

La sana gestione finanziaria delle amministrazioni comunali: quali sviluppi a distanza di dieci anni dall'emanazione del Testo Unico Enti Locali?

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Antefatti. La pubblica amministrazione è sottoposta a pressioni continue da parte dei cittadini e, più in generale, dai propri portatori di interesse nella direzione del miglioramento delle prestazioni sia sotto il profilo dell'efficienza sia sotto quello dell'efficacia. Allo stesso tempo, anche in considerazione della più recente crisi economica, le risorse a disposizione tendono a diminuire. La tendenza sembra essere largamente diffusa a livello internazionale. A livello nazionale tale situazione riguarda tanto l'amministrazione centrale, quanto quelle locali, oggetto del presente lavoro. Nel contempo, per le amministrazioni locali, la riforma del titolo V della Costituzione e la conseguente normativa, in particolare quella sul federalismo fiscale, sta determinando una forte responsabilizzazione degli enti sull'ottenimento (tassazione) e sull'uso delle risorse; in prospettiva, gli stessi trasferimenti erariali si fonderanno non più sulla spesa storica ma sui costi standard. La "riforma Brunetta" infine, ha pesantemente introdotto la considerazione di criteri meritocratici, nella valutazione degli enti e dei singoli responsabili, ponendo in evidenza un serio problema di misurazione delle *performance*.

Problema. La "sana gestione finanziaria" rappresenta la *condicio sine qua non* di operatività degli enti locali. Condizione che diventa sinonimo di sostenibilità (finanziaria) delle stesse amministrazioni locali, in mancanza della quale si perviene al cosiddetto "dissesto finanziario" che decreta il commissariamento da parte del governo centrale, e la conseguente sospensione temporanea dell'autonomia finanziaria e organizzativa. Negli ultimi tempi sembrano essere diventati più palesi e più gravi i segnali di difficoltà in cui versa la finanza locale. Innanzitutto appare più pesante l'utilizzo di risorse straordinarie (es. concessioni edilizie o avanzi d'amministrazione) per la copertura di spese ordinarie. In secondo luogo molte amministrazioni comunali hanno fatto utilizzo di strumenti di finanza derivata per incassare somme di denaro *una tantum* per far fronte a spese di carattere ordinario o per diminuire le esigenze finanziarie a breve per pagamenti di interessi passivi, ma esponendosi a rischi finanziari futuri elevatissimi. Una recente indagine condotta dalla Ragioneria Generale dello Stato ha, poi, individuato una serie piuttosto vasta di sintomatologie che lasciano presagire come la situazione di sofferenza della finanza locale sia notevolmente degradata, specie fra le amministrazioni comunali. L'osservata situazione è stata anche favorita da una non corretta applicazione delle norme contabili.

Proposta. Alla luce di tali considerazioni, risulta particolarmente interessante studiare l'andamento delle amministrazioni comunali italiane in merito allo stato di "sana gestione finanziaria" durante gli ultimi dieci anni, ossia osservando il periodo che ha come punto di partenza l'emanazione del Testo Unico degli Enti Locali, in cui sono state accolte in modo organico le novità dell'ordinamento contabile ex D.Lgs.77/95 e dei controlli manageriali ex D.Lgs.286/99. Tale studio si propone di testare se l'ipotesi di crescenti difficoltà finanziarie delle amministrazioni comunali è reale e, soprattutto, quali sono le caratteristiche degli enti che sono maggiormente afflitti da situazioni finanziarie non positive.

Quadro teorico-concettuale. L'analisi della "sana gestione finanziaria" parte dall'analisi del concetto di "financial health" riconosciuto a livello internazionale per poi soffermarsi sui contenuti di tradizione italiana. In particolare, sono individuati gli elementi che costituiscono il concetto di "sana gestione finanziaria" per poi derivarne gli indicatori di bilancio utilizzati per l'analisi.

Metodo. Sulla base degli indicatori di bilancio individuati, verrà condotta una analisi statistica utilizzando il database Aida PA di Bureau van Dijk, contenente i dati dei certificati di rendiconto di tutte le amministrazioni comunali italiane. L'analisi copre gli anni dal 2000 al 2007.

Originalità e implicazioni pratiche. L'indagine si propone di fornire spunti di riflessione utili per i policy maker e, secondo un'accezione più ampia, identifica quali possono essere le conseguenze inattese, anche diametralmente opposte alle intenzioni, di processi di riforma non adeguatamente accompagnati da una cultura di tipo manageriale. Questo tipo di conoscenze appare poi indispensabile in vista dell'attuazione del "federalismo fiscale" e della "riforma Brunetta".

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**LA SANA GESTIONE FINANZIARIA DELLE AMMINISTRAZIONI COMUNALI:
QUALI SVILUPPI A DISTANZA DI DIECI ANNI DALL'EMANAZIONE DEL TESTO
UNICO ENTI LOCALI?**

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**MUNICIPAL FINANCIAL HEALTH IN ITALY: WHICH EFFECTS AFTER TEN YEARS
SINCE THE ISSUE OF THE LOCAL GOVERNMENT ACT?**

ABSTRACT

Financial health is a necessary condition under which governments must operate, and is one of the goals of NPM. While there has been a closely spaced succession of NPM-like reforms in the last twenty years, there are several indications that suggest Italian municipal governments' financial health has deteriorated in the last few years. In this study we conduct a statistical analysis using an official dataset that includes all the Italian municipal governments accounts from 2000 to 2007. We aim at studying the trend of the financial health of Italian municipal governments. We conclude that during these height years improvements are limited to a narrow number of municipal governments, usually located in the North and with a population of less than 5.000 inhabitants, while Southern municipalities have worsened, even severely, their financial health. This suggests a call for a future agenda focused at facing the progressive detriment of financial health dimensions of the majority of municipalities of the South. Under a more general view, this also highlights that NPM reforms can have very different, and sometimes even opposite, impacts within the same country.

