

Consolidated Financial Statements of the Local Public Enterprises in the RPAs system in Italy

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Introduction

The phenomenon of the corporatization of public services across Europe and in the rest of the world has been the subject of numerous studies, which have highlighted similarities and differences in governance between various countries. Some analyses have summarized the different reasons for outsourcing and the critical points of such a process, highlighting local governmental needs to use suitable management and monitoring tools to oversee the expansion of a new organizational model.

The report proposes that the Italian experience be interpreted through the database built by the Regional Public Accounts System (RPAs system), which highlights trends in the number of Local Public Enterprises (LPEs henceforth) and in their expenditures, following regulatory provisions in the field.

RPAs provide support for policy decisions, which also pass through a shareholding system. Alongside the production of data to complete the national statistical framework of LPEs, this system provides the foundations for decisions based on objective elements: expenditure measurement; identifying the original and final public finance channels; and identifying communal expenditure for the provision of services.

As of the early 90s, in Italy there has been an increase in the allocation of public services management to investee companies by public administration bodies. This phenomenon has taken on a crucial role in the economy of the territory. Its growth has created the need to construct an evaluation system for larger-scale public expenditure, which also considered the results obtained through the activities of companies upon which such services were entrusted by Public Administration bodies .

This necessity is rooted within the longstanding need, reaffirmed by the European Union in the early 80s, to develop a system of economic accounts at the regional level, which could also be used to verify the additionality principle of European funds. In point of fact, Community Regulations governing Structural Funds stipulate that the resources provided by such Funds to contribute towards achieving Community Policy should be considered separately from national public resources destined towards the same objectives. More specifically, the additionality principle established that, in order to ensure a true economic impact, the allocation of such Funds should not replace public expenditure by the Member State, but should instead be considered additional. Compliance with this ruling was

nevertheless affected by a series of structural constraints: the absence of public accounts at a regional level able to quantify the amount of ordinary resources against which to compare additional Community resources, coupled with a complete lack of quantification of General Government expenditure, including the activities of subjects involved in the Public Administration.

In order to fill such information gaps, the Regional Public Accounts System was created in the mid-1990s. It aimed to both fulfill the obligations set by the Community Regulations and to provide an instrument for measuring and monitoring the regional effects of expenditure policies.

Their thorough nature and prolonged time span, along with their ever-widening scope mean that RPAs have provided an informative source of policy support for several years. They can be used to reconstruct and analyze the phenomenon of decentralizing administrative functions to privatized companies. Since 2004, the survey has formed part of the National Statistical System (SISTAN), the network of public and private bodies that provides national and international organizations with official statistical information.

The report uses information contained in Regional Public Accounting System databases to analyze the evolution of the phenomenon of outsourcing public services, through examining expenditure trends incurred by LPEs. It focuses on different historical phases, which initially saw incentives in legislation to create LPEs, followed by a series of regulatory measures aimed at containing them and reducing their costs.

Nonetheless, the great financial crisis and all the social issues that have originated from it in the recent years, have inverted the tendency to encourage LPEs. They are considered the reason behind inefficient management, the linchpin of client policies, and distortion of the competition by Public Administration, which removes sectors of the market from private initiatives.

This topic has shown similarities in open debate within both the European and worldwide context for almost two decades, in terms of both the benefits gained through the outsourcing process undertaken by the Public Administration, and of its negative implications.

In Italy, just as in other European countries, it was deemed necessary to reinstate the universe of local investee companies within defined boundaries, thereby permitting an evaluation of the efficiency and effectiveness of their management. Precisely for this reason, numerous legislative provisions have been issued, with the aim of identifying the scope of activities to be undertaken by such companies in a more precise manner.

Examination of RPAs data, divided between the two main macro-areas of the Italian territory (Center-North and South), proves useful in confirming or disproving the validity of the aforementioned accusations, regarding the management of services by Public Administrations.

The evolution of legislation regarding Local Public Enterprises

Public service management through the creation of specialized companies (municipalization of services) originated at the beginning of the previous century, with legislative interventions. Their objective was to favor aggregation between operators, thus ensuring the separation between service manager and regulator, to cover costs through tariffs, and to rationalize and standardize the use of services provided by local authorities throughout the nation.

Local public services have "... the objective of producing goods and activities aimed at achieving social goals and promoting the economic and civil development of local communities" (art. no. 112 of Legislative Decree 267/2000). This notion concerns "services of general interest, both market and non-market", as mentioned in the Green Paper on Services of General Interest by the European Commission (COM 2003.207). It therefore regards services provided by network industries, such as transport, energy and communications. "The term also extends to any other economic activity subject to public service obligations" (COM 2003.207, p.7).

In Italy, the methods used to assign the provision of local public services have been subject to periodic legislative interventions, which sometimes seem to be contradictory.

The choice of the corporate model in the provision of local public services was originally motivated by the search for greater efficiency, which was considered achievable by establishing a system of collaboration between public and private subjects and using more flexible privatized tools. This turning point was ratified by Law n.142/1990, whose art. no. 22 stipulated that the provision of public services could also occur through the establishment of an S.p.A. with a predominantly local public capital. Therefore, this law transformed municipalities into specialized companies, while the power given to local bodies to provide themselves with the management tools necessary to carry out their duties was also extended to non-industrial sectors and public limited companies.

As regards the influence of the EU rules, the possibility of managing public services through mixed-shareholding companies with minor public shares, in which the private partner was chosen through contract tenders, was subsequently provided (Legislative Decree n. 498/1993 and Legislative Decree n. 267/2000). The same intention was reaffirmed by the 2002 Budget Law (Law n. 448/2001), which stipulated that the management of services with industrial relevance be carried out through the corporate instrument. It did not allow for other forms, other than a residual recourse to management in the economy and the introduction of competitive models for the management of services without industrial relevance. However, allocation methods for the provision of local public services have shown a reversal of this market-oriented approach, alongside the reaffirmation of more stringent methods of public control, with the 2004 Budget Law (Law n. 350/2003).

The choice of the contractor by tender soon lost its legal sufficiency to guarantee the protection of competition. Legislative activity during subsequent years enacted "derivative" measures, implemented to align the system of public companies within European

disciplines, as outlined by the Court of Justice. Several judgments¹ have marked the path of Italian legislative and administrative procedures. The principles affirmed by the Court of Justice have therefore been assumed and summarized by the ruling of the Constitutional Court n. 439/2008, which stated: “It is possible not to observe the rules of competition: a) when the public body performs checks on the investee company similar to those performed on its services; b) when the investee company “carries out the most important part of its activity” with the body or with the bodies that supervise it”.

However, although EU regulations dictated strict constraints to prevent public companies from the benefits of having a public partner, they also recognized areas of organizational autonomy, a notion that is present in constitutional principles.

In order to comply with the European system, Italian legislation intervened first with art. no. 14 of the Legislative Decree n. 269/2003, which triggered a return to the entirely public company and introduced similar supervision methods. The inclusion of the term “economic relevance” to substitute the previously used term “industrial relevance” also extended the scope of activity for LPEs.

With the prohibition of the possibility of direct allocation to mixed companies, there was an incentive to establish companies with only public shareholders, provided they were subject to similar checks to the public body and that their predominant activity was carried out for the public body concerned.

