

**“CHANGES IN THE GOVERNANCE OF
LOCAL PUBLIC SERVICES IN ITALY. THE
CASE OF AN ITALIAN MUNICIPALITY”**

DOTT. DANILO STENTELLA

www.centrostudimalfatti.it

INTRODUCTION

This short paper is fundamentally a reflection on the subject, a medium size Italian municipality, that one of Terni, with about 110.000 inhabitants (number rather stable from 2000), about 1.000 employees and a budget (2008) of €370 million. This municipality has 3 fully owned corporations, participates with high percentages in 3 corporations and has minority in others⁵.

Due to the paucity of space and time is virtually impossible to establish a strong empirical research method, the following relationship will evolve, by necessity, on a theoretical and analytical way.

I intend to deepen the capability to apply proper corporate governance strategies, in order to fulfil the will of the principal², corporate entrepreneurship principles³, the propensity to use PPPs and the ability to develop dynamic efficiency inside them⁴.

We move in a panorama in which persists an ideological attacks against the state intervention in economy⁵, and in which the European legislation, as implemented by the Italian Parliament, progressively reduces the role of local and central state in the management of public services⁶.

THE CHOICE OF MANAGEMENT AND THE MISSION

In the sector of Italian public corporations the managers should not have difficulty in interpreting the nature of the principal, or the goal of the principal, being quite easy to integrate disciplined implementation and creative development into an efficient flow of actions⁷, instead, probably because of the questionable methods of recruitment, we assist to a shift away from expectations, if not of politicians, of citizens.

There is a substantial gap in the market for managers, the most part coming from public sector, and in their compensations, in great percentage not related to performances.

Moreover, often the actual managers, coming from public administration, in many cases had access to the managerial career without a degree, as permitted by the legislative decrees n. 29/1993, 80/1998 and 165/2001, under which was allowed the access to the direction in notwithstanding of the title of degree, through a form of compensation given from the length of service provided⁸.

Also the auditors come, traditionally, in great part from public sector, being politically appointed, in few cases they rely on external auditors, the opposite of what happens in Sweden, where the 76% of municipal audit budget is attributable to costs of the professional auditors, therefore the associated costs being lower, as the quality of the audit⁹.

The pressure for liberalization of European Community origin, and the choices of the previous governments of the past fifteen years have started significant restructuring and privatization of utilities, which led inexorably to rising prices, an increase in the threshold of access to services,

¹ Cfr. City Council deliberation n. 130/2009.

² As defined in Sven-Olof Collin, *Governance strategy: a property right approach turning governance into action*, in *J Manage Governance*, 2007.

³ As defined in relation with corporate governance in: Sven-Olof Collin and Elin Smith, *Window of entrepreneurship - explaining the influence of corporate governance mechanisms on corporate entrepreneurship in two riding schools*, in *Int. J. Entrepreneurship and Small Business*, Vol. 4, n. 2, 2007.

⁴ Cfr. Sven-Olof Collin, Lennart Hansson, *The propensity, persistence and performance of public-private partnerships in Sweden*, in *Public – Private Partnership Theory and practise in International perspective*, London 2000.

⁵ Ibidem.

⁶ Cfr. Italia Parliament, DI 135/2009.

⁷ Cfr. Sven-Olof Collin, *Governance strategy: a property right approach turning governance into action*, cit.

⁸ Cfr., Giorgio Lovili, *Il Sole 24 ore*, 30/11/2009, in *L'esperto risponde*, n. 93.

⁹ Cfr., Veronica Blank, Sven-Olof Collin, Torbjörn Tagesson, Pernilla Broberg, *Explaining Municipal Audit Costs: Considering the Principal*, in *G A D Governance, Accounting & Development, Working Papers Series in Business Studies*, 2009:3.

decreased the level of transparency and control of citizens over decisions relating to public services¹⁰.

