

The implementation gap of NPM reforms in Italian local governments

An empirical analysis

Aldo Pavan

Elisabetta Reginato

Isabella Fadda

ECONOMIA DELLE AZIENDE

FrancoAngeli

E DELLE AMMINISTRAZIONI PUBBLICHE

La nuova Collana *Economia delle aziende e delle amministrazioni pubbliche* nasce con una doppia ambizione ovvero quella di mantenere, ed anzi rivalutare, il ruolo della monografia e al tempo stesso di promuovere le pubblicazioni (in italiano o in inglese) della comunità scientifica italiana, assicurandone il massimo rigore scientifico e rispettando i parametri di selettività e peer reviewing che ormai si sono imposti a livello internazionale.

La Collana si propone dunque di pubblicare, valorizzandoli attraverso un adeguato referaggio, i contributi che risultino rigorosi ed originali dal punto di vista metodologico e scientifico e che diano prova di contribuire al progredire della disciplina ed alla corretta gestione delle risorse pubbliche.

La Collana è aperta a tutti gli studi e le ricerche che abbiano ad oggetto le aziende pubbliche, a condizione che queste siano indagate in chiave economico-aziendale, anche se sono apprezzate le contaminazioni con le altre discipline.

Ancora, sono accolti con particolare interesse gli studi che dimostrino un approccio ed un respiro internazionale e comparativo, e comunque ogni contributo che possa servire a migliorare il funzionamento della pubblica amministrazione italiana ed europea.

Il Comitato Direttivo affianca il Direttore per supportarlo nella definizione dell'orientamento di fondo della Collana. In accordo con il Direttore, interviene inoltre nella valutazione della coerenza delle proposte con la linea editoriale, nella loro valutazione sintetica e nell'individuazione dei componenti del Comitato Scientifico a cui attribuire la valutazione analitica.

I componenti del Comitato Scientifico intervengono, su richiesta del Direttore e del Comitato Direttivo, in relazione alle loro specifiche competenze di ricerca per valutare analiticamente le proposte, con particolare riferimento alla qualità scientifica ed al rigore di metodo.

La Collana, oltre la serie referata, comprende anche una Sezione "Contributi e riflessioni" dove vengono ospitate le opere collettanee e gli atti di convegno, per i quali si è giudicato di non dover procedere alla verifica dei singoli contributi. Non sono invece ammessi in Collana lavori monografici i cui autori non accettino di sottoporsi al giudizio dei referee.

Comitato Direttivo

Luca Anselmi (Università di Pisa, Scuola Superiore Pubblica Amministrazione)

Riccardo Mussari (Università di Siena)

Stefano Pozzoli (Università di Napoli Parthenope) - Direttore

Comitato Scientifico

Eugenio Anessi Pessina (Università Cattolica del Sacro Cuore)

Carmine Bianchi (Università di Palermo)

Elio Borgonovi (Università di Milano-Bocconi)

Bettina Campedelli (Università di Verona)

Eugenio Caperchione (Università di Modena e Reggio Emilia)

Lidia D'Alessio (Università di Roma Tre)
Mariano D'Amore (Università di Napoli Parthenope)
Fabio Donato (Università di Ferrara)
Marco Elefanti (Università Cattolica del Sacro Cuore)
Luigi Fici (Università della Tuscia)
Andrea Garlatti (Università di Udine)
Lucia Giovannelli (Università di Sassari)
Luciano Hinna ((Università di Roma "Tor Vergata")
Luciano Marchi (Università di Pisa)
Giuseppe Marcon (Università di Venezia "Ca' Foscari")
Antonio Maticena (Università di Bologna)
Marco Meneguzzo (Università di Roma "Tor Vergata")
Mauro Paoloni (Università di Roma Tre)
Aldo Pavan (Università di Cagliari)
Niccolò Persiani (Università di Firenze)
Fabrizio Pezzani (Università di Milano-Bocconi)
Luigi Puddu (Università di Torino)
Paolo Ricci (Università del Sannio di Benevento)
Massimo Sargiacomo (Università di Chieti Pescara)
Sebastiano Torcivia (Università di Palermo)
Giovanni Valotti (Università di Milano-Bocconi)
Francesco Vermiglio (Università di Messina)
Antonello Zangrandi (Università di Parma)
Andrea Ziruolo (Università di Chieti Pescara)
Mara Zuccardi Merli (Università di Genova)