Key words: municipal governments, financial health, accounting reforms, new public management, performance measurement, Italy

1. INTRODUCTION

Governments are being pressured by citizens and other stakeholders to improve their efficiency and effectiveness while, at the same time, they are seeing reductions in available resources. This juxtaposition is the result of several waves of New Public Management-style reforms which have introduced not just a different way of managing public services, but also a need for different financial management tools and techniques. This international mega trend—sometimes labelled as New Public Financial Management (NPFM)—has affected the Italian public sector in the last two decades, and in particular its local governments (LGs). A new set of financial management tool and techniques implies a new set of calculative practices, that may enable new ways of acting upon and influencing the actions of individuals (Miller 2001). Moreover, when a new set of accounting technologies is introduced, it rises the concern of linking together responsibility and calculation, attempting to ensure what it is performed in accordance with specified economic objectives.

“Financial (or fiscal) health” is a necessary condition under which governments must operate, and is one of the goals of NPFM. Nevertheless, there are several indications that suggest NPFM has had a negative impact on Italian municipal governments in the last few years. First, there has been a growing use of ‘soft money’ to cover current expenditures. Second, several municipalities have resorted to derivatives and other financial instruments to obtain extra funds with a concomitant increase in their exposure to financial risk. Third, a recent report by the Ministry of Economy and Finance based on a sample of LGs revealed several symptoms of financial stress. In case of financial crisis, LGs and their communities are subject to onerous sanctions, ranging from closer scrutiny by the central government through an ad hoc commissioner, to local taxes and fees boost and deterioration of quantity and quality of local services.

In light of this problem, a study of the trend of the financial health of Italian municipal governments during the last height years is extremely useful. Such a study allows public officials and academics to understand if the hypothesis of increasing financial difficulties is real, and, if so, what the characteristics are of the LGs that are most affected.

The concept of “financial (or fiscal) health” has been discussed by academics and practitioners at both the international and domestic levels. We take this prior research into consideration in our efforts to build a set of indicators that can test a municipal government’s financial health.

In our study we conduct an analysis using an official dataset that includes all the Italian municipal government accounts. The analysis covers fiscal years 2000 through 2007.

This analysis is the most up-to-date analysis of financial health available for Italian LGs. Our findings help to understand the linkage between NPFM reforms and their intended and unintended consequences for the financial health of Italian municipal governments, therefore they are useful for policy makers who wish to gain insights about the current situation as they endeavour to design new managerial approaches and financial policies.

The work is structured as follows. In the next section definitions and measures of financial health in LGs presented by previous literature are discussed. The main NPFM-like reforms of Italian LGs of the last two decades are then presented in section three, while section four provides an examination of the symptoms of financial distress of Italian municipalities reviewed in domestic literature and institutional reports. The analysis of the financial health of municipal governments is presented in the fifth section, while the last section portrays some conclusions.

2. THE ANALYSIS OF FINANCIAL HEALTH IN LOCAL GOVERNMENTS: DEFINITIONS AND MEASURES

At the international level, literature concerning financial health in LGs is quite limited in number and, with a few exceptions, is restricted to the U.S. and Australian contexts and to municipal government types. While we are aware of context differences, a brief discussion about this literature may be beneficial for grounding our study.

A first point that clearly comes out from literature is that the definition of financial health or what is sometimes called, highlighting its negative side, "fiscal distress", "financial risk", "fiscal crisis", or "fiscal strain", is not unique. For example, with reference to the American context, some authors have considered that municipal governments' financial health is defined or determined, and therefore measured, by socioeconomic forces (Peterson, 1976) or, under a more limited approach, by the municipal bond market (Petersen, 1974).

Downing has demonstrated that situations perceived by urban counties' public officials "to have the highest validity as indicators of fiscal stress are (1) inability to meet payrolls when due and (2) default on repayment of bonded debt" (Downing, 1991: 323). This latter point of view has been predominant for some European authors, who have focused their research onto LGs' credit ratings and solvability assessment (López et al., 2001; Alijarde and López, 2001; Manes Rossi, 2009). Fiscal strain has also been defined considering its dynamic nature as an "incomplete adaptation to changing resources and problems confronting a municipality" (Clark, 1977: 55). Others have discriminated short-term, represented by a LG's ability to meet its payroll and generally make payments in a timely manner, from long-term, where the point of view is more on the trends in a LG's tax base relative to its expenditures and commitments (Kloha et al., 2005).

This variety of definitions inevitably brings to diversity in operationizations adopted when trying to measure or predict LGs' financial distress. These techniques range from basic approaches such as accounting information and financial reporting analysis (e.g. Kleine et al., 2003), eventually added of qualitative analysis by reviewing audit reports, LG reporting, or information gathered from discussions or regional workshops (Honadle, 2003), to more sophisticated statistical modelling approaches (e.g., Murray and Dollery, 2005).

An important aspect of these quantitative works is the proxy used in order to discriminate financially unhealthy LGs from the healthy ones. Several variables have been proposed for this purpose such as ratio indicators (Clark, 1977; ICMA, 2003), the incidence of mergers or amalgamations, the quantity or quality of service delivery and the cost of restoring infrastructure assets to satisfactory condition (Jones and Walker, 2007; López et al., 2001).

