

Business economy profiles of financial difficulties in local Italian corporations: from default to financial renewal

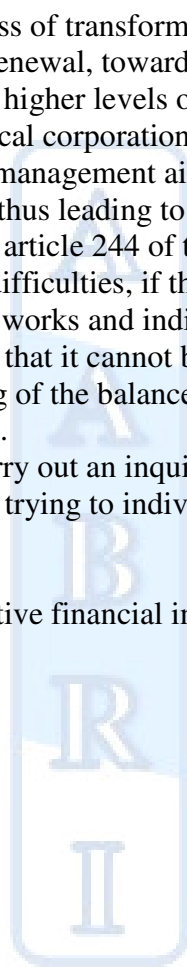
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ABSTRACT

In the last few decades, the process of transforming the public sector into corporations has led, in the viewpoint of managerial renewal, towards the concept of economic responsibility and in the direction for the attainment of higher levels of quality and efficiency. The need to rationalize public spending has forced local corporations to provide themselves with the implements of planning and controlling management aimed at avoiding taking on expenses exceeding their available resources, and thus leading to situations of deficit with warning signs of financial difficulties. To that purpose, article 244 of the Legislative Decree 267-2000 provides that whosoever is in a state of financial difficulties, if the corporation, municipality, or province cannot guarantee the performance of the works and indispensable services, or there exists towards the local corporation an escrow, that it cannot be effectively met, neither by ordinary means of the restoration of the redressing of the balance, nor with the extraordinary acknowledgement of an unbalanced debt.

The purpose of this work is to carry out an inquiry on the phenomenon of financial difficulties of local corporations in Italy, trying to individualize the causes and possible remedies.

Keywords: public administration, derivative financial instruments, local authorities, default.



- **INTRODUCTION**

Every corporation, to reach its objectives and to guarantee its own survival, must orient its actions towards to attainment of an equal balance between costs incurred during the supply and transformation phases, and the proceeds obtained during the trading phase (Antoldi F., 2005). A balanced management, economically and financially, is not exclusively the prerogative of the private corporation, but is also indispensable for public corporations, because they can attain their objectives and endure in time only if they can reach and maintain a healthy balance between wealth consumed and wealth produced (Borgonovi E., 2006).

Therefore, even in local public corporations, it is legitimate to affirm that the primary objective is the attainment and permanence over time of an economic balance, which is, in truth, often difficult to measure. The difficulty in clearly representing the condition of balance of local companies derives from the fact that public reality does not always have a direct compensation for the services supplied. The characteristics of public corporations are connected to the fact that the products of the activity of the public administration are yielded, in their entirety or in part, without a direct economic compensation (price), or behind compensation that is clearly inferior to that which would result from normal market negotiations (tariffs, political price). For said motives, one speaks of the placement of goods and of public services at political prices (Monteduro F., 2006).

The concept of economic balance does not have the same significance for public corporations and those for profit, inasmuch as it cannot be given as in the private sector exclusively from a cost-pay-off relationship, but must be supported by the creation of value understood like the capacity of the local company to satisfy the interests of the community administered (Jannelli R., 2007).

The activity of public administration is efficient if it is able to carry out a public service that is able to satisfy the demand in a quantitative and qualitative aspect, with short production times and with a territorial distribution of the service that corresponds to the location of the consumers (Farneti G, Mazzara L., Siboni B., 2008).

With reference to the concept of effectiveness, there is a distinction between internal and external effectiveness. Public management has internal effectiveness, that is, relative to the processes of internal management, when results from the activity are accomplished that are consistent to pre-arranged objectives. External effectiveness, inasmuch as it is projected externally from the corporation, is defined as the correspondence between planned objectives and social needs. The concept of balance coincides with the capacity of the public corporation to satisfy the needs of the referential community. Financial balance is determined by the capacity for the corporation to fulfill their own financial commitments for the payment of debts with liquid financial means or with the collection of their own credits (Sargiacomo M., 2005).

THE FINANCIAL RECOVERY OF LOCAL PUBLIC CORPORATIONS

Article 244 of the Legislative Decree No. 267 of 2000 provides that whosoever is in a state of financial difficulties, if the corporation, municipality, or province cannot guarantee the performance of the works and indispensable services, or there exists towards the local public corporation an escrow, that it cannot be effectively met, neither by ordinary means of the restoration of the redressing of the balance [article 193 T.U.E.L (Consolidated Laws of Local

Corporations) 267-2000)], nor with the extraordinary acknowledgement of an unbalanced debt (article 194).