Economia delle Aziende e delle Amministrazioni Pubbliche

- R. Romano, *I servizi idrici italiani. Quale relazione tra performance e modelli di governance* (2012)
- E. Gori, S. Fissi, *Il dissesto finanziario negli enti locali. Un modello per l'analisi e la prevenzione dei default* (2012)

Economia delle Aziende e delle Amministrazioni Pubbliche *Sezione Contributi e Riflessioni*

- M. Meneguzzo, R. Trequattrini, G. Russo, G. Fiorani (a cura di), *Spending review, trasparenza e qualità dei servizi nelle amministrazioni regionali. La sfida per le Regioni* (2012)
- L. Anselmi, F. Donato, L. Marinò, A. Pavan, M. Zuccardi Merli (a cura di), *Il declino del sistema dei controlli manageriali nelle pubbliche amministrazioni* (2013)
- A. Garlatti (a cura di), *Autonomia istituzionale e performance aziendale nei sistemi di pubblico impiego. Il caso del Friuli Venezia Giulia* (2014)
- A. Pavan, E. Reginato, I. Fadda, *The implementation gap of Npm reforms in Italian local governments. An empirical analysis* (2014)

I lettori che desiderano informarsi sui libri e le riviste da noi pubblicati possono consultare il nostro sito Internet: *www.francoangeli.it* e iscriversi nella home page al servizio “Informatemi” per ricevere via e-mail le segnalazioni delle novità.

The implementation gap of NPM reforms in Italian local governments

An empirical analysis

Aldo Pavan
Elisabetta Reginato
Isabella Fadda

FrancoAngeli

**ECONOMIA DELLE AZIENDE
E DELLE AMMINISTRAZIONI PUBBLICHE**

Copyright © 2014 by FrancoAngeli s.r.l., Milano, Italy.

L'opera, comprese tutte le sue parti, è tutelata dalla legge sul diritto d'autore. L'Utente nel momento in cui effettua il download dell'opera accetta tutte le condizioni della licenza d'uso dell'opera previste e comunicate sul sito www.francoangeli.it.

CONTENTS

Introduction , by <i>Aldo Pavan</i>	pag.	7
1. Reforming the local public management , by <i>Isabella Fadda</i>	»	11
1.1. The New Public Management	»	11
1.2. The reforms in local authorities	»	15
1.2.1. The financial reporting and system of indicators	»	16
1.2.2. The planning and control system	»	23
2. NPM reforms: formal or substantial innovations? , by <i>Elisabetta Reginato</i>	»	30
2.1. Research aims	»	30
2.2. Theoretical framework	»	32
2.3. Research methods	»	39
2.3.1. The interviews	»	39
2.3.2. Basic characteristics of the sampling schemes, by <i>Claudio Conversano</i>	»	41
3. The accounting and control system in the local authorities	»	47
3.1. The municipalities, by <i>Elisabetta Reginato</i>	»	47
3.1.1. The accrual accounting and the indicators system, by <i>Elisabetta Reginato</i>	»	47
3.1.2. The planning and control system, by <i>Isabella Fadda</i>	»	56
3.2. The provinces	»	66
3.2.1. The accrual accounting and the indicators system, by <i>Alessandro Falilò</i>	»	66

3.2.2. The planning and control system, by <i>Isabella Fadda</i>	pag.	70
3.3. The level of compliance and the actual implementation of the TUEL, by <i>Isabella Fadda</i>	»	77
3.3.1. The level of compliance with the TUEL (RCI)	»	77
3.3.2. The actual reform implementation (RII)	»	81
3.3.3. Connecting the results and the authorities size	»	85
3.3.4. Connecting the results and the geographic location of the authorities	»	86
3.4. Comparing provinces and municipalities, by <i>Isabella Fadda</i>	»	88
3.5. The opinions on TUEL, by <i>Elisabetta Reginato</i>	»	91
3.6. Interpreting the research results, by <i>Elisabetta Reginato</i>	»	104
Annex A (The questionnaire)	»	107
Annex B (Calculation of the RII index)	»	113
Annex C (Verification of the hypothesis H ₁)	»	114
Annex D (Verification of the hypothesis H ₂)	»	116
4. What is the future for the local public management?	»	119
4.1. Some remarks on the research results, by <i>Elisabetta Reginato</i>	»	119
4.2. Some advice to the policy makers, by <i>Aldo Pavan</i>	»	124
Bibliography	»	131