More broadly, the problem of measuring financial health is tightly intertwined with accounting information available. Not only the traditional cash-based accounting information versus the 'new' accrual accounting information is determinant, but also the quality of the information matters. This is made clear by a recent study within the field of LGs by Pinnuck and Potter (2009), which supports that financial reports based on accrual accounting are economic goods whose quality is determined by market demand. In Europe, with the exceptions of UK and some Nordic countries, municipal governments have introduced accrual accounting without being pushed by a factual market-oriented management style (Pina et al., 2009), therefore the demand of high-quality data seems to be poor and so ought be the accrual information produced.

In Italy, where according to some most recent contributions the "financial health" concepts would embrace the broad idea of effectiveness, efficiency and economy (Farneti, 2007), the availability of accounting information for LGs, and specifically for municipal governments, is limited to budgetary accounting information since accrual accounting has been factually introduced only in a very few instances (Farneti, 2004; Pavan et al., 2009).

This phenomena is accompanied by the unavailability of any systematic information about the general financial performance (consolidated reporting) of the group of enterprises owned by municipal governments which produce most of the local public services (e.g. public transportation, refuse collection and disposal, water and sewerage, gas distribution) (Mussari and Grossi, 2008). Therefore any fruitful analysis on large scale can be carried out using traditional budgetary accounting information, paying close attention avoiding those that are irrelevant or misleading (Farneti and Padovani, 2003), and bearing in mind that any study lets alone all those financial events which affect municipal-owned enterprises only.

3. NEW PUBLIC FINANCIAL MANAGEMENT REFORMS IN ITALIAN LOCAL GOVERNMENTS

Expanding of diseconomies, rising of public debt, incapacity of the public sector to answer to increasing public needs and to act as a key factor in national development, together with the new commitments concerning the European unification process (i.e. the Maastricht Treaty), and the economic globalization process, were the main reasons for a season of big legislative renewals in Italian public sector organizations during the last twenty years (Italian Department of Public Office, 1993; Mussari, 1994; Cassese and Savino, 2004). Since 1990, a plethora of laws and decrees—starting with Law no. 142—have introduced the NPM terminology into public managers' vocabulary, trying to shift the dominant bureaucratic organizational model towards the concepts of division between politicians and managers, managers' responsibility for results, autonomy, accountability, management control system, performance measurement and management, outsourcing, and competition (Farneti, 1993; Mussari, 1994; Anselmi, 1995; Borgonovi, 1996; Meneguzzo, 1997).

According to some analysts, LGs mainly represented by 8.100 municipalities and 110 provinces (and their consortiums), which are responsible of 31 percent of total public spending in Italy (source: Italian Statistic Office, 2009), have denoted the highest level of change among the whole public sector and acted as privileged laboratories for administrative innovation (Capano and Gualmini, 2006). Two key dimensions seems to have emerged within the NPM model adopted for LGs (Mussari, 2005): (a) a clearer definition of responsibilities by different governmental bodies, and (b) the advancement of LGs' autonomy, among which financial autonomy. A very strong attention was given in promoting new public "financial" management (NPFM) reforms, i.e. NPM reforms embedded of rationalities and technologies with significant financial dimensions (Olson et al., 1998; Guthrie et al., 2005). The aim of the 1995 reform (Legislative Decree no. 77/1995) was to provide a set of new managerial accounting tools to support management control systems, which have become mandatory (Anselmi, 1995; Farneti, 1995; Mussari, 2005). The reasons behind it came from the inadequacy of the previous accounting system adopted by LGs which can be summarized as follows (Caperchione, 2003):

- The time horizon of former accounting systems only covered the short term, while no information on the medium-long term were available;
- Financial statements coming from previous accounting system were difficult to read by internal and external stakeholders;
- As the adopted bases of accounting were obligation and cash (i.e. no accrual-based accounting), it was difficult to assess any "intergenerational equity" issue;
- The information produced was not much useful for decision-making purposes.

Therefore, like in many other countries around the world which have introduced NPM-style reforms, the central problem was concerning the tools LGs had available to measure their

performance for decision making (Pollit and Bouckaert, 2004: 90-93). As a consequence, LGs' accounting system was renovated towards two directions. On one hand, the traditional obligation-based accounting continued to have a pivotal role. Within this system, the annual budget (*bilancio annuale*) and the annual report (*conto del bilancio*) are the pillars. The annual budget, which is approved by the provincial or municipal council, contains the expected revenues and expenditures for the subsequent year. Since it is under the obligation-based accounting system, it contains the estimated accounts receivable and the estimated commitments (or appropriations) for a given year. Its objective is balancing actual accounts receivable and actual commitments. At the end of the year, the annual report accounts for cash inflows and accounts receivables, for the revenue side, and cash outflows and commitments, for the expenditure side, distinguished by accrual date (*gestione di competenza* for the current year, *gestione residui* for previous years). A balance surplus at the end of the year is considered to be a useless sacrifice by the citizenry (and can be used in the future financial years), while a balance deficit has to be covered by generating more revenues or reducing expenditure in the next year.

Around it, a new "system of documents" (Farneti, 1995, 2004) which should have supported managerial decisions was introduced: the Forecasting and Programming Report (FPR, the main medium-term strategic planning document specifying, among others, LG's programs), the multiyear budget (which covers the same 3-years period of the FPR but presents information by functions instead of programs), the annual budget (which can be considered the core of LGs' accounting system), the Management Executive Plan (MEP, which is a specification of the annual budget, where resources are allocated to managers), and the annual report (on an obligation basis). Thus, beside its role of limiting public spending by the "commitment mechanism", obligation-based accounting documents should also have acted as a valuable piece of information for governmental bodies.