In chapter II of title VIII of the Consolidated Law, all the norms that discipline the difficulties are followed to bring the corporation to financial recovery through the zeroing of prior debts (past debt is intended as the sum of the administration deficit from the final account of the last practice before the deficit and the debts over budget, accrued before the year regarding the deficit, recognizable for being accountable to the institutional aims of the public corporation), therefore returning to the condition of a "healthy" corporation. The various modifications brought forward during the years to the procedure of financial recovery of local public corporations have been finalized to move the difficulties closer to the exam procedures of a civic nature, even if, in the discipline in which it deals, the aims are different from for example bankruptcy, in which the need to carry out equal treatment between the creditors dominates. In cases of difficulty, as a matter of fact, even though the need to safeguard the creditors from the corporation is felt, one needs to always considered the necessity to reassure the continuity of business towards the municipality in spite of the grave state of crisis, inasmuch as the economic-financial imbalances that caused it cannot lead to a forced closure of the corporate activity (Cimbolini L., Moriconi A.M., 2008).

The local public corporation cannot cease to exist as a simple private company and, to be able to guarantee the administrative continuity, the declaration of difficulty creates a break between the past and the future. All that is relative to before, including active and passive surplus not already tied up, is extrapolated from the municipal budget and passed to the extraordinary liquidation management, which has the competence in relation to all the debts correlated to the acts and facts by the 31st of December of the previous year, to that of the estimate of a balanced budget, even though subsequently ascertained, even with judicial measures.

An appropriate body-composed of three members in corporations with more than 5000 inhabitants and of one member in those with less- appointed by decree by the President of the Republic, deals with the past and the present, for the ministerial approval of a plan of execution with which the pathological situation that created the difficulty is brought to zero. The corporation with a balance estimate starts a new financial and administrative life free from the burden of the past and with a renewed balance that corresponds to all the principles of a proper and efficient financial administration.

The corporation in difficulty is obliged to approve the new budget, assessed by the Ministry of the Interior, based on the elevation of their own revenue to the maximum level allowed by law, to be consolidated for the subsequent four budgets, on the contrast of evasion and on the containment of all the expenses with the contextual enactment of available excess personnel certain parameters fixed by the law based on population and demographic range of affiliation The local public corporation is moreover obliged to contribute to the honor of the liquidation in particularly with the alienation of the assets available not necessary for the enterprise in the institutional functions, the destination of the administrative surplus of five years starting from the year of the difficulty, and the reduction of a loan for which its own budget is responsible (Cavallini Cadeddu L., Gallo C.E., Giusti M., Ladu G., Lupò Avagliano M.V., 2004).

THE ACTIVITY OF THE LOCAL ADMINISTRATION FINALIZED TO FINANCIAL RECOVERY

Within three months of the enactment of the Decree of the President of the Republic, named the Extraordinary Body of Liquidation, the Corporation Council is obliged to deliberate and present to the Ministry of the Interior, a well-balanced budget estimate. The deadline of three months is peremptory and the lack of compliance is considered a serious violation of the law and as such sanctioned with the dissolution of the municipal council. For the corporations in which administrative elections have been called, the deadline for the presentation of the budget estimate is suspended from the date the election rally is called until the inauguration of the executive body (Mele R., Storlazzi A., 2006).

The budget estimate must refer to the financial year subsequent to that in the course of which the difficulty has been declared if, for said year, the budget plan has been effectively approved for the financial year (Pennetta D., 2007).

Where the budget plan for the subsequent financial year has already been approved, the relative deliberation must be revoked. In such cases, instead, from the date of the declaration of difficulty, if the budget plan for the current financial year has not yet been effectively approved, the well-balanced budget estimate must refer to the current fiscal year. In this case, following the declaration of the difficulty, and until the enactment of the decree of approval of the well re-balanced budget estimate, the terms for the deliberation of the budget are suspended. It often happens that, as in the situations mentioned above, given the times technically necessary, the budget estimate is approved by the corporation at the end of the year, even sometimes during the subsequent financial year, constituting, in fact, more of a balance sheet than an estimated budget plan. Nevertheless, even in such cases, the estimate must refer to the financial year in which the budget plan has not already been approved, even if the actual rebalancing maneuver effects will fully reflect only on the budget of the subsequent financial year (De Dominicis E., 2000).