INTRODUCTION

by *Aldo Pavan*

In most Western countries the late post-war period has been characterized by an impressive development of the public sector in economics and society; the results of such a phenomenon have been criticized by many observers, who have underlined that the expected benefits in terms of a more widely spread welfare have not been accomplished and that, on the contrary, the different national states have been loaded with the burden of an enormous as well as inefficient system, of a significant surplus of expenditure against the revenues, and of the increasing stocks of debt that are becoming hardly bearable. At the end of the Seventies an international movement thus started aimed, on the one hand, at redefining such a public presence in society, on the other, at reshaping the public systems in terms of functionality, services to the citizens, efficacy as for objectives of collective utility, efficiency in the use of the resources (Anselmi, 2003; Barzelay, 2001; Borgonovi, 2005; Hood, 1995). The new management of the public organisations – New Public Management, NPM – has questioned itself on the remarkable differences that historically characterise them as compared with the private ones, and has speculated that levels of efficiency similar to the second ones can be accomplished by adopting the well established concepts and techniques of the managerial world. The self-referential managements based on formal authorisations, on senior careers, on ambiguous definitions of political and managerial skills have been thus surpassed, and the re-engineering of the processes, of the management by objectives, of the externalisation of extra-characteristic activities, etc. has been devised. Within this significant movement, it is important to refer to the private sector communication and control systems, both in the Information Communi-

cation Technology dimension – ITC –, and as for the budgeting and reporting instruments, that will be analysed in this study.

From this point of view, the concept of public administration has shifted from a wide and undifferentiated to a really different one. According to the latter, the public administration has been split into units – organizations – pursuing given objectives in the public interest. Broadly speaking these organizations can be compared to limited companies whose management is based on medium and long term strategic plans, on annual budgets aimed at achieving general and specific objectives, on the systematic and on-going management control, on the annual financial statement, traditionally divided into the balance sheet and the operating statement.

A rich scientific literature has flourished upon the above quoted movement, and particularly upon the public sector organisations' adoption of budgeting and reporting instruments coming from the private sector – New Public Financial Management, NPFM. The changes taking place in the different countries, and in the different departments of the public sector have been observed, described, classified and compared. The achieved results are not always very comforting ones. It has been considered that quite frequently practices have significantly diverged from the given regulations; reforms have led to unexpected and unsatisfying results (Guthrie, 1998; Newberry, 2002; Christiaens and Rommel, 2008; Lapsley, 2009) and have given place to more formal than substantial changes (Olson *et al.*, 1998; Ter Bogt and Van Helden, 2000). In this context, the related literature has aimed at investigating the reasons that lead public administrations to adopt specific information and accounting innovations, as well as their real implementation processes.

To the latter purpose, several studies focus on the influence that socio-economic factors – such as the size and the geographical location of the authorities – have had on the public administrations' choice to innovate their own information systems (Anessi Pessina, *et al.*, 2008; Bingham, 1978; Holden *et al.*, 2003; Moon, deLeon, 2001). Other studies explain reforms in terms of the expectations and the values inside and outside the organisations and of the influences wielded by social, economic, political, historical and cultural factors (Brignall and Modell, 2000; Burns and Scapens, 2000; Caccia and Steccolini, 2006; Modell, 2004, 2009; Panozzo, 2000; Scapens, 1994, 2006; Seal, 1999; Ter Bogt and Van Helden, 2000; Ter Bogt, 2008).

The international movement known as new public management – NPM – has been implemented in Italy since the early Nineties. As it happened in many other countries as well, local governments were one of the first to be affected by the changing process (D'Alessio, 1997; Farneti, 2006; Pavan

and Reginato, 2012). Several regulatory measures issued in the meanwhile, have been later included into the Consolidation Act of the Local Authorities, Tuel in Italian. The Tuel has significantly innovated all the elements of the information accounting model – represented by budgeting, book-keeping and financial reporting – and of the control one (Caperchione, 2000). Some of the most remarkable innovations include, as for the provisional instruments, the introduction of the Management Executive Plan – PEG in Italian –, of the Policy Lines and of the Forecasting and Programmatic Plan – RPP in Italian –; in terms of book-keeping and financial reporting, the introduction of the accrual accounting through the obligation to the operating statement and the balance sheet drafting; in terms of control, the implementation of the management and the strategic control.