In addition to the need to positively conclude the infringement procedures initiated by the European Union, other internal factors also weighed down on decisions made by legislators. This subsequently led to increasingly incisive limiting interventions.

The proliferation of local public companies has been perceived by many market operators as an interference by the public sector, which had altered and distorted competition in market sectors that could be fulfilled by private companies.

This criticism also concerns the avoidance of the spending restrictions set within the Internal Stability Pact for local bodies, which could use shareholder contributions to exceed debt limits, make current account investments (through leasing or subsidies for project financing), and circumvent restrictions on hiring personnel and awarding consultancy assignments.

Thus, it was generally acknowledged that the constitution of companies became a strategic choice aimed not to meet service-based objectives, but an effective way to

¹Of particular note are the Teckal judgement on 18th November 1999 and the Stadt Halle judgement on 11th January 2005, which highlighted how in-house allocation is legitimate when the following requirements are met: a) the company's capital is entirely public; b) the administration performs similar checks on the investee company to those performed on its own services; c) the investee company carries out the majority of its activities for the public body to which it belongs. Yet the Carbotermo judgement, passed on 11th May 2006, specifies that the “financial dependence” resulting from the public holding of the entire capital of the investee company discloses profiles of a purely managerial nature. In particular, EU judges believe that the public body must be given control over activity of the board of directors, which is more extensive and significant than the powers normally recognized for a majority of shareholders under company law.

“eschew the hurdle” constituted by the public finance constraints, and , in so doing, distorting their function and leading to an oversizing of public companies.

Therefore, for several reasons, a period of incentives towards openness and outsourcing was followed by a phase defined by measures aiming to more precisely outline the scope of activities to be carried out by companies providing administrative functions, which laid the foundations for a reversal in this trend.

The first decree issued with the aim of limiting competitive distortions in the public shareholding system was the Legislative Decree n. 223/2006. Its article no. 13 distinguishes between administration and business activities on behalf of public companies, insofar as the latter constitutes the provision of an activity, aimed for consumers or users and carried out within a competitive environment.

The legislator wished to prevent public companies operating in the market from reaping the benefits of the Public Administration (see Constitutional Court no. 326 / 2008). Companies that perform administrative functions must work with the constituent, shareholding or entrusting bodies, without the possibility of providing additional services to other public or private entities, either directly or through contract tenders.

Over the years, further attempts have been made to limit the establishment and maintenance of companies (with the exception of listed companies) to those strictly necessary for institutional purposes. The power to uphold regulations underlying the decision not to divest shares was delegated to the Court of Auditors (art. no. 3, par. 27-29, Law n. 244/2007).

With particular regard to the services of economic importance, the competitive issue was also strengthened by Legislative Decree n. 112/2008, art. no. 23-bis, which made allocations easier by opening contract tenders to mixed companies with a private stake of at least 40 percent, compared to the in-house providing model.

The inversion of the trend during this phase of competitive openness originated with the June 2011 referendum, which abolished regulations allowing participation by private companies.

Although the Referendum had been promoted with the intention of intervening in the water sector, the question posed in it referred to all local public services of economic importance. For this reason, the Constitutional Court declared a subsequent provision, art. no. 4 of the Legislative Decree n. 138/2011, as illegitimate, which in fact left the legislation unchanged for the other sectors. Consequently, the previous regulations, 23-bis of the Legislative Decree n. 112/2008, were restored.

The economic crisis witnessed a strengthening of control over companies. The provisions that followed limited the establishment of public companies and aimed at reducing operating costs. To this end, art. no. 18 of the Legislative Decree n. 112/2008 and art. no. 19 of the Legislative Decree n. 78/2009 were introduced, in order to apply the same provisions to both the controlling administration bodies and the investee companies. Such regulations included prohibitions or limitations on staff recruitment and on recruitment

procedures, while at the same time introducing the principle of public competition for the recruitment of personnel. Subsequently, the Legislative Decree n. 95/2012 was introduced, which obliged investee companies to obtain supplies through agreements or frameworks provided by national and regional purchasing centers.

In addition to restricting the activities of public companies to public shareholders, the rules of public finance coordination regarding expenditure restrictions for public administrations were also extended to investee companies, which in turn regulated the number and remuneration of corporate bodies.

Subsequently, other regulatory interventions have attempted to limit the universe of local subsidiaries to within defined boundaries. Recent examples include the plan for the rationalization of shareholdings (Law n. 190/2014 and Legislative Decree n. 100/2017), which redefines the Consolidated Law on investee companies (already issued under Legislative Decree n. 17/2016) in which the legislator regulates the matter in a systematic manner. Following ten years of regulatory provisions, such regulations had become complex, fragmented and unbalanced. The provisions of the Consolidated Law must be applied with regard to the efficient management, protection and promotion of competition and the market, as well as to the rationalization and reduction of public expenditure. To this end, the regulation introduced, among other things, an ordinary procedure that public bodies are required to operate while managing investee companies, in order to rationalize their shares.

It will be possible to monitor the effects of such provisions in the coming years.

The size of the universe of local investee companies

Given its thoroughness and the long timeframe of data collection, the Regional Public Accounts System² represents a particularly relevant source of information in Italy for reconstructing and analyzing the phenomenon of decentralizing administrative services to privatized companies. It provides a valid support to the policy and constitutes a valid example for European countries.

The system was in fact created in 1995 to measure and analyze cash flows at a regional level, in terms of both revenue and expenditure, as well as Public Administrations (PAs) and all bodies belonging to the Wider Public Sector (also WPS hereafter), which are controlled by public entities.

The consolidated accounts in the RPAs system were created using a bottom up method. They therefore refer to the Wider Public Sector and are divided into different economic categories and different functional sectors.

The economic categories are divided into 41 for expense headings and 45 for revenue. They indicate the nature of the flow; for example, whether it regards staff expenditure or

² For a complete analysis of the methodology adopted by RPAs system, see <http://www.agenziacoazione.gov.it/it/cpt/>

investment expenditure, or whether it is revenue deriving from taxes or from the alienation of assets. The elimination of the transfer flows between the entities belonging to the same universe permits a consolidation process to be carried out. This, in turn, allows for the retrieval of the total value of the expenses directly distributed in the region, or of the revenue acquired without any duplication.

The sectoral classification, which is divided into 29 functions and is applied only to expense data, indicates the purpose of disbursement. For example, whether it supports the industrial sector, rather than the waste collection and disposal.

The classification system for controlling bodies that has been introduced into the RPAs allows allocation procedures to be implemented in a complete and uniform manner across all typologies of institutions within the WSP. Additionally, each institution included in the RPAs database is assigned to a region, at a sub-category level.

Until 2011, the results of monitoring procedures carried out by the RPAs system remained almost exclusively its own the prerogative. Since 2011, however, the institutions involved have increased their attention towards to the investee sector, in the wake of the results released by the so called Special Commission for the Expenditure Review. It was suggested that the introduction of a complete, systematic restructuring plan was necessary for the sector, considering the high number of companies owned by the local PAs and its impact on public accounts, among other things.

The numerous regulatory measures have therefore led some public institutions to introduce surveys on public shareholding companies, which collect a large amount of information.