Therefore, it is particularly important that, in order to demonstrate the validity of the measures adopted, that an accurately edited estimate of a multi-year budget is also included with the estimate of the annual budget, including the structural and steady effects of the adopted maneuver. The corporations must, therefore, pay particular attention to the specification of the financial year referred to the estimated balance, these being the terms of reference for the definition of the responsibilities attributed to the Extraordinary Body of Liquidation, that, as is well-know, refers to the acts and facts of the management to be verified by the 31st of December of the preceding year to that of the well re-balanced budget estimate. From the year of the estimated budget, there passes a period of five years from the recovery of the corporation in financial difficulty, as in article 265 Comma 1 of the Consolidated Law (Italia V., 2000).

The well re-balanced budget estimate edited on the base of a model budget plan, in respect to the same principles and equipped with the same planned inclusions for the budget plan, is called an "estimate" in that it must prove that the movements made on the income and of charges, carries out an effective re-balancing of the budget. On the basis of the definite estimate approved by a decree, the corporation will have to then approve the budget plan. The budget estimate carries out the re-balance through the activation of its own income and the reduction of current expenses (Danielli E.K., Pittalis M.G.).

In another financial factor of the financial management, the corporations in which claim transfers result under the mid range, request, with the presentation of the estimated budget, as provided for by article 259, comma 4 of the Consolidated Law, state contribution adjusted for the

mid range. These corporations are authorized to provide the well re-balanced budget estimate, the claim contribution for the alignment to the mid range, calculated according from the cited 259 comma 4 (Table 1).

Table 1: Corporations that have declared difficulties and loans authorized at the expense of the state

Regions	Number of corporations that have declared difficulties	Loans authorized at the expense of the State	Percentage of the total loans	Contributions adjusted to the national average	Percentage of the total contributions
Abruzzo	17	22.929.333,82	1,85	89.018,30	0,21
Basilicata	19	45.776.300,99	3,70	-	-
Calabria	126	197.992.334,89	16,01	932.719,41	2,13
Campania	111	750.080.942,60	60,64	35.576.847,09	82,16
Emilia Romagna	8	6.053.227,71	0,49	72.850,45	0,17
Lazio	37	49.497.254,72	4,00	3.256.293,00	7,52
Liguria	3	1.510.840,74	0,12	40.834,68	0,10
Lombardia	14	3.463.945,19	0,28	364.573,37	0,85
Marche	6	3.199.904,66	0,26	94.601,92	0,22
Molise	12	3.901.767,24	0,32	157.162,37	0,37
Piemonte	5	468.478,16	0,04	102.732,23	0,24
Puglia	35	59.439.302,71	4,81	321.555,23	0,75
Sardegna	3	7.532.209,61	0,61	911.889,32	2,13
Sicilia	24	51.690.322,35	4,18	733.010,46	1,71
Toscana	4	4.268.230,92	0,35	-	-
Umbria	4	10.994.289,83	0,89	54.536,64	0,13
Veneto	3	18.208.663,15	1,47	603.668,16	1,41

Source: Ministero dell'Interno anno 2008 (Ministry of the Interior year 2008)

The intervention of the State to cover the deficit of the corporations in difficulty amounts to over 1, 237, 007, 349 euro, while the total corresponding contributions for the adjustment to the national average is over 44, 000, 000 euro.

Activation of Personal Revenue

The activation of personal revenue – oriented measures which the agency in financial difficulties is forced to adopt are provided for by article 251 of the Consolidated Law. In the first session successive to the declaration of financial difficulties, and at any rate within thirty days from the date of enforceability of the resolution of the difficulties, the Corporate Board is obliged to deliberate in regards to taxation and municipal taxes which are its own responsibility, the aliquot and basic rates in the maximum allowed measure. From taxation, which is its own responsibility, the tax for urban solid waste disposal is excluded, for which the determination of the tariff is provided for by a measure adopted annually depending on the service management costs (Propersi A., 2008).

As regard to the communal tax on real estate (I.C.I.) the agency must deliberate the 7% maximum aliquot. The duty to deliberate being understood, as regards to taxation which is its

own responsibility, the tariffs or base aliquots in the maximum measure, the agency can apply, in accordance with its authority and within the limits fixed by law, possible extra charges, tax abatements, and facilities provided for by the law in force (Arnaboldi M., Azzone G., 2008).