On the other hand, a new set of financial and non-financial information was asked to be provided to measure economy, efficiency, and effectiveness. This turns into the necessity of measuring inputs—i.e. costs—and therefore the introduction of accrual accounting and cost accounting, outputs and outcomes by LGs (Farneti et al., 1996; Mussari, 2000; Department of Public Office, 2007).

As result of the aforesaid reforms, to date Italian LGs have a coherent array of NPFM regulations inside the LGs Act (LGA, Legislative Decree no. 267/2000) which has incorporated previous decrees and laws, plus a set of LGs Accounting Standards (LGASs) (Commission for LGs' Finance and Accounting – Ministry of the Interior, 2004; Farneti, 2009), encouraging the introduction of managerial rationales. More recently, the central government has announced a new set of rules concerning performance measurement and management, management control, and accounting systems, issuing the so-called "Brunetta" decrees and finalizing the promulgation of the new LGs Chart.

4. THE SYMPTOMS OF FINANCIAL DISTRESS IN ITALIAN MUNICIPALITIES

While "financial health" can be expanded to the concept of the three Es (Farneti, 2007), we limit here our analysis to the sole financial aspects which are reflected into municipal annual reports. Therefore, the definition of "financial distress" which best fits with this idea is the one provided by the LGA, article no. 244, which states that a municipal government is in financial distress condition when it cannot guarantee basic services to its citizens or it is insolvent. But how can this idea be operationalized? We now briefly discuss previous institutional reports and literature on the subject of municipal financial distress measurement with specific reference to the Italian context, ending into the four ratios we have used in our study.

In Italy, there are three public Institutions which are in charge to audit and therefore provide conceptualizations and analysis for municipal governments' financial distress. These are the Ministry of the Interior, the State General Accounting Department within the Ministry of Economic and Finance, and the Court of Audit. According to the LGA, article no. 242, the Ministry of the Interior in accordance with the LGs' association states every three years those financial ratios which are then used to identifies those municipal governments under a prefinancial distress situation. These performance indicators, whose last release was issued in September 2009 (ministerial decree of 29 September 2009), basically refer to the followings:

- Annual total deficit / total current revenues;
- Credits related to annual local revenues / annual local revenues;
- Debts related to current expenditure / annual current expenditures;
- Enforcing judgements amount / current expenditures;
- Personnel expenditures / current revenues;
- Long term debt / current revenues;
- Past expenditures not covered by appropriations / current revenues;
- Treasury overdraft not reimbursed.

Part of these ratios and others are also considered by the Court of Audit which, with its independent regional branches, is responsible of financial health audit towards municipal councils. The regional branch of Tuscany, which is considered one of the most up-to-date branches, has been the first instance of identification of a system of forty-three financial ratios (Court of Audit – Regional Branch of Tuscany, 2008), then followed by other regional branches such as Abruzzo, which expanded to several dozens the financial indicators used (Court of Audit – Regional Branch of Abruzzo, 2008).

Based on inspections upon 116 municipalities, a recent report by the State General Accounting Department, Ministry of Economic and Finance (2009), has highlighted five critical factors of municipal finance:

- Current expenditure trend;
- Current balance;
- Cash balance;
- Sort term credits;
- Amount and truthfulness or total surplus.

Beyond institutional reports, a very few literature is available on the measures used for financial distress purposes. Cimbolini and Moriconi (2009) thoroughly discuss about pathologies in municipal finances but do not provide with indicators. Manes Rossi (2009) presents a possible grid of indicators but limits her analysis to credit rating ratios. The study contained in Farneti and Padovani (2003) attempts to portray a system of indicators which can be computed starting from publicly available data and thus useful for large scale analysis aiming at comparing financial health on a national basis. Starting from the above mentioned works, we have selected three indicators. This selection was made on a qualitative basis reflecting the aspects that have been considered by previous literature as the most important in determining the financial health. The first indicator is (A) "Current Balance". While this parameter is not specifically provided by the set of financial ratios used by the Ministry of the Interior to assess a pre-financial distress situation, all the other Institutions (Court of Audit and State General Accounting Department) consider it as pivotal in the assessment of financial health. It is given dividing current revenues (municipal taxes and fees and current grants from other governments) by

current expenditures (expenditures incurred for acquisition of personnel, services supplies, current grants to other governments, etc.). To show good conditions, a municipality might show a Current Balance equals or higher than 1. In this case, current expenditures are covered by the same nature of revenues and, if the ratio is higher than 1, a fund is created and available for capital expenditures. The opposite would bring to a situation where capital revenues are improperly used to cover expenditures that are repetitive in nature. The lower the indicator is, the worst is the situation.

A second indicator is related to the ability to get cash from receivables and is labelled (B) "Past Own Sources Payables". This ratio is computed as past receivables of local revenues (receivable accrued more than 12 months before) divided by annual local revenues (revenues from taxes and services fees levied directly by the municipal government). This parameter, which is either implicitly or explicitly mentioned by all previous literature and reports, capture the ability of municipal governments to collect from accounts receivables of local revenues. A high indicator means a poor ability level of getting cash from receivables and, thus, the possibility to have an overall imbalanced financial situation.

The third indicator is clearly suggested by both the State General Accounting Department, Ministry of Economic and Finance's report (2009) and Cimbolini and Moriconi (2009) as warning indicator for financial distress. It is related to the (C) "Treasury Overdraft" (amount of treasury overdraft divided by current revenues) which is considered as the *extrema ratio* before the declaration of insolvency. Therefore, in normal conditions this indicator should equal zero, while any value above zero is negative, and the higher the worse.