The most important surveys carried out on local Italian companies are those conducted by the Ministry of Economy and Finance-Court of Auditors (MEF-CdC)³ and by Istat. When comparing these surveys with RPAs information, an extreme variability can be seen in the quantification of the number of investee companies, which risks appearing contradictory if not properly contextualized. In fact, with reference to 2014⁴, a minimum of 5,845 companies were recorded by the RPAs, whereas a maximum of almost 10,000 were reported by Istat.

The various reasons behind such variability are summarized in Table 1. Firstly, the three surveys pursue different objectives. In fact, while the monitoring carried out by the RPAs aims to reconstruct the incoming and outgoing financial flows of the Wider Public Sector (thus creating a fundamentally statistical database), the database created by MEF-CdC

³ In May 2016, the Minister of Economy and Finance and the Court of Auditors signed a memorandum of understanding, following which the Court of Auditors renounced maintenance of its own database and the Treasury Department undertook the task of data collection. Starting from the 2015 data collection, all the information necessary for monitoring investments and representatives of Administrations in the governing bodies of companies and entities, as well as monitoring and reporting activities carried out by the Court of Auditors.

⁴ In order to render information consistent between the various databases, reference is made to the 2014 RPA (the latest last year available for both the MEF-CdC and ISTAT surveys) and to the group of local and national investee companies, with the addition of dependent entities, given that many of them are also present in other surveys.

aims to monitor the implementation of legislation concerning public shareholding companies (recording administrative information useful for supervisory action). For what concerns the Istat administrative/statistical database, it highlights the different relationships between Public Administrations and investee companies.

Another defining element is the reference universe, which forms the survey base sample. Three types of reference universes can be distinguished:

- 1) the public administration investee companies in the case of the RPAs;
- 2) those on the Public Administration List (List S13) on which the Eurostat surveys are based, with the addition of subjects not on the List but belonging to Public Administration according to the Istat survey;
- 3) again the organizations included in the S13 List, to which subjects are added which are defined by the Legislative Decree n. 165/2001 frame of reference for the MEF-CdC.

However, the aspects that show significant differentiation in the number of subjects included in those surveys are related to the inclusion criteria, the level of public participation and the minimum shareholding quota considered. In fact, the RPAs system takes into account only direct holdings with a shareholding quota that generally guarantees control of the investee company (thereby narrowing the field of observation). In contrast, the other two surveys consider more levels, both direct and indirect, as well as minimum shareholding quotas.

A final key aspect is the type of information acquired on the various investee companies involved, which is fairly uniform in terms of personal data and location (name, fiscal code, registered office address, etc.), and similar in identifying the activity carried out by the investee (through sectoral classification or the Ateco codes), but is very different in the case of budget information made available.

Table 1 – Principle surveys on local investee companies (data from 31st December 2014)

	RPA	PA (MEF – CdC)	ISTAT
Number Investee Companies	5,845	8,893	9,967
Database objective	Measure financial flow in terms of income and expenditure of Wider Public Sector subjects in individual regions to support analysis and economic policy decisions	Knowledge and evaluation of the implementation of regulations in investee companies, support of analysis and economic policy decisions	Identify several ways in which legal shareholder entities are linked with Public Administration
Nature of Database	Statistics	Administration / Monitoring	Administration/Statistics
Universe of Reference	PA in the strict sense (Central, Regional, Local Admin.)	Subjects form list S13 + Administrations identified by Legislative Decree 165/2001	List S13 + other PA bodies
Inclusion criteria and level of public shareholding	Direct shareholding (level II)	Direct and indirect shareholding (level I and II)	Direct and indirect shareholding (all levels)
Direct public shareholding quota	30%	1%	1% (control > 51%)
Sector of Intervention	RPA sectionalized coherence with Gov. Funds Classification (COFOG) and Chart of Accounts Missions	Ateco Code	Ateco Code
Survey of enterprise size and number of employees	Size can be inferred from total financial flow. Only staff expenditure is currently recorded, not the number of employees	Yes	Yes
Survey of financial flow	Yes (complete series 2000-2015)	Some balance items (production vale, production costs, staff costs, profit), number of employees and possible services entrusted by Public Administration	No

Sources: RPAs system, MEF-CdC, Istat

While the MEF-CdC and the ISTAT report only some indicators taken from the entities' financial statements (such as shareholder equity, profit, production value, production costs and staff costs in the former case, and turnover, added value, labor costs, gross remuneration and yearly profit/loss in latter Istat case), in the RPAs case, the information drawn from the investee companies financial statements is made homogeneous to the data taken from those of public administration bodies, in order to build consolidated cash accounts for the WPS. This peculiarity, together with the considerable time span of data collection, represents a sort of *ante litteram* "accounting harmonization", meaning that the RPAs system can be used to analyze the investee company sector, thereby supporting policy.

On the other hand, the process of reorganizing the investee company sector should be supported by analyses that are as detailed as possible, through an assessment of the extent of the phenomenon, the territorial and sectoral distribution of the subjects, the financial dimension and the trend over time. The RPAs system makes it possible to investigate the phenomenon through all these dimensions, and most importantly, to ascertain the weight of LPEs expenditure on the total expenditure of the WPS. This is not possible with the other databases, at least until the completion of the harmonization process stipulated in the Law n.196/2009.

Another aspect that should not be overlooked when comparing the various databases is the provision of information to users. This element is closely linked to the notions of transparency and open government policy pursued in recent years by Italian Public Administration bodies, to use information and communication technology to its full potential, and to foster innovation, economic growth and competitiveness. Istat only divulges a brief summary report with macro-level evidence at a regional level and a number of summarizing tables, while the MEF-CdC, in addition to producing a report analyzing the phenomenon of investee companies, publishes all its basic data in an open format, accompanied by a useful explanatory dictionary. Additionally, the Court of Auditors publishes a useful “Dashboard” for browsing the data on which its report on the companies owned by local entities is based.

The RPAs system, on the other hand, provides users with a portal, [OpenPartecipate](#), an open government application that allows free consultation of some financial and personal data referring to the investee companies. This information, together with all the necessary metadata, is made available through dynamic graphs, which can also be customized.