This research focuses on the need to examine the reality that these regulatory innovations intended to modify; it is the final result of a cooperation started in 2006 between the Committee for Local Governments Accounting and Finance – Osservatorio sulla finanza e la contabilità degli enti locali, hereinafter Osservatorio – established at the Italian Ministry of Home Affairs and the University of Cagliari. The former has appointed a research group at the Faculty of Economics for a survey related to the accounting and financial regulations of the local governments. This research has been divided into two stages: a pilot research led through some interviews to preferential observers and the arrangement of a questionnaire; the determination of a representative sample of local governments, the administration of the questionnaire and the processing of the collected data for the study of these phenomena and their causes. A first report on the achieved results was presented in March 2009¹.

After almost twenty years since the first regulatory interventions it is specifically questioned not only to what extent local administrations have adjusted their own information system according to what was prescribed by the TUEL – first research question –, but also, and above all, how the new accounting and control systems introduced have actually been used – second research question.

The empirical studies led on the topic so far emphasize the gap between rules and practices – hereinafter implementation gap –, but they seem rather restricted, whence their results cannot fully generalize the Italian local governments on the whole (Anessi Pessina and Caccia, 2000; Anessi Pessina

¹ It can be found on the web at the following: http://osservatorio.interno.it/studi/Report_Osservatorio_definitivo.pdf.

and Steccolini, 2001, 2005, 2007; Buccoliero *et al.* 2005; Caperchione, 2003; De Matteis and Preite, 2005; Farneti *et al.*, 2007, 2008; Mazzara 2003; Nasi and Steccolini, 2008). The current research starts from these studies and, thanks to the statistical representativeness of the selected sample, basically aims at achieving results with a general value, before further investigation on the real implementation of the introduced innovations and the causes of the observed phenomena.

To this purpose, as already said, some data have been first collected through semi-structured interviews to preferential observers, before further proceeding to the arrangement of a questionnaire and to its administration to a representative sample of municipalities with over 5 thousand inhabitants and to the whole population of the Italian provinces.

The results emerging from the analysis of the data in the questionnaire have considered whether and to what extent, even in Italy, the NPFM may have led to a simple formal change in the information system of the local governments; however, they also describe the causes of the investigated phenomena, and particularly analyse the influence of variables such as the authorities size and their geographical location on the innovating procedure – and that is the third research question.

The following study is further developed through the analysis of the connections between the benefits and the costs for the implementation of the TUEL, just as they are met by the practitioners, – fourth research question – and the possible causes for the implementation gap – fifth research question. With particular reference to the latter, it has been explained through the institutional theory, both in its outer perspective of the new institutional sociology – NIS – and in the inner one of the old institutional economics – OIE.

The survey has been divided as follows. After describing the international phenomenon of the NPM in the first chapter, as well as how the process of reforms connected to it has developed through the regulations related to the Italian local authorities, the second chapter defines the objectives, the aims, the reference theories and the investigating tools used in it. The third chapter displays and debates the results of the survey; the fourth chapter finally presents the conclusions and gives some advice to the policy makers in our country, hoping it may be useful.

1. REFORMING THE LOCAL PUBLIC MANAGEMENT

by *Isabella Fadda*

1.1. The New Public Management

The origin of the movement characterized by a new philosophy in the management of public organizations is conventionally matched with the process of reforms that, between the end of the 1970s and the beginning of the 1980s took place in the United Kingdom led by Margaret Thatcher and in the American municipal administrations (Gruening, 2001). Christopher Hood first coined the expression New Public Management – NPM – in 1991 (Hood, 1991). This approach to public administration management has often been debated since then, as shown by the flourishing literature on this topic. The theoretic essentials of the NPM recall and gather ideas or concepts that are not new, and that belong to different areas – this is precisely where the main “innovation” of the NPM lies – like the theories of the agency, of the public choice, of the transaction costs, the rational and organic approach to the public management, the classical and neoclassical thought in the public administration (Gruening, 2001).