The resolution of the tariffs and aliquots is not revocable and it is effective for all the period of the balancing. During the whole period of the balancing, the corporation, moreover, is obliged to deliberate, for possible taxes established successively to the declaration of financial difficulties, the aliquots and base tariffs in the maximum allowed measure.

Within thirty days of the declaration of financial difficulties, the corporation must adopt, for the year to which the estimate of a permanently-rebalanced budget is referred, the resolutions relevant to (Farneti G., 2006):

- The fixing of the tax for solid urban waste disposal such as to assure on the whole a covering in full of the service management costs;
- The fixing of the rates for waterworks service such as to assure the covering of the whole management cost, with its rate proportionally not lower than 80%, as provided for by article 243, paragraph 2 of the Consolidated Law.;
- The fixing of the fees for sewerage system and purification services in the maximum measure allowed by law in force;
- The fixing of the taxes for the others productive services in the maximum measure allowed by law in force;
- The fixing of the property tax in the maximum measure allowed by law in force;
- The fixing of the taxes for individual request services such as to assure the whole management cost, with rate income and with contributions, at least in the measure of 36% as provided for by article 246, paragraph 2 of the Consolidated Law.

During the whole period of the balancing, the corporation must fix the tax for the urban waste disposal, the productive services and the individual request services, with the same duties provided for the year to which the estimate of the balance is referred, on the basis of the management costs of the respective services foreseen by the management of reference, let alone the property taxes in the maximum measure allowed by law in force. The relevant resolutions, for the years following to the first, must be adopted in ordinary terms fixed by law in force.

The resolutions to fix the rates, the taxes or the contributions, referred to taxation income, adopted according to paragraphs 1, 3 and 5 of the quoted article 251, must be transmitted to the Ministry of the Interior within 30 days of the date of adoption; non-adoption implicates the suspension of the revenue transfer (Italia V., 2000).

The maneuvering of activation of personal revenue cannot be limited to tariffs, aliquots, duties and taxes in the maximum measure provided by law, but must be referred to the following phase of the income, of the tax assessment and collection. The corporation, in fact, according to article 259, paragraph 3, must re-organize the services of tax acquisition, adopting the appropriate actions to eliminate tax evasion and to ensure the actual assessment and the effective collection of taxes (Ministry of the Interior, Department for Internal and Territorial affairs, Central direction of the local Finance Office, Transfer Office to the local corporations and recovery of corporations in difficulty, 2008).

The Reduction of Running Expenses

To ensure a re-balance of the budget, the company needs to adopt a structural maneuver to reduce running expenses. To achieve this, the company should carry out a rigorous revision of

the expenses, primarily the reorganization of services using efficiency criteria, eliminating waste, and diseconomy. Therefore, the company has to revise its financial facilities and eliminate, or at least reduce, every forecast expense where the aim is not an indispensable public service. The company will then have to check the economic-financial situation of companies, institutions and employees, as well as of special companies, by adopting the necessary provisions for potential respective reorganization, respecting the specific laws in place. In relation to staff expenses, the company must re-determine personnel, by declaring excess and by giving the availability of those that are working despite the over staffing in the relationship of employees/population, the obligation to assess the compatibility of the budget remnants (Bianchi M., 2002).

The other obligation regarding staff expenses is that of reducing the expenses of staff on short term contracts to no more than 50% of the average expenses, and for the last three years prior to which the estimate refers to. Naturally, apart from the specific obligations foreseen by the laws relating to difficulties, the company in editing the budget needs to scrupulously observe all the time at disposal in force in relation to expenditure, valid for all local companies, just as it must carefully verify compliance with normal accounting rules relating to the balancing of budgets, valid for all local companies, who, more importantly, must be respected by the entities that come from an established financial crisis and are forced to commence a new balanced management (Pennetta D., 2007).

In the case where institutions are required to respect the rules of the Internal Stability Pact, the structural maneuver of a cut in expenses should be inspired not only by balancing the budget in terms of ability, but also to the future in relation to the rules of the Internal Stability Pact, in the same way it must take into account sanctions that may apply in the case of failure to comply with the rules of the pact in previous years. In drafting the budget, the company must also consider the resources to be devoted to financial recovery, the retrieval is entirely at the expense of the corporation (Spicaglia E.). It would therefore be convenient if, from the preparation stage of the predisposition of the estimated budget, the company adequately assess how ordinary or special resources are employed, which are to be allocated to rehabilitation, including provision, already for the fiscal year of reference of the estimate, any savings to be transferred to the Extraordinary Body of Liquidation, or identifying any non-essential assets to alienate or checking the capacity and possibility of debt (Del Bene L., 2008).