An analysis of LPEs between 2000 and 2015 through the RPAs system

The evolution of the structure and their number

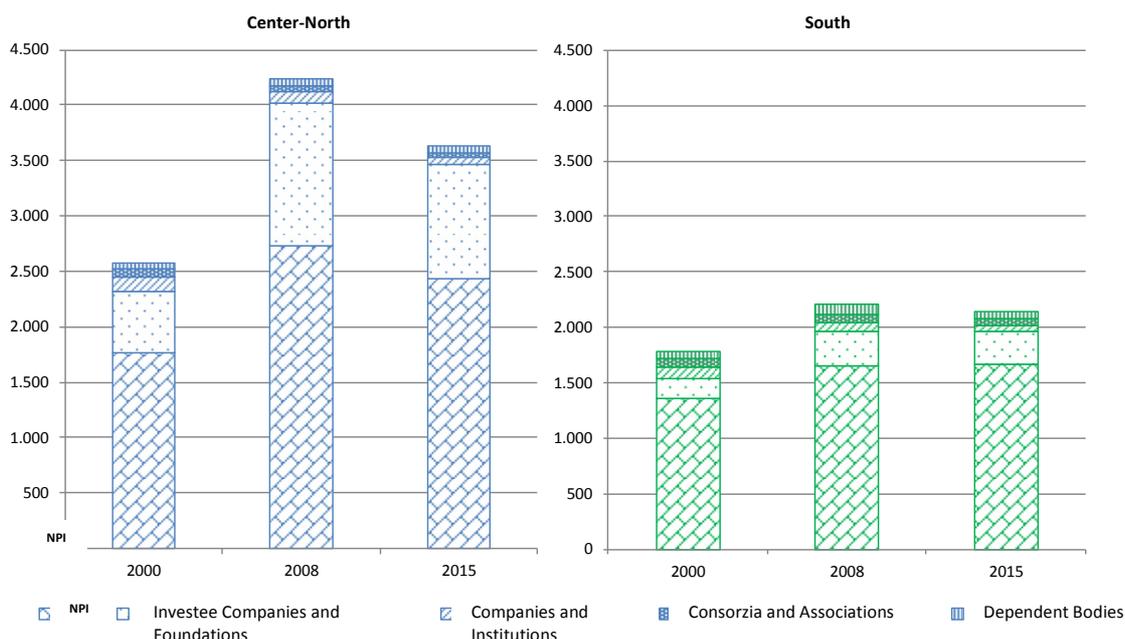
The Regional Public Accounts System classifies the universe of Public Enterprises in a highly organized way. At the first level, in addition to the National Public Enterprises sector, there are also three macro-categories of local companies (consortia and associations, companies and institutions, investee companies and foundations), each of which can be divided, both at regional and sub-regional level, into numerous subtypes that split the universe into uniform subsets⁵.

In fact, examination of Figure 1 shows that in 2015 public, national and local investee companies spent over €3,500 per inhabitant in the Center-North and over €2,000 in the South. Such disbursements have a notable effect on the various regions.

⁵ The subtypes considered under each category are:

- a) Associations and associations: Consortia established and/or with shareholdings by regions, provinces and/or municipalities, Optimal Territorial Ambits (OTA), regional and interregional parks, reclamation consortia;
- b) Companies and institutions: public economic entities, regional companies, consortium companies, regional/provincial/municipal institutions, personal service companies (ASP), residential companies, specialized and municipal companies;
- c) Investee companies and foundations: Public service companies, Foundations, Other companies with regional or sub-regional investment.

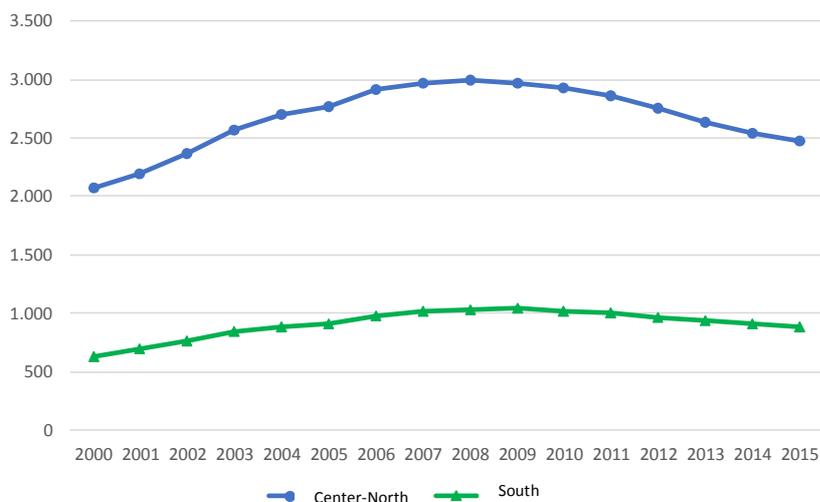
Figure 1 – Total consolidated net expenditure of investee companies by type and macro area (years 2000, 2008 and 2015; constant euro per capita 2010)



Source: Regional Public Accounts System

The number of LPEs in 2015 was of 3,359 units at a national level, 74% of which were located in the Center-North. trend is in line with previous legislation for both macro areas of the country (see Figure 2). In fact, in the Center-North there were 2,075 active businesses with expenditure flows in 2000, which increased to 2,993 in 2008, then decreased to 2,471 in 2015. Similarly, there were 631 LPEs in Southern Italy in 2000, 1,024 in 2008, and 888 in 2015.

Figure 2 – Number of LPEs (years 2000-2015)

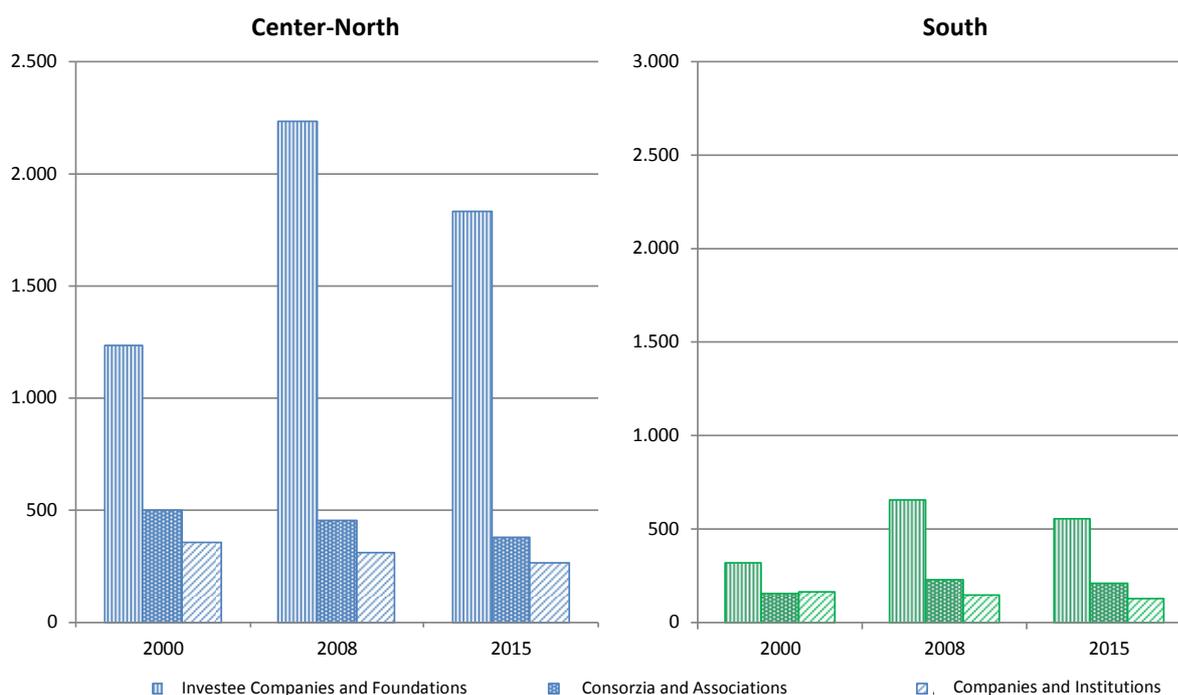


Source: Regional Public Accounts System

The trends described are even more evident when considering the subset of investee companies foundations (see Figure 3). At a national level, the number increased from 1,547 units in 2000 to 2,881 in 2008, and then fell to 2,385 units in 2015. The contraction in the last seven years can be partially justified, especially in the Center-North, due to grouping of several bodies into a single entity, or to the creation of poles of aggregation for local public services in large groups of public companies. They are often multi-purpose, can in some cases be interregional, and have reached considerable economic dimensions. The remaining categories, on the other hand, underwent less significant changes over the same period, showing limited fluctuations.