The first, second and third indicators are related to short-medium, short and very short term. Following Kloha and co-authors (2005), who argue about the need to add a long term dimension to any financial health analysis, we added a fourth indicator: (D) "Debt Pay Off Time". This ratio is given dividing the total long term debt at the end of a given year by the capital mortgage instalment paid in the same year and it is intended to consider how past decisions might influence on future financial configuration: the higher this indicator is, the more financial rigidity is transferred to future years. This indicator captures the dimension of long term debt management which has been assessed by using other indicator(s) within previous literature and institutional reports. The reason for using this indicator and, for example, not "long term debt / current revenues" (which is one of the ministerial decree indicators) is the consideration that other indicators used have demonstrated to be weak; in the case of the example, current revenues might be overestimated if the municipality is unable to collect current revenues, while the capital mortgage instalment paid is a certain amount. A summary of the four ratios used is contained in Table 1.

Tab. 1
Ratio used to measure financial health

Ratio	Formula	Correlation to financial health
(A) Current Balance	Current revenues (municipal taxes and fees, current grants) <i>divided by</i> Current expenditures	Positive
(B) Past Own Sources Payables	Past receivables of local revenues (receivable accrued more than 12 months before) <i>divided by</i> annual local revenues (revenues from taxes and services fees levied directly by the municipal government)	Negative
(C) Treasury Overdraft	Amount of treasury overdraft <i>divided by</i> current revenues	Negative
(D) Debt Pay Off Time	Total long term debt at the end of a given year <i>divided by</i> the capital mortgage instalment paid in the same year	Negative

5. RESEARCH METHOD AND RESULTS

The present study aims to understand if the hypothesis of increasing financial difficulties in municipalities, during the last eight years, linked with the central government reforms is genuine, and, if so, to shed light on the characteristics of LGs affected by such difficulties. To test the above hypothesis, a descriptive statistical analysis was conducted.

The study's data was collected from the Italian Aida PA® database which is administered by Bureau van Dijk Electronic Publishing. Aida PA® includes all the accounts of the Italian municipal governments (n=8.100) over eight years, from 2000 to 2007 (included), contained in the *certificato al rendiconto*, the annual report that each municipality has to send to the Ministry of the Interior. According to the previous sections of our study, the ratios considered for our study are four, namely: (A) Current Balance, (B) Past Own Sources Payables, (C) Treasury Overdraft, and (D) Debts Pay Off Time (Tab. 1).

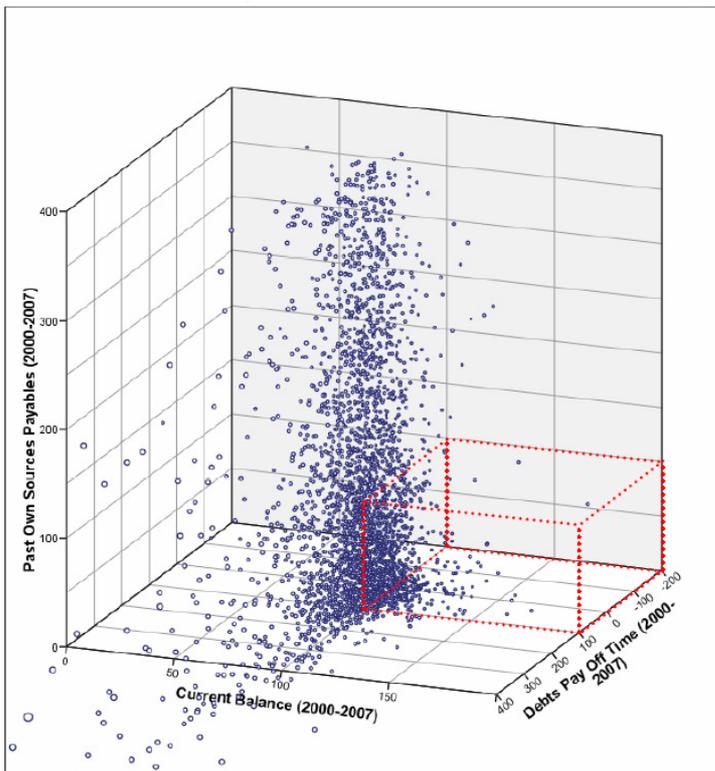
The analysis conducted is aimed at: (1) analyzing distribution of Italian municipalities according to their performance in the four ratios considered; (2) identifying the worst municipalities, the ones with four negative ratios; (3) examining the characteristics of the LGs that are most affected. The first two steps are within this section, the third will be presented in the conclusion.

To start with, we investigate the situation of Italian municipalities according with their score obtained by the four ratios considered (step 1). Ratios (A), (B), (D) are presented in table 2 for all Italian municipalities^d. Each bubble represents the position of an Italian municipality, according with the three ratios. For each municipality, each ratio is determined using the variance between 2000 and 2007 (value in year 2000 =100). Best performers, with a better (A) Current Balance (>100) than 2000, a decreased (D) Past Own Sources Payables (<100), and a decreased (B) Debts Pay Off Time (<100), are included in the cube described by the dotted line. In number, they are 703 municipalities, or 8,7 percent of the total amount of Italian municipalities. That means that all the other 91,3 percent presents negative financial performance at least in one ratio/dimension. If we