Re-determination of the Staff Plan and Placement based on Availability of Redundant Personnel

In order to cut the current costs, the corporation, according to article 259, paragraph 6 of the Consolidated Law, before deciding the estimated budget, must re-decide as to its employees, declaring redundant the staff in service which turn out redundant compared with the employees-population average ratio identified according to article 263 of Consolidated Law. The population to take as a reference for the singling out of the demographic sector to which they belong is the one officially published by ISTAT (Italian Institute of Statistics) until 31 December of the second-last year antecedent the year of the estimated budget, as disposed in article 156 of Consolidated Law.

The accomplishment provided for by the quoted article 259, paragraph 6, is compulsory and the non-keeping implicates the notification to the Public Prosecutor's Office of the Audit Office by the Ministry of the Interior.

The keeping-on of the employee-population average ratio takes shape as maximum limit of the number of employees; in any case, the duty to verify the balance compatibility of the cost resultant of the re-determined number of employees still holds, as provided for by the same article 259, paragraph 6.

The only exception to this limit is provided for by the following paragraph 10 in the same article 259. Only for the corporations in financial difficulties in special statute regions and in the self-governing provinces of Trento and of Bolzano, for which the regions or the self-governing provinces can assume upon themselves the charges to cover the jobs in addition to that of the re-determined staff.

Re-determination of the staff must be inspired by principles of functionality and efficiency in the services supplied, assuring primarily the necessary ones, and treating with care that, according to article 267 of the Consolidated Law, during the whole period of the balance recovery, the increase of the re-determined staff is not allowed.

The employees declared redundant, according to article 259, paragraph 6, are obliged to be made useful as available, it being understood that every procedure provided for by the law in force concerning the over manning and labour mobility must be accomplished.

For the personnel employed as available, a contribution equivalent to the pay cost is earmarked to the corporation, from the Ministry of the Interior, from the effective date of the employment and during the whole length of the same. Therefore, the agency is authorized to put in the estimated balance this contribution for the foreseen cost for the available employees.

The resolution for the re-determination of the staff must be passed to the Committee for Finance and the personnel of the Local Corporations to be approved.

The approval of the staff by the above-mentioned Committee is a necessary requirement to obtain the opinion in regards to article 261, paragraph 2 of the Consolidated Law, about the well re-balanced budget estimate.

Editorial conditions of the budget estimate and included documentation

The well re-balanced budget estimate is edited on the base of official models relative to the forecasted budget, approved by the D.P.R. of January 31, 1996 no. 194 observing the principles of the budget as to the article 162 of T.U.E.L (Consolidated Laws of Local Corporations: 1 -The public corporation annually deliberates the expected budget edited in term of competence for the next year, considering the principle of unity, annularity, universality and integrity, truthfulness, a balanced budget and advertising. The present circumstance, as in paragraph 6 of this paper, cannot show a deficit. 2- The total income, finances without exception, the total expenses, except that according to the law. 3- The time unit of the management is the financial year, that starts January 1 and ends December 31 of the same year; after that term it is not possible to make income verifications and expense engagements in account of the expired business. 4-All income is registered in the budget as gross of the collection expenses to be charged to public corporations and of other eventual expenses connected to it. Equally all the expenses are fully inscribed in the budget, without any reduction of the correlative income. The financial management is unique like the relative forecasted budget: management of income and expenses is forbidden if it is not in the budget. 5-The forecasted budget is done with respect to the principles of truthfulness and reliability, supported by feedback of a suitable time frame or, in its absence, of other appropriate standards. 6-The forecasted budget is decided in the total financial balance. Moreover, the forecast of competence relative to current expenses added to

the forecast of competence relative to the shares of the asset of the rate of amortization of indebted loans and borrowing together cannot be higher than the forecast of competence of the first three titles of the income and cannot have any other form of financing, except those approved by the law. Mountain communities should refer to the first two titles of the income. 7- The corporations assure the citizen and the participant organizations, provided for by article 8, the knowledge of important and typical contents of the annual balance and its attachments with the formality foreseen by the statute and regulations). The estimate, then delivered in the total financial balance and the current situation, as defined by paragraph 6 of the same article 262, cannot show a deficit. The estimate is approved by the Board of the Corporation or by the Commissioner elected as article 247, paragraph 3 of the Consolidated Laws and is accompanied by the documents expected from the Consolidated Law as included in the forecasted budget.