The analysis of the distribution of the subjects across the three classification categories adopted by the RPAs shows that investee companies and foundations are the most widespread typology. Over the years, in all the areas considered, they represent over 51 percent of the organizations recognized, and exceed 80 percent in Lombardy (462 units), Tuscany (252 units) and Marche (162 units). In contrast, consortia and associations fluctuate between 15.2 percent recorded in the Center-North in 2015 and the 24.1 percent recorded in the South in 2000. The final category of subjects, companies and institutions, varies from 10.3 percent in the Center-North in 2008, to 25.7 percent in the South in 2000.

Figure 3 – Analysis of the number of Local Public Enterprises by category (Unit)



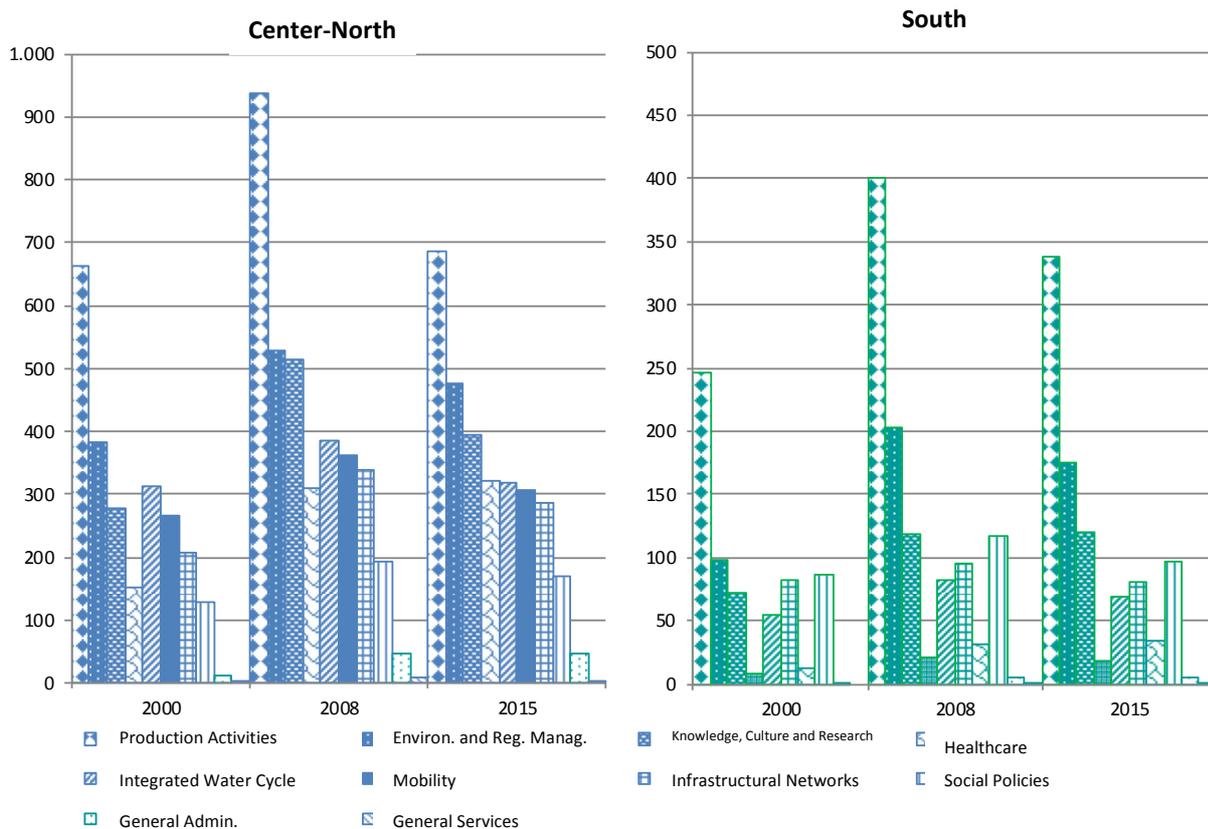
Source: Regional Public Accounts System

Classification by macro sector⁶ (see Figure 4) is particularly useful for understanding some of the particularities in the management of public services entrusted to local companies. There is a substantial stability over time of the managed macro sectors; as a matter of fact,

⁶ To create a better graphic representation, the 29 sectors considered within the RPA database have been regrouped into key macro functions.

the majority of Italian LPEs lend their services within Production activities, concentrating mainly on the Housing and Agriculture sectors, as well as in the generic sector of Other economic-related expenses. Companies managing activities in the Environment, Land Management and Knowledge, Culture and Research sectors are also noteworthy. Additionally, local companies in the South are more involved in the management of Production activities, whereas those in the Center-North absorb a relatively larger share of Infrastructure Networks (energy and telecommunications). There is also a high number of subjects within the Healthcare sector in the central and northern regions, due to the presence of various municipal pharmacies and spas.

Figure 4 - Analysis of the number of Local Public Enterprises by macro sector (Unit)



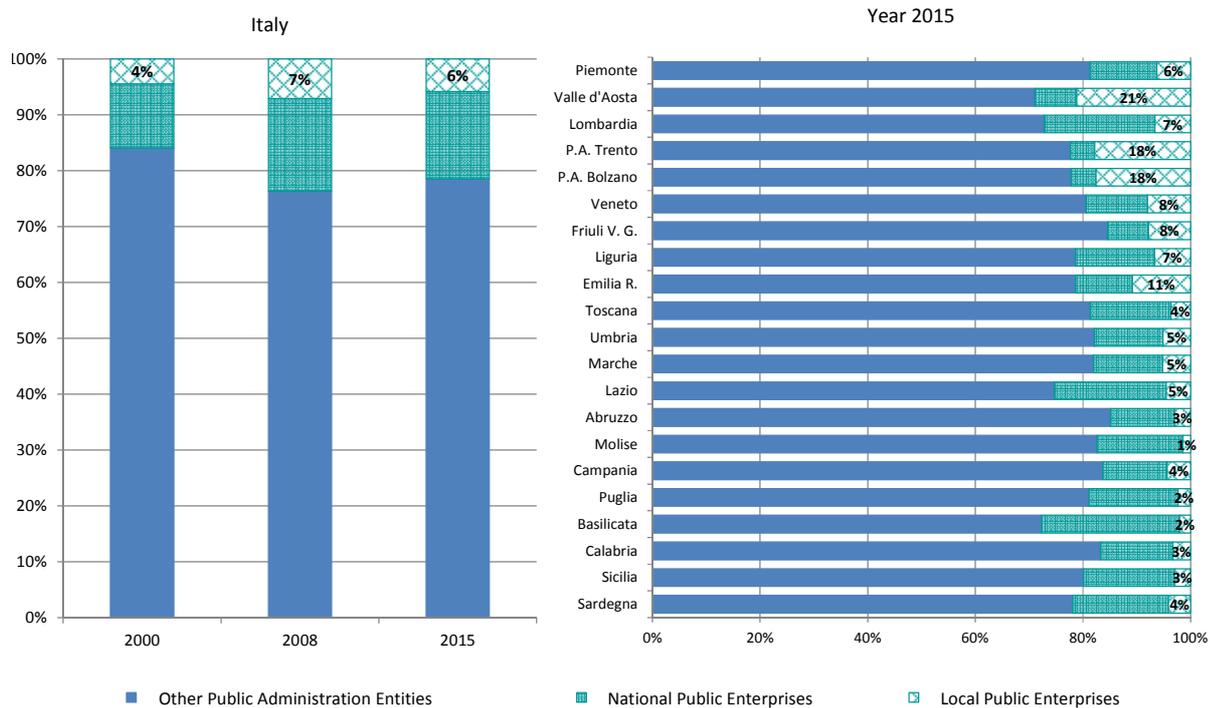
* Different scales were used for the two graphs to produce a better graphic representation.