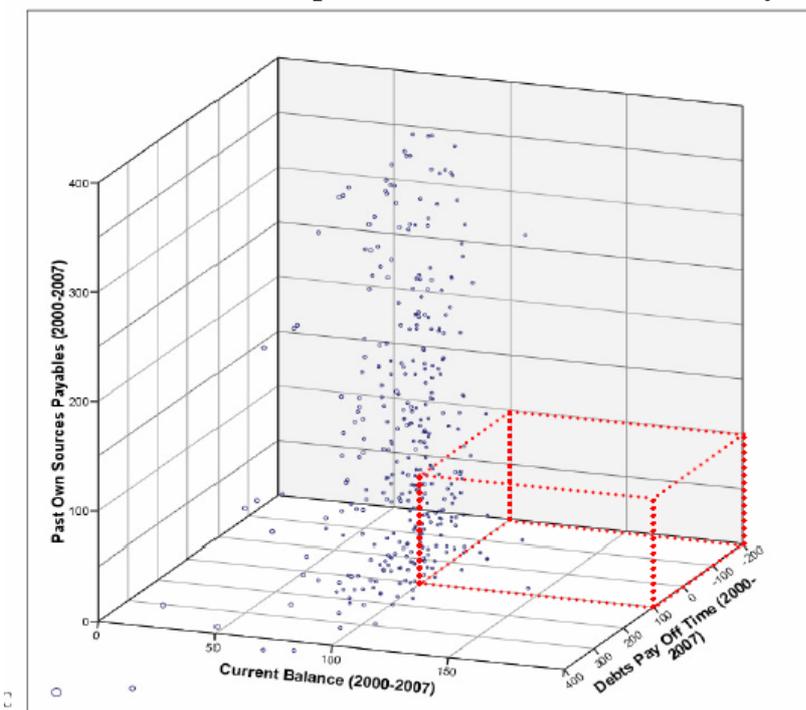
^d Only a few municipal governments have treasury overdraft either in 2000 or 2007, therefore we decided to separate the analysis between municipalities with and without treasury overdraft; this gives also the opportunity to show data in a 3-D graph.

consider the fourth ratio, (C) Treasury Overdraft, it is evident that either an increasing in treasury overdraft use or use after previous non-use, is very unusual when there has been an improvement in the other three ratios (only 38 municipalities fall into the dotted-line cube in Table 3).

Tab. 2 - Italian municipalities financial health according to three main ratios



Tab. 3 - Italian municipalities that make use of Treasury overdraft



To conclude the first step, after having considered a general overview of Italian municipalities financial performance, we now analyze the distribution of Italian municipalities according to their performance in the four ratios considered. In particular, in the following table 4, we introduce the characteristics of the Italian municipalities, with the purpose of analyzing the extent to which the four ratios selected presents a poorer situation in comparison with year 2000 values. According to the Italian Census, values are grouped within five geographical area (NW=North West, NE=North East, C=Centre, S=South, I=Islands) for each population strata (six strata in total).

For each of the first three ratios presented in the grid, (A) Current Balance, (B) Past Own Sources Payables, (D) Debts Pay Off Time, the table presents in the first column a median figure (median difference) of ratio variation between 2000 and 2007 (year 2000 = 100). A value lower than 100 indicates a decrease of the ratio in comparison with the 2000 year value. In the second column a percentage is shown, representing the amount of municipalities that in year 2007 have a poorer situation in respect to 2000. In particular for Current Balance (ratio A), it must be considered that the higher is the ratio in 2007, the better is the situation in comparison with year 2000 (positive correlation), whilst for Past Own Sources Payables (ratio B) and Debts Pay Off Time (D), there is an opposite correlation because the higher is the ratio in 2007 the worse is the situation in the same year (negative correlation). For the last ratio (C), Treasury Overdraft, only the percentage is given, and represents the amount of municipalities that either did not use treasury overdraft in year 2000 and did in 2007 or increased its use.

As can be seen, there is not an homogeneous situation. It would be easier to identify geographical area that seems to perform better than others considering the following graph (Graph 1), representing the same data shown in Table 4.

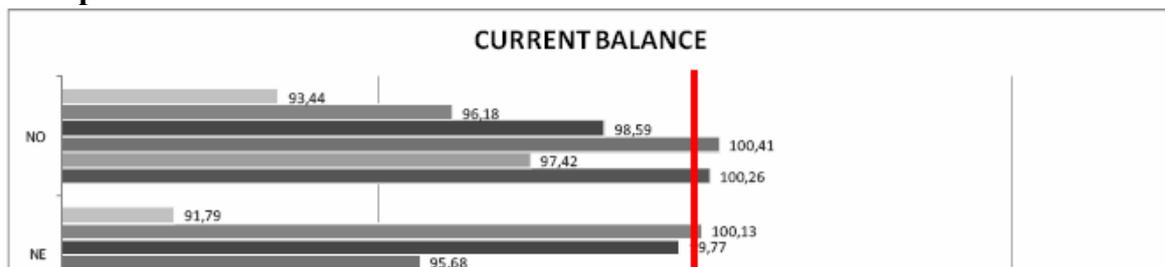
Table 4 - Financial Health of Italian Municipalities