The submission to the Ministry is carried out by the deposit of the act and the relative decision of approval from the Financial Commission and the staff of the public corporation working at the Ministry, jointly with the following documentation (Borghi A., Criso P., Farneti G., 2009):

- an estimated report giving consideration not only to the facts usually required for all the corporations, but also to the actual feasibility of the redevelopment objectives and demonstration of the feasibility of the services and the greater economy and efficiency that can be achieved;
- a report from the auditor or from the court of auditors on the estimated budget, in which, as well as the elements of evaluation provided for by all the corporations, must also express a comprehensive evaluation on the validity of the measures adopted by the corporation to rebalance the budget;
- a multi-year estimated budget, edited in conformity to the official model approved according to and due to article 160 of the Consolidated Law;
- documentation attached to the budget plan as provided for by article 172 of the Consolidated Law;
- a corporate report for the purpose of a preliminary investigation of the budget plan estimate from article 172 of the Consolidated Law,
- decisions regarding the re-organization of services;
- decisions about the re-determination of the staff plan and placement of available redundant personnel;
- attestation of the person responsible of the financial service of the corporation about the accordance to reduce the expenses for the personnel with fixed-term contracts in accordance to the measures provided for by article 259, paragraph 6, sub-paragraph of the Consolidated Law

Ministerial Measures on the Estimate

The Finance Committee and the bodies of the local public corporations take care of the preliminary investigation of the estimated balance and express, within four months from when it was received, an opinion on the validity of the measures arranged by the corporation to consolidate their own financial situation, and on the capacity of the same measures to ensure the stability of the financial management of the corporation. If necessary, it formulates preliminary investigative requests for the corporation, who is obligated to furnish clarifications and the

supplementary documentation requested within the timeframe given. The Ministry of the Interior, in the event of a positive outcome of the examination from the part of the Committee, then approves the estimate by decree, and formulates possible limitations to which the local public corporation is obliged to adapt to. In the event of a negative outcome, issues a measure of negation of the approval limiting the local public corporation to present within the ulterior peremptory deadline of 45 days decurrent from the notification date of the measure, a new budget estimate appropriate for the removal of the causes that did not consent to a favorable opinion.

An unsuccessful approval of the new estimate has a definite quality. The ministerial decree that denies the approval leads, as a consequence, to the dissolution of the Corporate Council.

Approval of the Budget plan and Recovery Period

Following the ministerial approval of the budget estimate, the corporation is obliged to deliberate, within thirty days from the notification of the decree, the budget plan of the enterprise in which the estimate pertains, as well as, within 120 days from the same date, other eventual budget plans or balance sheets not deliberated.

The maneuver of rebalancing adopted with the budget estimate must consolidate itself in the subsequent enterprises, in such a way as to ensure the corporation a stable and structured balance, avoiding the repetition of situations of debt or deficit. The recovery period of the corporation in financial difficulty is fixed, as a matter of fact, in five years decurrent from that for which the well re-balanced budget estimate is approved. During said period, the obligations relative to the application of the aliquots, tariffs and fees in the maximum measure are in force, the re-determined personnel cannot be varied by increasing it, possible limitations for the proper and balanced management of the fixed corporation with the decree of approval of the estimate are valid, and the maintenance of the treasury contributions are guaranteed.

The assurance that the obligations in force are respected for the entire length of the recovery period is entrusted to the reassessment body of the corporation, who is obliged to report quarterly to the Board of the Corporation about the implementation of the fixed limitation with a decree of approval of the estimate. Furthermore, for the entire duration of the recovery period, the corporation is subject to central checks in the area of personnel and the hiring of personnel and is obliged to present the certifications relative to cover services based on individual demand, waterworks services, and urban solid waste disposal services (Minerva V., 2007).