Source: Regional Public Accounts System

Expenditure characteristics and dynamics

In order to rationalize the Local Public Enterprises sector, the actual weight of the LPEs on the total public expenditure must be considered. Figure 5 shows that between 2000 and 2015, in Italy the weight of LPEs on the total public expenditure hovers around 7 percent. However, the fairly limited variation shown at a national level becomes much wider when the regional level is considered. In fact, notably high percentages are shown for some small regions and in the autonomous provinces in the Center-North and very low in the South, a case in point in revealing different policy choices made by individual administrations.

Figure 5 –Weight of LPEs on total consolidated expenditure in the Wider Public Sector by region (years 2000, 2008 and 2015; percentage values)



Source: Regional Public Accounts System

However, this perspective changes if the incidence of LPE expenditure is compared with that recorded by the relative level of government, i.e. in the Regional and Local Administrations sector (see Table 2). In this case, over the period 2000-2015, the average incidence of the LPEs on regional and local government expenditure was 19.8 percent, with a significant distinction between geographical areas: in the Center-North, the average is 26 percent, whereas in the South it is almost 12 percent, with a more marked growth trend in the Center-North, compared to the South.

In both areas, there was also an increase in average LPE expenditure between the period 2000-2007 and the period 2008-2015. This is more clearly shown in the Center-North, with a 4.4 percentage points increase, compared to 1.1 percent in the South. Additionally, in the Center-North there is an overall net increase in expenditure, whereas the reduction in local public administration spending in the South produced an overall net decrease.

It may be significant to note how the trend in the Center-North shows an average growth in line with the one recorded for worldwide SOES by Fortune Global 500, which was affected by the sustained expansion of Chinese SOES.

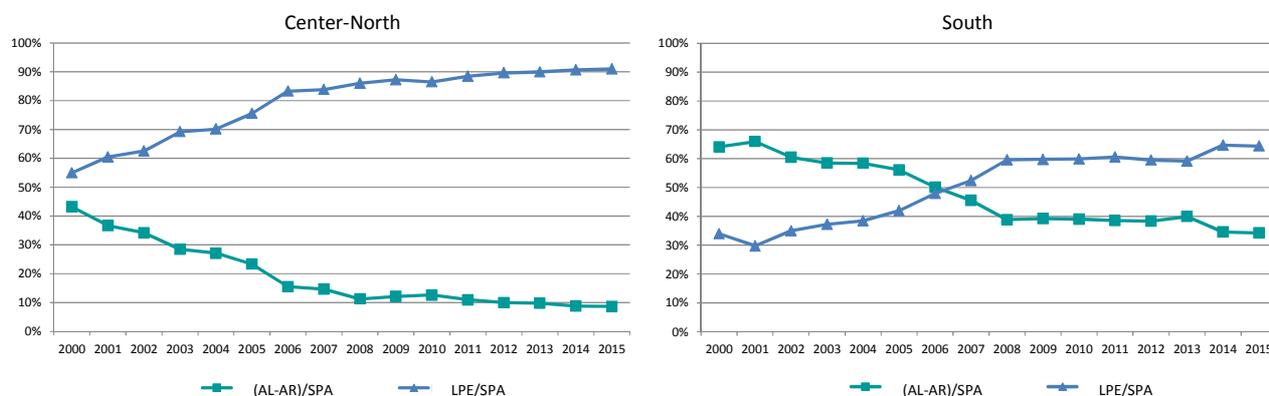
Table 2 – Total consolidated expenditure of Regional and Local Administrations and LPEs (constant euro per capita)

	2000-2007 average	2008-2015 average
Center-North	4,883.90	5,408.73
Local and Regional Admin.	3,710.50	3,615.28
Local Public Enterprises	1,173.40	1,433.45
South	3,838.73	3,767.94
Local and Regional Admin.	3,413.57	3,308.74
Local Public Enterprises	425.16	459.19

Source: Regional Public Accounts System

A further crucial aspect in the rationalization of the LPEs sector is the substitutive effect between the expenditure of local and regional public bodies and that of their investee companies. This can be seen in the case of the Integrated Water cycle. Figure 6 shows the substitution effect between public sector expenditure and that of the investee companies. In both areas of reference the increase in the incidence of LPEs is accompanied by a simultaneous reduction in the percentage of local government expenditure. The outsourcing of the water service in central and northern regions began many years earlier than in the South. Such evidence may also be accompanied by the risk of loss of control of public finances that would require changes in governance.

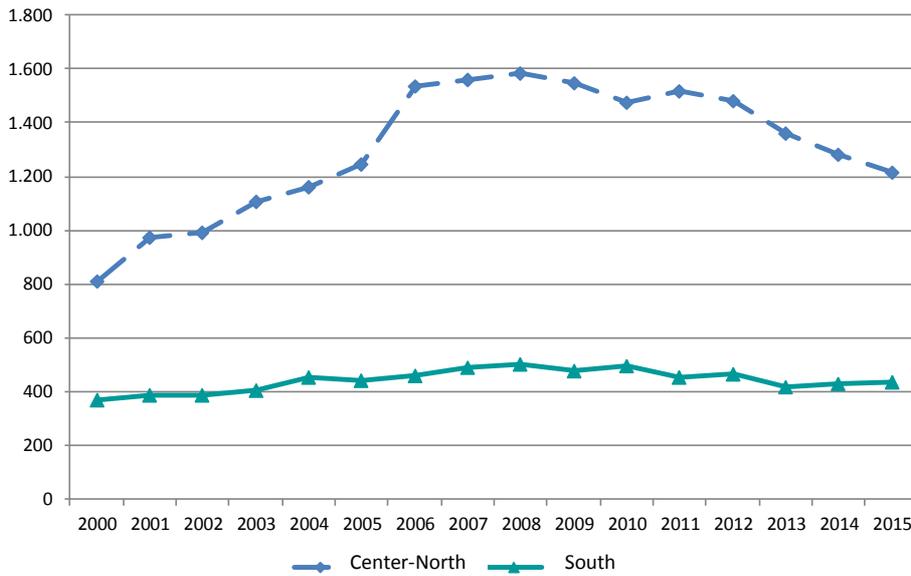
Figure 6 – The substitutive effect in the Integrated Water cycle sector (Percentage values)