The NPM has been the thread for the reforms internationally adopted by the local and central governments in the past twenty years, in the attempt to “re-design” the public administrations making them more effective, more efficient, and accountable for the related communities (Osborne and Gaebler, 1995). The movement leads to a philosophy in the public sector that sets the citizen at the centre of the action: the “moral owner” of the public property, the voter, the taxpayer, and the recipient of the services. The organizations thus aim at creating benefits for the community, in a context where the rules are more guiding principles than explicitly analytical ones, and the main characters, elected politicians and employees, are evaluated, as carefully as possible, in economic terms, that is according to the connection between the achieved results and the used resources. To the lat-

ter purpose, the NPM contrasts the model of the “legal state” administrative culture, traditionally prevailing in continental Europe, and, with which we are more concerned, in Italy. In such a model, the public staff considers it normal and acceptable for the state to have a role of absolute pre-eminence in society, so that few citizens, when none, are involved in its decision-making activity. Most civil servants, and in particular the ones belonging to the high level, have a legal culture; they act in a context where the different levels of regulators produce analytical rules with the claim of predicting and regulating all the possible situations; a good officer must know and apply such rules; he is supposed to act in a context of correctness and legal control. The negative outcome of such a process is, on the one hand, that any public action turns to a stalemate when the reality presents unexpected circumstances, on the other that little or no attention is paid to the impact in terms of usefulness of this given action. (Pollit and Bouckaert, 2004).

The internationality characterizing this reforming trend represents a significant element that distinguishes the NPM from the past reforms and gives it a hint of innovation (Pollit and Bouckaert, 2004). However, it should be considered that the reforms inspired by the NPM are not uniformly implemented; on the contrary the empirical evidence shows that each country has chosen its own path, according to the role the different powers may have in affecting the reform process (Guthrie *et al.*, 1999; Lapsley, 1999; Lüder, 2002, Pollit and Bouckaert, 2000). One of the distinguishing marks of the NPM is represented by the emphasis given to the shift of the peculiar techniques and managing tools from the private sector to the public one (Hood, 1995). From this point of view the NPM on the one hand created the illusion that the simple adoption of these tools would be enough to produce the expected changes, but on the other hand, and quite frequently, it has caused disappointment with the unsatisfying and unintended results to which it has led (Lapsley, 2009).

It should be particularly noticed that the adoption of new private sector derived accounting instruments and techniques has, as far as the NPM is concerned, a leading role. The New Public Financial Management is specifically related to NPM and it can be divided into five macro areas:

- 1) the reforms in the accounting systems and, in particular, the use of accrual-based financial statements and the reliance on private sector derived accounting standards;
- 2) the development of “*commercially minded*” managing techniques to cope with the provision and pricing of public services;
- 3) the use of performance indicators;

- 4) the efforts to integrate the budgetary information and the ones coming from the reporting results, both in accounting and extra-accounting terms;
- 5) the reforms of either internal and external audit systems (Guthrie *et al.*, 1999, pp. 210-211).

The academic debate is rather high-pitched about the first macro-areas. Before the above described reforming wave, the information systems in the public sector were mainly on cash or cash and obligation basis¹, all over the world. Jones and Pendelbury (2000), more specifically identify five types of accounting techniques and logics in the public sector: on the one hand the budgetary accounting and the fund accounting, on the other hand the cash accounting, the accrual accounting, the commitment accounting. The first two techniques differently match the following logics, thus creating the concrete accounting systems in the different public organizations.

The budgetary accounting coincides with our annual budget and budgetary statement, and it is aimed at comparing the budget provisions and the end of term outcomes, thus monitoring the use of the resources by the bodies appointed for their management. The fund accounting, on the contrary, is a technique according to which the accounting records are not referred to the company on the whole, but to its sub-systems and the related resources called funds.

This system leads to the preparation of as many final balances as established funds. Both the budgetary accounting and the fund accounting can be managed according to the logic of cash accounting, of accrual accounting, or the cash and obligation based accounting.

What differentiates these three logics is how any of them assesses revenues and expenditures. The cash accounting records expenditures when the disbursement is made and revenues when the cash is received; the accrual accounting records expenses when they are incurred and revenues when they are earned; the commitment accounting recognizes the expenses when the financial obligation is legally completed – the commitment moment –, while revenues are recognized when the right to credit arises – the assessment moment. Accordingly, cash accounting and accrual accounting repre-

¹ The “financial liquidity” is the core of the cash and obligation based accounting (Pavan and Reginato 2012, p. 105) so that the real process of acquisition of economic goods, of production and final consumption of the products is not properly taken into account. The cash and obligation based accounting actually develops as an instrument available for the elected assemblies to control the cash flows coming from tax collection and the quality of the expenditure implemented by the governmental bodies.

sent two diametrically opposite accounting logics: the first is aimed at the arrangement of the cash flow statement, the second at the arrangement of the balance sheet and of the operating statement².