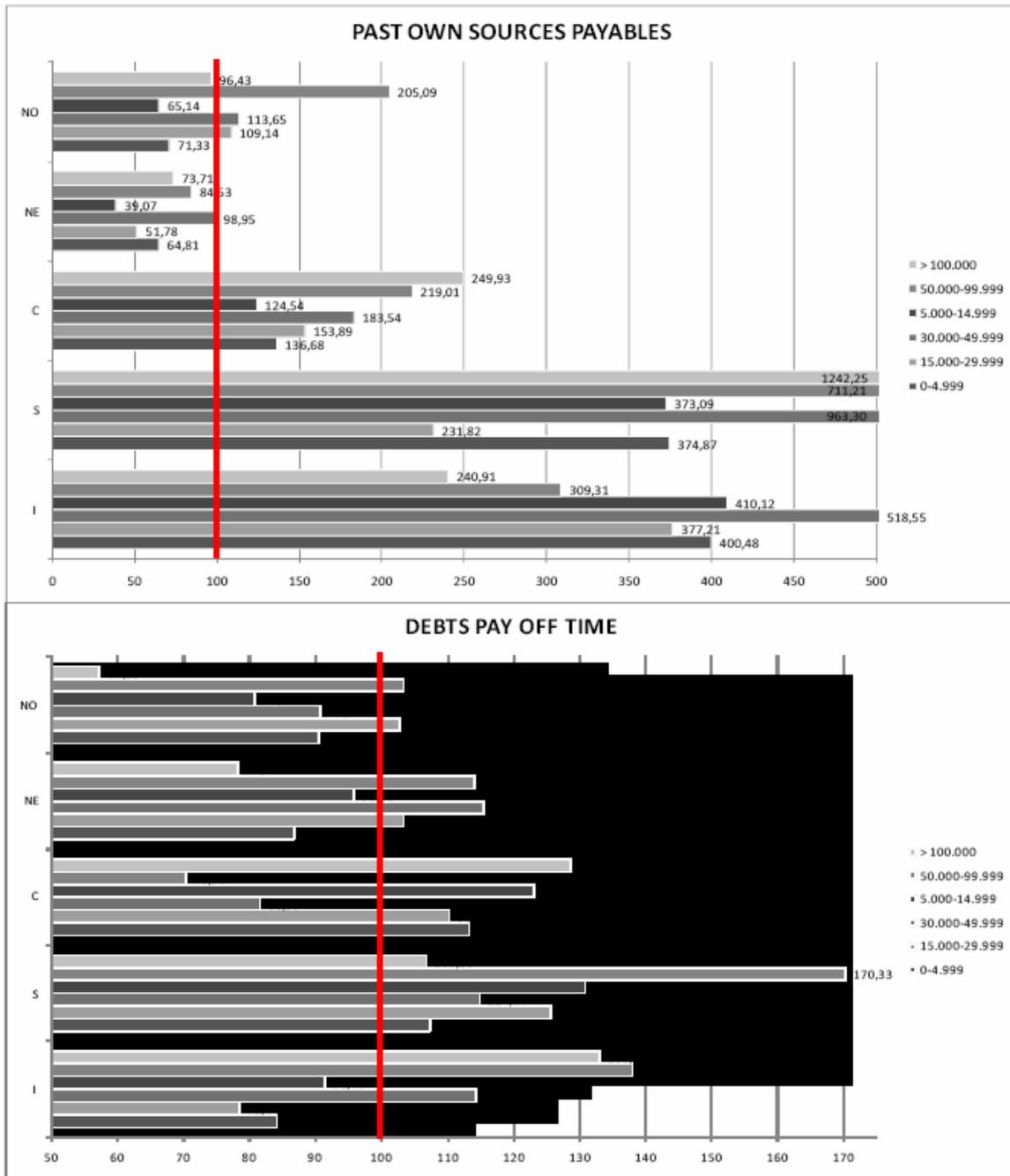
<i>Population (1) & Geographical Area (2)</i>	Current Balance (A) <i>Median difference (2000-2007) (3)</i>	<i>Percentage of poorer performer (in 2000 respect) (4)</i>	Past Own Sources Pay(B) <i>Median difference (2000-2007) (3)</i>	<i>ables Percentage of poorer performer (in 2000 respect) (4)</i>	Debts Pay (D) <i>Median difference (2000-2007) (3)</i>	Off Time <i>Percentage of poorer performer (in 2000 respect) (4)</i>	Treasury Ovedraft Use (C) <i>Percentage of poorer performer (in 2000 respect) (4)</i>
> 100.000							
NW	93,44	71,4%	96,43	42,9%	57,25	71,4%	14,3%
NE	91,79	85,7%	73,71	35,7%	78,37	57,1%	0,0%
C	103,36	44,4%	249,93	77,8%	128,77	66,7%	22,2%
S	100,18	42,9%	1242,25	85,7%	106,83	71,4%	42,9%
I	96,69	50,0%	240,91	100,0%	133,16	66,7%	50,0%
50.000-99.999							
NW	96,18	70,0%	205,09	65,0%	103,38	65,0%	10,0%
NE	100,13	44,4%	84,53	33,3%	114,08	88,9%	0,0%
C	94,54	72,7%	219,01	72,7%	70,3	54,5%	22,7%
S	95,55	66,7%	711,21	87,9%	170,33	93,9%	39,4%
I	94,9	58,3%	309,31	100,0%	138,07	83,3%	33,3%
30.000-49.999							
NW	100,41	50,0%	113,65	58,3%	90,83	63,9%	0,0%
NE	95,68	73,7%	98,95	52,6%	115,56	84,2%	5,3%
C	93,65	75,0%	183,54	65,0%	81,55	65,0%	20,0%