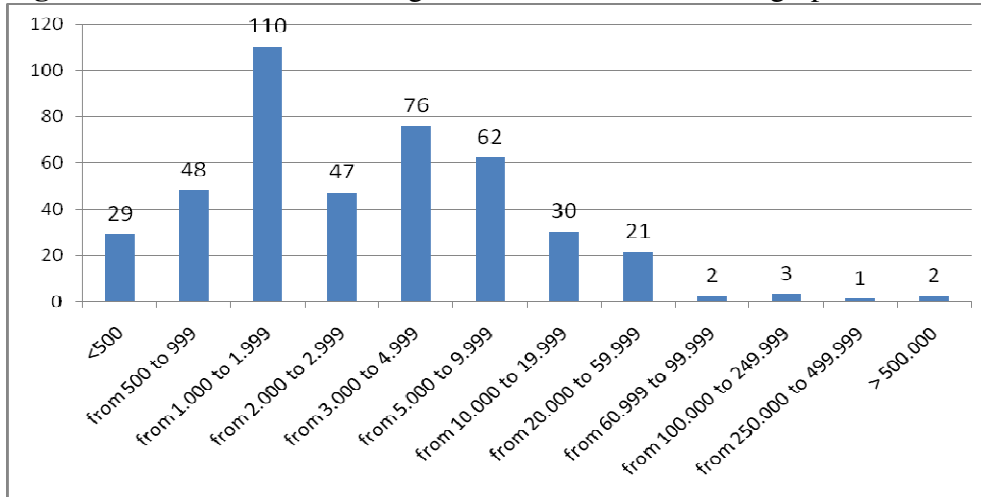
ANALYSIS OF THE VALUE OF FINANCIAL RECOVERY

Experiences of financial difficulty for local public corporations in the last ten years have involved only a limited number of companies (431) and was the expression of socio-economic and structural unease largely diffused in the southern regions of Italy where certainly in previous years local public corporations were mainly responsible for a more superficial and immoderate political-administrative management, and at the same time, were more penalized by the minor possibility of taking advantage of territorial socio-economic benefits. It was mainly small companies that declared financial difficulties, where a well balanced budget is immediately destroyed by the rise in off-balance sheet debts that often weigh down on the already high expenses for staff that in the majority of cases is much higher than necessary. There were,

however, cases of financial difficulty even in large dimensions such as in Naples, Potenza, Benevento, Chieti, and Catania (Ministero dell'Interno, 2008).

To better understand these phenomena the following graph (figure 1) shows the distribution of organizations within the demographic classes with a clear majority of organizations with less than 2000 inhabitants.

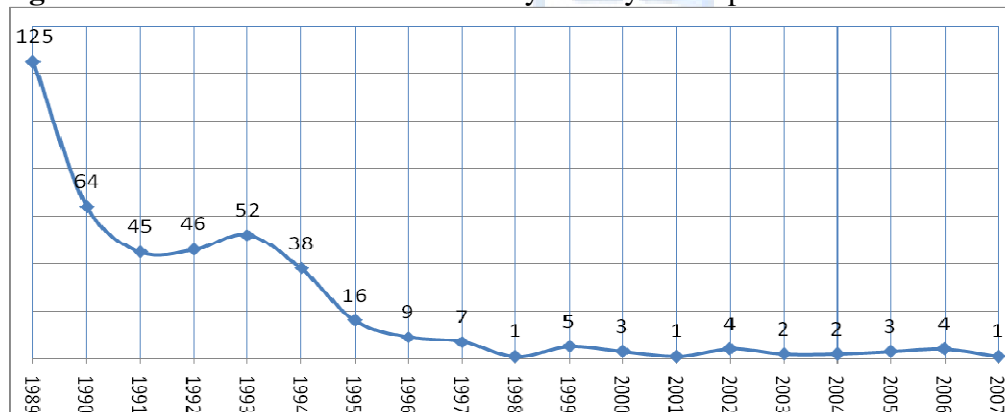
Figure 1: Distribution of the organizations within the demographic classes.



Source Ministero dell'Interno (Ministry of the Interior) 2008

Only about 5% of Italian municipalities had to declare the impossibility of achieving a balanced budget, and this data is comforting, above all if analyzed over time. In fact, in the first few years of legislation in place dealing with financial difficulty, there was a big boom in cases, and then, over time, declarations of financial difficulties have decreased as demonstrated by the following graph (figure 2).

Figure 2: Evolution of financial difficulty in Italy in the period 1989-2007.