The favour the accrual accounting logic has generally met in the literature appears significantly reduced in time, because of the resulting observations from the past experiences (Christensen, 2007).

Christensen's analysis shows how the early studies on this topic were characterised by the emphasis on the superiority of the accrual based accounting systems over the cash based traditional ones. Most studies, however, were not supported by empirical evidence, while the related authors had a prevailing professional origin – high public managers, consultants, accounting professional ranks, etc. (Christensen, 2007, p. 56). In the latest studies a growing skepticism tends to prevail over the generalized use of some accounting techniques and instruments, typically belonging to the private sector, in the public field as well (Guthrie, 1998; Newberry, 2002; Newberry and Pallot, 2005); however, the main accounting function in the public field runs the risk of being debased, that is the democratic control on the use of the resources (Pallot, 1992). Despite the numberless studies, the effects from the introduction of the accrual techniques on management are still unclear (Christensen, 2007, p. 59).

Connected to the reforms in the accounting systems, remarkable differences have been noticed from country to country. In Europe, the accrual accounting is widely spread in most western continental countries, both at a central and local level; among the countries where, on the contrary, the use of the financial accounting is still prevailing, Italy and Germany stand out (Christiaens and Reyniers, 2008).

² These two opposite angles can offer different intermediate solutions; as highlighted by the International Federation of Accountants (IFAC) public organizations can adopt four different types of accounting in their everyday practice, as for the expenses and the profits, that range from cash accounting to the full accrual accounting, passing through the modified accrual and the modified cash accounting (IFAC, 1991). The full accrual method implies the recognition in the balance sheet of all the assets and liabilities of the organization, considering the variations affecting them (devaluation, revaluation, depreciation), and the preparation of a profit and loss account including all the expenses and all the revenues related to the reporting period. Through the modified accrual, some elements of the fixed capital are not commonly incorporated in the assets of the balance sheet, but directly in the operating statement, so that the costs recognized tend to represent the costs for acquiring resources rather than the costs of resources consumed for the provision of goods and services during the reporting period (IFAC 1996c). The modified cash method, on the contrary, consists in modifying the cash method so that the financial reporting includes any information related to the operations raising expenses or revenues shortly after the closing of the reporting period.

1.2. The reforms in local authorities

In Italy the reforms connected to the NPM trend started in the past century in the 1990s, after a period of deep crisis for the public institutions. The reasons leading to the introduction of these reforms may be connected to the economic context and the social and political ones characterizing the period immediately preceding the reforms. With reference to the first one, the situation of financial crisis and the establishment of the Maastricht treaty (with the consequent admission of our country into the monetary union, that imposed a rearrangement of public assets provided that some strict criteria were adopted for the management) should be particularly considered (Pavan and Reginato, 2012). As for the social and political context, the deep crisis connected to the affairs of political corruption – *Tangentopoli* – that marked a turning point for public institutions and led to the shift from a government model matching the “big coalitions” type³ to one of the “minimum winning coalition” type⁴ (Ongaro, 2002). These years proved their will to change, so as to lead to the definition of a “second republic” with reference to the historical period starting with the political elections in 1994, and they offered the most suitable setting for the international reform movements based on an efficient use of the resources, the quality of services being offered to the citizens, and the transparency of the public administration practice.

The 1990s are thus characterized by a series of important administrative reforms, issued on an “Unvarying Constitution”, among which the following should be remembered: the L. 8th June 1990, nr. 142, on the regulation of local autonomies, introducing the principle of separation between powers of a political nature and management; the legislative decree 3rd February 1993, nr. 29 that extends these principles to all public administrations and significantly modifies the public sector regulations, implementing what is often called the “privatization” of the labour relations: the L. 7th August 1990, nr. 241 aimed at simplifying and improving the transparency in the administrative practice and at favouring the citizens’ participation. In the following decades two important reforms were issued: the first, included in the Constitutional Law 18th October 2001, nr. 3, through which title V of the Constitution was modified, starting the process of decentralization of

³ This model is characterized by the presence of several parties in the government, often more than necessary, to have the majority votes in parliament (Lijphart, 1999).

