territorial representative of the government)
	Knowledge of significant and characteristics contents of budget	-	Population and participatory organisms
	Publication of budgets of public authorities	All	All
	Guide to budget	All	All
Operations/ Control	Periodical cash flow data	-	General Accounts Department (Ministry of Finance)-
	Certificate of degree of coverage of cost of services requested individually	-	Interior Ministry
	Off-balance sheet payables	Council	-
	Liquid assets	-	Treasurer
	Monitoring of respect of domestic stability pact	-	General Accounts Department (Ministry of Finance)-
	Reporting systems	All	-
Reporting	Transmission of accounting agents' account and Treasurer's account	-	Legal section – Corte dei Conti (Court of Auditors)
	Report on operations (Balance Sheet, Statement of operations and Property account)	Board of auditors, Council, Executives and employees	All
	Management report	Board of auditors, Council, Executives and employees	All
	Management report certificate	-	Interior Ministry Ministry of Finance
	Management control report	City Board and executives	Regional auditing office of Corte dei Conti (Court of Auditors)
	Social report	All	All
	Environmental report	All	All
	Gender budgeting	All	All
	Consolidated financial statements	All	All
	Communication of failure to respect internal stability pact	-	Corte dei Conti (Court of Auditors) Interior Ministry
Tables of annual balances of the pact	-	General Accounts Department (Ministry of Finance)	

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Notes

¹ Cf. L. Bisio, 'Mercati globali e Public Governance in Europa', in *Symphonya. Emerging Issues in Management* (www.unimib.it/symphonya), no. 1, 2004; European Commission, *European governance: a white book*, Brussels, 2001.

² Observatory of the Finance and Accounting of local authorities (Interior Ministry), *Finalità e postulati dei principi contabili degli enti locali*, Rome, 2002.

³ Annual and long-term budgets are a projection of:

- current expenditure, investment and indebtedness to achieve the programmes and any projects illustrated in the budget and planning report;
- incoming resources to guarantee coverage of envisaged expenses;
- income and expenditure related to service on behalf of third parties.

⁴ [The budget and planning report constitutes the authority's strategic three-year plan, drafted on the basis of the Mayor's Policy programme. It illustrates, first of all, the general characteristics of the

population, of the area, of the local economy and the services of the authority, giving details about human, instrumental and technological resources. Where income is concerned, it includes a general appraisal of financial assets, identifying sources of funding and highlighting the past performance of the same and related constraints. Where expenditure is concerned, the report focuses on programmes and possible projects, with explicit reference to the programmes indicated in the annual budget and the long-term budget, highlighting the entity and percentage incidence of the forecast with reference to the consolidated current expenditure, to development expenditure and to investment. It specifies the goals pursued with each programme and the human and instrumental resources dedicated to it, broken down by each of the years covered by the programme, with specific motivation for the choices made (art. 170, paragraphs 2, 3 and 4 of Leg. Decree 267/00).

⁵ Art. 162, paragraph 6 of Leg. Decree 267/00: The approved budget must reflect overall financial parity. Moreover, forecast current expenditure for the year, added to the forecasts for the year of the capital share of the amortisation rates of loans and debenture loans, cannot as a whole exceed the forecast for the first three income items for the year and cannot have any other form of financing, other than the exceptions contemplated by law. For mountain communities, reference is made to the first two income items.

⁶ The report on operations is the annual report that illustrates operating results, analysed from various viewpoints: financial/authorisation (balance sheet), economic (statement of operations), property (assets) and programmatic/social (management report). Its main goals are:

- to demonstrate the results of the overall operations of the authority;
- to support the evaluations of administrators, executives and other stakeholders, regarding the validity of the decisions taken at the programming stage;
- to support the possible redefinition of the contents of the policy programme and the entity's other planning and programming tools.

⁷ An illustrative report by the (City Board) is attached to the report [...] (art. 151, paragraph 6 of Leg. Decree 267/00). In this report [...] the authority's executive organ evaluates the effectiveness of the action taken on the basis of the results achieved in relation to the programmes and the costs met. It also highlights the criteria to evaluate the assets and economic components. It also analyses the main deviances that have occurred with respect to forecasts, motivating the reasons for them (art. 231, paragraph 1 of Leg. Decree 267/00).

⁸ Cf. M. Mazzoleni, *Il governo economico degli enti locali e la partecipazione dei cittadini*, Franco Angeli, Milan, 2004.

⁹ Cf. M. H. Moore, *Creating Public Value*, Harvard University Press, Cambridge, Mass, 1995.

¹⁰ The term accountability refers to 'the need for those in positions of responsibility to give account of their operations and actions to society or stakeholders', see F. Pezzani, (edited by), *L'Accountability delle amministrazioni pubbliche*, page 9, EGEA, Milan, 2003.

¹¹ The principle of subsidiarity is ratified by art. 118 of the Italian Constitution in paragraphs 1 (Administrative functions are attributed to the Municipalities except when, to guarantee joint operation, they are attributed to the Provinces, metropolitan Cities, Regions and the State, on the basis of principles of subsidiarity, differentiation and appropriateness) and 4 (the State, Regions, metropolitan Cities, Provinces and Municipalities favour the autonomous initiative of the public, individually and in associations, to perform activities of general interest on the basis of the principle of subsidiarity).

¹² Law 81/93, 'Direct election of the mayor, the president of the province, the town council and the provincial council'.

¹³ The term 'derived' finance refers to the 'system of municipal income based exclusively [...] on inelastic state transfers primarily to replace suppressed local taxes', F. Gallo, *L'autonomia tributaria degli Enti Locali*, Ce.R.D.E.F., Bologna 1979.