Source: Ministero dell'Interno (Ministry of the Interior) 2008

The descending trend shows that in the first five years the legislation regarding financial difficulties was well accepted and it brought out the organizations with more difficult past situations and that would certainly have caused the economic-financial collapse of the administrative structure. Subsequently, the declaration of financial difficulty was adopted only in

very few cases. This shows this is, and should remain, a tool to be applied only where a corporation is unable to manage the extraordinary nature of a budget imbalance where it necessary to turn to this law in order to restore the ability to offer their citizens the use of standard levels of municipal services.

The legislation regarding financial difficulty has allowed the municipalities, where it has been applied, to undertake a cultural revolution and a modernization of bureaucratic structures favoring the establishment of trust and cooperative relations between Central Administration and Local Authorities. There are now only 15 municipalities that are technically "in financial difficulty" in the sense that the procedure was launched in the past five years, but getting out of the dry period often lasts longer than the five years foreseen by the law. Three municipalities (Roccamonfina and Umbriatic in Calabria, and Chiesi in Sardinia), although in financial difficulty for more than five years, have not yet submitted the plan of extinction of liabilities, which is the first step towards a return to normality, and another 45 are yet to return to normality. Therefore, in total 63 municipalities are still struggling with the procedure (Tables 2-3).

Table 2: Corporations that have not presented a plan of execution (in grey, the corporations technically in financial difficulties that have declared so in the last 5 years)

Arpaia	Benevento	Pontinia	Latina
Enna	Enna	Ramacca	Catania
Gallodoro	Messina	Roccamonfina	Crotone
Lungo	Cosenza	Roccamonfina	Caserta
Malignano	Ascoli Piceno	San Procopio	Reggio Calabria
Mentana	Roma	Soriano Calabro	Vibo Valentia
Moschiano	Avellino	Taranto	Taranto
Paternopoli	Avellino	Chiesi	Sassari
Pignataro Interamma	Frosinone	Umbriatic	Crotone

Source: Ministero dell'Interno (Ministry of the Interior), 2008.

Table 3: Corporations that have not presented a balance sheet.

Collagna	Reggio Emilia	Formicola	Caserta
Nicotera	Vibo Valentia	Gerace	Reggio Calabria
San Gregorio d'Ippona	Vibo Valentia	Giardini Naxos	Messina
Sant'Angelo Le Fratte	Potenza	Ghibellina	Trapani
Summonte	Avellino	Guidonia Montecelio	Roma
Ucria	Messina	Isola Capo Rizzuto	Crotone
Acquaformosa	Cosenza	Limatola	Benevento
Arpaia	Benevento	Marchirolo	Varese
Benevento	Benevento	Martirano Lombardo	Catanzaro
Borgorose	Rieti	Mormanno	Cosenza
Camporeale	Palermo	Palagonia	Catania
Casalvieri	Frosinone	Pescopagano	Potenza
Casapesenna	Caserta	Raiano	L'Aquila
Casola di Napoli	Napoli	San Lorenzo	Reggio Calabria
Castel San Vincenzo	Isernia	San Mango d'Aquino	Catanzaro
Paulonia	Reggio Calabria	San Pietro Infine	Caserta
Crispano	Napoli	San Tammaro	Caserta

Domicella	Avellino	Satriano	Catanzaro
Faggiano	Taranto	Serrara Fontana	Napoli
Fardella	Potenza	Trevi nel Lazio	Frosinone
Feroleto Antico	Catanzaro		

Source: Ministero dell'Interno (Ministry of the Interior), 2008.

The change of pace of municipal default has a simple explanation. Until 2001 failing had its conveniences, because in order to cover the holes the State would intervene with a mortgage, these days instead, failing harms all parties. The municipal employees (those in surplus in relation to the national average employee / population are made available), suppliers (the simplified procedure allows the closure by paying 40-60% of the debt) and the citizens, because the rates automatically jump to highest possible level. But even today municipal financial difficulties, be it declared or near misses, have not ceased to weigh on public finances. On the contrary.

CONCLUSION

The restored corporation usually shows administrative surplus and the control of expenses becomes a habit of good management. Bad habits of the Public Administration are the consequences of the indifference towards the common good, of the staff often not motivated and unqualified, of a generalized bad knowledge of all the opportunities for growing on every level-social, technical, financial, of the unsatisfactory development of their own resources, and of the poor fruition of the derived resources. Financial recovery has taught corporations to draw the highest profit with the minimum dispersion, and most of all, to understand public management at the service of the citizens. Today, more than ever, the declaration of financial difficulty must intervene only in cases irreparable by other means, as the entire burden of recovery weighs on the municipal budget.

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