⁴ Alliance made of a limited number of parties holding the majority seats in parliament themselves.

powers that should have led to a reform of the Parliament, linked to the re-organization of the State in a federalist sense, and stopped the perfect bicameral system; the second is the L. 5th May 2009, nr. 42, related to the fiscal federalism, whose full implementation takes quite a long time.

With peculiar reference to the accounting regulations, it is in the context of the local authorities that the first interventions for reforms inspired to the logics of the NPFM are implemented. Here the revision of the financial and accounting system included in the legislative decree 25th February 1995, nr. 77 and the legislative decree 30th July 1999, nr. 286 defining the logics and the instruments for the internal control, gain significant importance. These provisions, later gathered in the legislative decree 18th August 2000, nr. 267 – Local authorities Consolidated Act, TUEL in Italian – have remarkably innovated all the components in the accounting model – budgeting, book-keeping, and reporting system – and in the control one. Among the most important innovations, as for the budgeting system, the introduction of the management executive plan – PEG in Italian –, of the policy lines – LLPP in Italian – and of the provisional and programmatic plan – RPP in Italian – are taken into account. As for accounting and reporting level, the introduction of the accrual accounting with the mandatory drafting of the profit and loss account and of the balance sheet; at the control level, the implementation of the business and the strategic management. The TUEL is supported by the accounting principles of the Committee for Local Government's Accounting and Finance (Osservatorio sulla finanza e la contabilità degli enti locali – hereinafter Osservatorio) established at the Italian Ministry of Home Affairs⁵, that meet the need to apply the rules correctly through a detailed system of clarifications and interpretations (Farneti, 2006; Osservatorio, 2004).

1.2.1. The financial reporting and system of indicators

As for the administrative reforms, the main theme can be seen in the logic that underlies the financial reporting systems. Together with the

⁵ The legislative decree 410/98, later recalled by the art. 154 of the TUEL, has created the Committee for Local Government's Accounting and Finance. It substitutes the old National Committee for the evaluation of the accounting principles of the local authorities, and carries out several tasks aimed at promoting: the correct management of the financial, instrumental and human resources; the preservation of the budgetary balance; the application of the accounting principles and the assessment on the adequacy of the tools used for their implementation; the trial of new accounting models.

budgetary accounting – that is the system aimed at ensuring the compliance of actual expenditure and revenues with the approved budget – the debated issue, later developed from a regulatory point of view in the d.lgs. 77/1995, is the one of the alternatives between the cash and the accrual basis of accounting. The art. 151 of the TUEL prescribes that the year-end results are recognized under the accrual basis as well and reported – art. 227 – in the final statement, which consists of the budgetary statement, the balance sheet and operating statement. In order to prepare these documents, every authority has the possibility to adopt the accounting system considered more suitable to its own needs – art. 232. In this way, the administrations can choose three possible options: a so called “extended accounting” system, where the balance sheet and the operating statement data are prepared starting from the budgetary statement with the arrangement of a reconciliation report; a so called “integrated” system where cash and obligation based accounting and accrual accounting coexist; a system of parallel accounting where the two types of accounting – the cash and obligation based and the accrual one – are independent, and they do not have any formal connections. In the latter case, the accrual accounting is implemented through the double-entry method (Steccolini, 2001).

The legislation does not provide an explicit commitment as for the adoption of the managerial accounting, whose importance, however, is evident while reading the regulations for the management control. In particular, the urgency to introduce such a kind of accounting and develop it functionally is clearly noticeable where the art. 197, par. 4, provides that «the check of the efficacy, the efficiency and the economy of the administrative action are implemented comparing the acquired resources and the costs of the services, possibly per product unit...».

To provide more information on the conditions of the administrations, the art. 228, par. 5 of the TUEL establishes that the final statement must include the table criteria showing the results of the structural deficit conditions assessment and the compulsory performance indexes. The latter are indicators integrating accounting information concerning given features, considered particularly significant, information on the financial conditions of the entity and information on management efficiency and effectiveness. The tables attached to the budgetary statement approved through d.p.r. 31st January 1996 nr. 195 identify three classes of indicators: a) general financial and economic indicators; b) revenue indicators; c) performance indicators.

For each category of indicators the tables present a minimum list the authorities have to take into account. While the indicators belonging to the first two classes are calculated by reprocessing the data available in the