Source: Regional Public Accounts System

The analysis of the dynamics recorded in the two reference areas by the LPEs expenditure also provides important elements for monitoring the effects of the regulations. In Figure 7, LPEs expenditure shows a phase of expansion between 2000 and 2008 (during which time it more than doubles) followed by an unstoppable decline (between 2008 and 2015 reduction was slightly over 20 percentage points) due to both restrictive measures and the economic crisis. This trend is particularly evident in the Center-North, where the phenomenon of outsourcing is more incisive

Figure 7 – Total consolidated expenditure by LPEs (constant euro per capita)

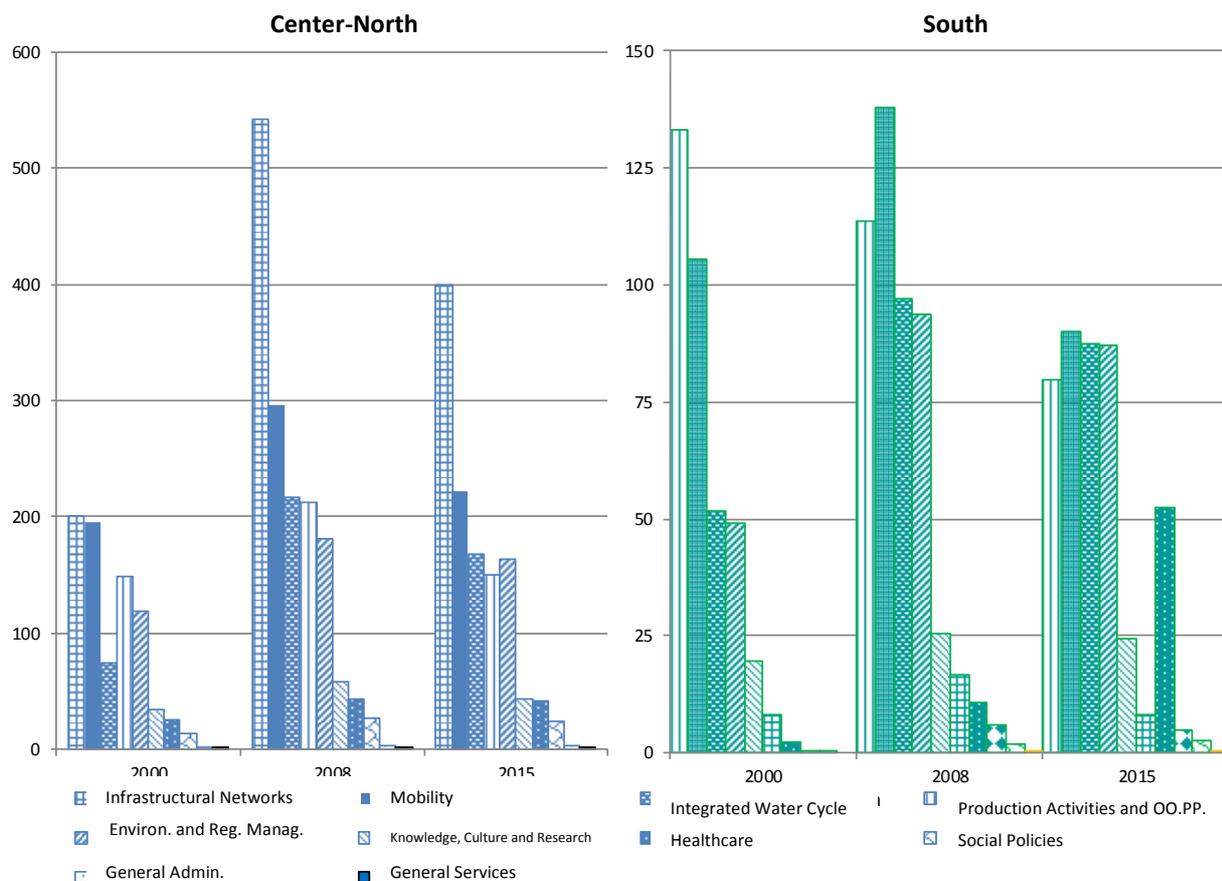


Source: *Regional Public Accounts System*

Further reflections can be gained through analyzing the sectoral distribution of LPEs in terms of expenditure (see Figure 8). Indeed, as seen in the previous paragraph, , a large number of companies were involved in Production activities and in Environment and Land Management, then considering total expenditure leads to the conclusion that most of the companies in the Center-North manage Infrastructure Networks (with an average expenditure of over €381 per inhabitant) and mobility (on average €238). These sectors require a greater financial commitment, in terms of both huge investments required, and need for more employees. The result is of course affected by the presence of large companies such as A2A in Lombardy, Hera in Emilia Romagna, Dolomiti energia S.p.A. in the Autonomous Province of Trento, Acea in Lazio, and perhaps most importantly IREN in Emilia Romagna, Piedmont and Liguria.

In the South, however, the Production sector remains significant (with an average expenditure of approximately €109 per inhabitant). It is exceeded only by Mobility, in which companies spend more than €111 per capita.

Figure 8 - Distribution by sector of Local Public Enterprise expenditure (constant euro per capita 2010)



**Different scales were used for the two graphs to produce a better graphic representation.*

Source: Regional Public Accounts System

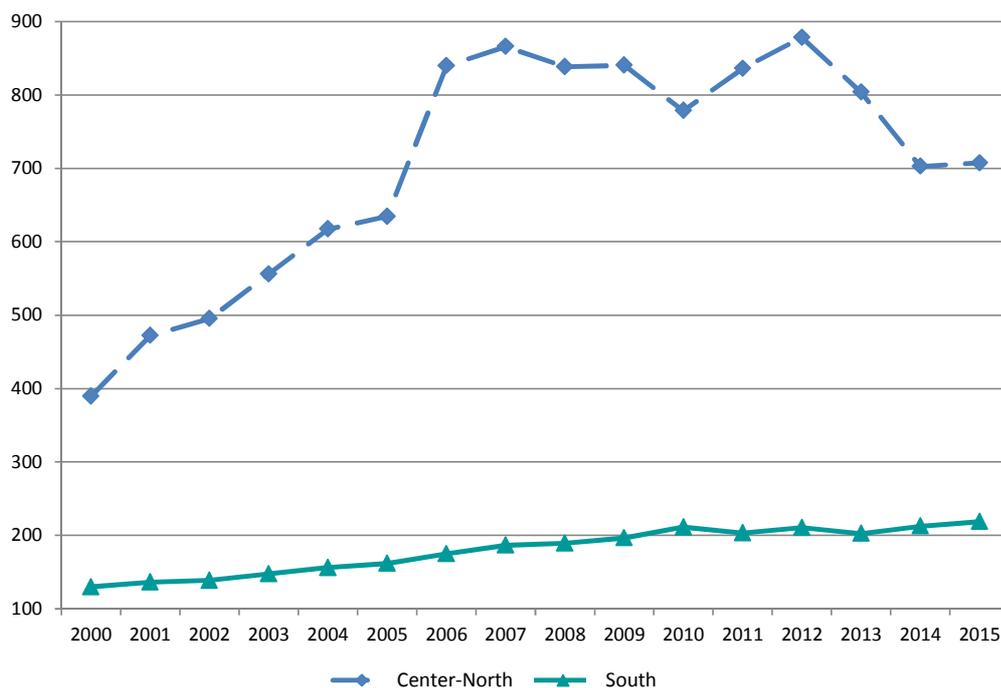
Another significant phenomenon that can be found in both the two geographical macro-areas is the increase in expenditure in some sectors, such as General Administration and Health. This reflects the outsourcing of administration skills by public bodies, through the creation of companies to carry out key activities, such as financial, asset management and tax collection companies (examples can be seen in Sicily, Sardinia, Marche, Lazio, Trento and Piedmont). It can be also interpreted as a signal towards implementing strategic actions for the rationalization of regional health expenditure (such as the establishment of SO.RE.SA. S.p.A. in Campania).