¹⁴ Royal Decree 383/34, 'Approval of the consolidating law governing municipal and provincial authorities'.

¹⁵ Cf. M. Viti, *L'evoluzione della finanza comunale in Italia: dall'unificazione alla seconda guerra mondiale*, <http://www.rivista.ssef.it>.

¹⁶ Law 30/58, 'Cancelling of municipal and provincial deficits for years 1957 and 1958'.

¹⁷ Law 1014/60, 'Standards to contribute to the settlement of municipal and provincial budgets and changes to provisions regarding local taxation'.

¹⁸ Cf. M. Viti, *La finanza comunale in Italia prima e dopo la riforma tributaria degli anni '70*, <http://dottrina.finanze.it>.

¹⁹ There were two Stammati Decrees, named after Gaetano Stammati, who drafted them:

'Stammati I', Decree no. 2 of January 17, 1977, 'Consolidation of short-term overdrafts of municipalities and provinces' converted with amendments into Law no. 62 of March 17, 1977;

'Stammati II' or Decree no. 946 of December 29, 1977, 'Urgent provisions for local finance' converted into Law no. 43 of February 27, 1978.

²⁰ Cf. M. Viti, *Il massiccio finanziamento degli enti locali dai Decreti Stammati alla fine degli anni '80*, <http://www.rivista.ssef.it>.

²¹ Law 59/1997, 'Mandate to the Government for attribution of functions and responsibilities to regional and local authorities, to reform the Public Administration and to simplify bureaucracy' and Law 127/97, 'Urgent measures to streamline administrative activities and decision-making and auditing procedures'.

²² Constitutional Law 3/01, 'Amendments to chapter V of the second part of the Constitution'.

²³ Cf. G. Soricelli, *Dal decentramento al federalismo a Costituzione invariata: il conferimento di funzioni e compiti nel quadro del riordino dei rapporti tra stato, regioni ed enti locali alla luce del nuovo diritto*, *Le Regioni*, no. 6, 2000, p. 1029.

²⁴ Law 448/98, 'Public finance measures for stabilisation and development' (Finance Law for 1999).

²⁵ see D. M. Salvioni, *Il bilancio d'esercizio nella comunicazione integrata d'impresa*, page 244, G. Giappichelli, Turin, 1992.

²⁶ see D. M. Salvioni, *Il bilancio d'esercizio nella comunicazione integrata d'impresa*, page 251, op. cit.

²⁷ see D. M. Salvioni, *Il bilancio d'esercizio nella comunicazione integrata d'impresa*, page 218, op. cit.

²⁸ Law 150/00, 'Regulation of information and communication activities of public authorities'.

²⁹ We point out that this three-way division was used by the Observatory of the Finance and Accounting of local authorities to structure the accounting Principles issued to date to implement the Postulates. In detail: Accounting principles no. 1 – Programming and forecasting in financial statement system; Accounting principle no. 2 – Management in financial statement system; Accounting principle no. 3 – Reporting by local authorities.

³⁰ Law 67/87, 'Renewal of Law no. 416 of August 5, 1981, regulating publishing companies and publishing measures'.

³¹ Circular FL 11/06, 'Certification of 2006 Budgets of provinces, municipalities, mountain communities and associations of municipalities'.

³² Law 289/02, 'Provisions for the preparation of the annual and long-term budget of the State (2003 Budget Law). Art. 32: In order to 'define the quarterly and annual results of the public accounts for the preparation of the statement of operations of the public administrations [...] the deadline for

submission of the data accumulated by cash operations which [...] public sector entities [...] must send to the Ministry of Finance – General Accounting Office [...] is the 20th day of the month following the end of the reference period.

³³ Circular FL no. 3/06, ‘Certificate to demonstrate the degree of coverage in 2005 of the cost of services requested individually, urban waste disposal services and water supply.

³⁴ SIOPE (Information system of operations of public entities) is a computerised forecasting system of incoming and outgoing payments by the treasuries of all public authorities, the result of collaboration between General Accounts Department, Italy’s Central Bank and ISTAT, implementing article 28 of Law no. 289/2002 (Source, Ministry of Finance).

³⁵ Decree February 18, 2005, ‘Coding, method and timing for the implementation of SIOPE for local authorities’ (art. 28, paragraph 5, Law no. 289 of 27/12/2002, and art. 1, paragraph 79, Law no. 311 of 30/12/2004).

³⁶ Law 311/04, ‘Provisions for the preparation of the annual and long-term budget of the State (Finance Law for 2005).

³⁷ Art. 196, paragraph 1 of Leg. Decree 267/00, ‘In order to guarantee the achievement of the programmed objectives, correct, economic management of public resources, impartiality and good public administration and the transparency of administrative actions, local authorities carry out management control according to the method established in this chapter, in their articles of association and in accounting regulations.’

³⁸ Decree by the Head of the Department for Domestic and Territorial Affairs of the Interior Ministry, together with the Ministry of Finance, ‘Approval of the model of measuring failure to respect the objectives of the “domestic stability pact”, for 2005’ published in the O.G. no 20 of January 25, 2006.

³⁹ Decree no. 168 of 12/7/2004, ‘Urgent measures to limit public spending’, published in the O.G. no. 161 of July 12, 2004, S.O.

⁴⁰ Point 5 of Accounting principle no. 3 establishes that “For the purposes of the report referred to in art. 3, paragraphs 4 and 7 of Law 20/94 and the consolidation of public accounts, the Local Authorities Section of the Court of Auditors may request the accounts of all the local authorities.