S	98,66	56,4%	963,3	89,7%	114,94	71,8%	23,1%
I	96,55	76,2%	518,55	90,5%	114,4	61,9%	42,9%
15.000-29.999							
NW	97,42	65,6%	109,14	54,2%	102,86	66,7%	8,3%
NE	100,21	50,0%	51,78	36,6%	103,4	69,5%	12,2%
C	96,79	65,5%	153,89	61,9%	110,28	69,0%	10,7%
S	98,03	59,6%	231,82	67,7%	125,72	75,8%	19,2%
I	99,23	51,4%	377,21	78,4%	78,44	64,9%	32,4%
5.000-14.999							
NW	98,59	56,9%	65,14	42,0%	80,9	62,7%	4,7%
NE	99,77	51,6%	39,07	34,5%	95,81	67,2%	5,5%
C	97,7	65,2%	124,54	59,1%	123,13	75,0%	15,9%
S	98,51	61,0%	373,09	78,5%	130,91	74,8%	25,2%
I	100,75	45,2%	410,12	85,8%	91,4	65,2%	27,1%
0-4.999							
NW	100,26	49,6%	71,33	45,3%	90,49	62,1%	6,0%
NE	101,97	44,3%	64,81	39,5%	86,85	56,5%	11,3%
C	98,45	59,8%	136,68	59,9%	113,31	69,0%	18,8%
S	97,89	63,6%	374,87	77,9%	107,38	66,3%	22,0%
I	102,01	40,8%	400,48	83,1%	84,09	60,2%	11,9%

Note: (1) Six strata: from 0 to 4.999 inhabitants, from 5.000 to 14.999, from 15.000 to 29.999, from 30.000 to 49.999, from 50.000 to 99.999, and more than 100.000; (2) according to ISTAT (Italian Institute for Statistic Analysis), Italy can be divided into five geographical areas: North-West (NW), North-East (NE), Centre (C), South (S), and Islands (I); (3) *Median Difference* is a median (the middle of the distribution) figure that for each of the four ratios is calculated as variance between 2000 and 2007 (median value in year 2000 = 100); (4) *Percentage of poorer performer (in 2000 respect)* represents the percentage of municipalities that presents a poorer situation in 2007 (in 2000 respect) in each category of geographical area; for Current Balance (ratio A), the lower is the ratio in 2007, the worse is the situation (positive correlation), whilst for Past Own Sources Payables (ratio B) and Debts Pay Off Time (D), the higher is the ratio in 2007 the worse is the situation in the same year (negative correlation). Source: Aida PA®, Bureau van Dijk Electronic Publishing, years 2000-2007.

Graph 1 - Financial Health of Italian Municipalities





After having analyzed the distribution of Italian municipalities according to their financial performance, we proceed identifying the worst municipalities, the ones with four negative ratios, that is the municipalities who made worse in every of the four dimensions used to assess financial distress. As can be seen in Table 5, there are 330 municipalities in such kind of situation. As far as geographical region, the most part of them are condensed in the South (n. 133; 40.0%), and in the Centre (n. 73; 22.1%); as far as population strata, for the most they are small town, with population between 0 and 4.999 inhabitants (n. 205; 62.1%) and between 5.000 and 14.999 (n. 76; 23%).

Tab. 5 Italian municipalities under severe worsening of financial health

Population	Geographical Area											
	NW		NE		C		S		I		Total	
	n.	%	n.	%	n.	%	n.	%	n.	%	n.	%
0-4.999	35	81,4%	21	72,4%	48	65,8%	77	57,9%	24	46,2%	205	62,1%
5.000-14.999	3	7,0%	5	17,2%	17	23,3%	36	27,1%	15	28,8%	76	23,0%
15.000-29.999	4	9,3%	2	6,9%	2	2,7%	9	6,8%	4	7,7%	21	6,4%
30.000-49.999			1	3,4%	4	5,5%	5	3,8%	4	7,7%	14	4,2%
50.000-99.999	1	2,3%			1	1,4%	6	4,5%	2	3,8%	10	3,0%
> 100.000					1	1,4%			3	5,8%	4	1,2%
Total	43	100%	29	100%	73	100%	133	100%	52	100%	330	100%

6. CONCLUSIONS

The analysis provided here depicts the following scenario in terms of general trends occurred in municipal governments' financial health during the period 2000-2007. First of all, the great majority of municipalities (more than 91 percent) has experienced a worsening in at least one dimension of the four ones considered here. 330 of them (i.e. about 4 percent in total) are experiencing a severe decline since all ratios have been worsened during the eight years considered. Most of them are located in the South and Centre, and are municipal governments with less than 15 thousands inhabitants each.

Second, the trends of the three ratios A, B and D are not homogeneous. Current Balance has improved considerably in municipalities of Centre with more than 100 thousands inhabitants, in Islands area with a population of less than 5.000 and in North-East with less than 5.000 inhabitants, while in the other cases, it has roughly remained the same or decreased, even to very low rates, especially in big municipal governments (more than 100 thousands inhabitants) of North-East and North-West. The profile of those entities that have either increased or decreased the Past Own Sources Payables indicator is clearer and connected to their geographical position: the North (except municipalities with population of 50 thousands to 99.999 and between 15 thousands and 49.999 of North-West) improves while the Centre and the South-Islands deteriorate at very high rates. The picture is more complicated for the Debt Pay Off Time dimension, since in each area, except the South, there have been groups of municipal governments with a good median and groups with a bad median. Only Southern municipalities, belonging to every dimensional classification, have increased the average debt payoff time determining a negative trend.

Generally speaking, this study clearly demonstrate that NPFM reforms have not had a positive effect on Italian municipalities' financial health. Only as few as less than 9 percent of local communities have registered improvements in every dimension along these eight years and they are located in the North and with a population of less than 5.000 inhabitants. On the opposite, Southern municipalities have worsened, even severely, their financial health, demonstrating the profound division between North and South of Italy once more. This suggests a call for a future agenda focused at facing the progressive detriment of financial health dimensions of the majority of municipalities of the South, and indicates that financial federalism still remains one of the (many) unfulfilled priorities of Italy.

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