Finally, the trend shown by some expenditure categories reflects the intentions of the regulations implemented by the legislator. This is the case for the expenditure trend in the purchase of goods and services, which shows a sharp increase in LPEs costs in the initial period, followed by stabilization in conjunction with the first legislative measures monitoring LPEs governance.

As previously stated, the intention of the Legislative Decree no. 95/2012 was to obligate the companies included in the consolidated income account to obtain supplies through agreements or frameworks provided by national and regional purchasing centers. An

signal of the control and limitation in the goods and services purchasing expenditure can be seen in the LPEs trend in the Center-North (see Figure 9), taking place since 2013. In this area, the greater presence of companies, as opposed to consortia and investee companies, determines a reduction of the economic expenditure category by almost 19 percentage points between 2012 and 2015. The same cannot be seen in the South, an area in which the presence of relatively few, smaller companies slows this contraction.

Figure 9 –Trend in expenditure for purchase of goods and services of Local Public Enterprises (constant euro per capita 2010)



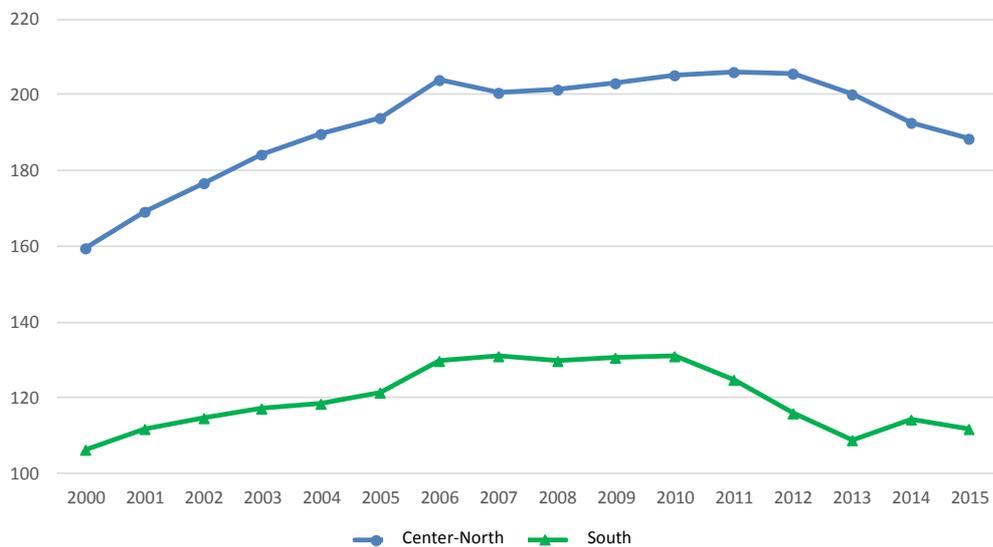
Source: Regional Public Accounts System

There are also signs tracing the effects of the application of art. no. 18 of the Legislative Decree n. 112/2008 and of art. no. 19 of the Legislative Decree n.78/2009. Such regulations extend the provisions valid for the controlling administration to include their investee companies. They include prohibitions or limitations on staff recruitment and on recruitment procedures, and also introduce the principle of public competition for recruiting personnel, in order to ensure they are not used as an avoidance tool. Also in this case, Public Accounts data prove helpful in monitoring the legislative impact, as illustrated in Figure 10.

The graph exhibits that, following the introduction of the aforementioned legislative decrees, LPEs staff expenditure contracts in both the macro areas, albeit with different intensity and dynamics: between 2010 and 2015 companies in the Center-North reduce their expenditure in salaries by more than 8 percentage points, while those in the South do so by almost 15 points. These results gain further significance considered that usually

staff expenditure is somewhat sticky and move downwards with difficulty. This is as also demonstrated by the two-to-four-year lagged effect of the two legislations on the data.

Figure 10 – Trend in Staff Expenditure in Local Public Enterprises (constant euro per capita 2010)



Source: Regional Public Accounts System

Conclusions

The phenomenon of outsourcing public services and their activities by Public Administration bodies began in Italy in the 1990s. Subsequently, under EU regulations, it has been the subject of numerous rationalization interventions.

The original reason behind this decision can be found in the need to bring the organization of public services closer to their final beneficiaries, in a dynamic context, wherein satisfying demand requires specialization and flexibility. It is therefore a strategic decision targeting efficiency and effectiveness, which cannot be pursued through local public bodies.

With respect to this aim, there are a great number of investee companies owned by public entities in Italy, in comparison with the international context.

In an attempt to stem the excessive proliferation of LPEs, legislation intervened with provisions that were not always incisive. Very often such provisions were limited to articulating general principles which local entities have easily been able to avoid, through less rigorous interpretation of the rationales of laws.

For example, the regulatory provisions according to which non-strategic shareholdings should be divested, and only those strictly necessary for the provision of institutional services and its regional application should be retained, have been simplified with respect

to the regulation itself; only the more specific constraints, which cannot be avoided, are adhered to.

Only in recent years, following the EC's work to revise public spending⁷, has an overall, systematic restructuring plan been introduced for the sector, given the large number of companies owned by local PA and its impact on public accounts.

The Consolidated Law on investee companies (Legislative Decree n.175/2016) is the latest act in the reorganization process. It aims to set defined boundaries within which to maintain the universe of local investee companies, with regard to efficient management, the protection and promotion of competition and the market, and to rationalizing and reducing public expenditure.

The numerous regulatory measures have therefore led some public institutions to introduce surveys of public investee companies, which collect a large amount of information to support policy decisions and to monitor the sector's key characteristics.

The Regional Public Accounts System is the only database that combines almost all the information necessary for an analysis to support policy interventions. Using its data as a reference, it is possible to reconstruct the numerical and financial evolution of the universe of investee companies in recent years, depending also on the availability of information at micro level.

From the system, it emerges that the total expenditure by the local public entities surveyed represents on average 7 percent of the total consolidated national expenditure of the (WPS), with a highly varied regional impact between the Center-North and the South. The analysis also highlights both the different degree of outsourcing between the two regional areas, with a greater incidence in the Center-North, and two different models with regard to the size, subjects and sectors of intervention. In some cases, it is also possible to understand whether or not the various successive regulations and the substitutive effect of spending between public administration and investee companies are reflected.

The effects of introducing the Consolidated Law on local investee companies are evidently not yet visible through the RPAs system, but will be monitored and analyzed over the next few years, together with the examination of legislative signals directed towards good public administration performance, transparency, the responsibility of local administrators and the prudent management of public resources. All of these elements are necessary to establish a favorable environment for growth, investment and the value creation.

⁷ Similar rationalization tools for public expenditure have also been introduced in other countries, such as Great Britain, Canada, the Netherlands, New Zealand and France.

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