From my direct experience, coming from political and sindacal activity, in Italy it's almost automatic the assignment of positions on boards of directors and top management of people coming from politics, or of those who have lost their elected public office, as a form of compensation, regardless to their skills, is the case of ex mayors, former councillors, former parliamentarians and others. So public corporations are not able to segment their managerial labour market and, then, attract those managers they consider adequate¹¹. Often even those managers who came from the local governments had obtained their positions through arguable selection methods.

Public ownership of networks and management has often limited and limits the chance of growth beyond the control of the local. For listed companies the management, as always appointed by the local administration, has acquired a certain operational autonomy, at the same time it's subject to monitoring exercised by institutional investors. The listing has been used as an instrument of commitment only when the expected benefits were higher than the perception of the potential costs in terms of reduction of control¹².

THE STRATEGY

In my modest case study I've not found a particular ability to manage risk or to behave in appropriate strategies leading to remarkable innovations, in a process of substantial reproduction of management, rather equal to itself year after year¹³, rarely the corporations expanded into new product areas¹⁴. No significant new business was launched in the last 15 years, even if the service of waste incinerator, passed in 1999 from the Municipality to ASM. Indeed, in the case of ASM, which manages the collection service and disposal of waste, it's occurred a serious trouble of obsolescence of the incinerator that has caused serious environmental pollution problems, for which have been put under judgement the former mayor of Terni, the former chairman of the municipal, also a former mayor, the former board members, executives of the Province of Terni, laboratory technicians and private contractors¹⁵. In this case there was a real betrayal of the objectives of the owner, but also a lack of competence and information from the property. This reinforces the idea that the board of directors is the key element of the governance strategy being the mechanism by which owners can directly impose their will on the corporation through their decisions within the corporation or through their influence on the CEO, but, one more time politicians have used governance mechanisms mainly to retain freedom of action on their behalf¹⁶. The reason, as usual, must be identified in the massive political representation on the boards. The main reason, as usual, must be identified in the massive political representation on the boards of directors, of whom almost none have experience in owning, governing or managing a corporation, added to a limited use of the managerial labour market. Only in PPPs is detected a modest presence of industry experts¹⁷.

¹⁰ Cfr., Francesco Manna, *Riforma dei servizi pubblici locali in Italia: tra privatizzazione ed affidamento in house*, from, <http://prcemiliaromagna.it/content/view/567/118/>.

¹¹ Ibidem.

¹² Cfr., Magda Bianco, Daniela Mele, Paolo Sestito, *Le grandi imprese italiane dei servizi pubblici locali: vincoli, opportunità e strategie di crescita*, Banca D'Italia, Occasional Paper, n. 26/2009.

¹³ Cfr., Sven-Olof Collin and Elin Smith, *Window of entrepreneurship - explaining the influence of corporate governance mechanisms on corporate entrepreneurship in two riding schools*, cit.

¹⁴ Cfr., Sven-Olof Yrjö Collin, Torbjörn Tagesson, *Governance strategies in local government: a study of the governance of municipal corporations in a Swedish municipality*, Int. J. Public Policy, and Working Papers Series in Business Studies 2009:2 Institution: Halmstad University/School of Business and Engineering (At: <http://hdl.handle.net/2082/2633>).

¹⁵ Cfr. Terni Magazine, 9/9/2009, ([Terni Magazine](#)).

¹⁶ Cfr., Sven-Olof Yrjö Collin, Torbjörn Tagesson, *Governance strategies in local government: a study of the governance of municipal corporations in a Swedish municipality*, cit.

¹⁷ Ibidem.

Even the distress situation has not been the mother of invention, neither the board of directors attempted to influence or stimulate the opening of Window of entrepreneurship, mainly for their lack of expertise in this field and for their corporate vision predominantly political oriented¹⁸.

In three cases, among the companies participated from the municipality (ASM Terni Spa, SII Scpa, Terni Reti Srl), it has been shown the ability to generate profits of some significance, given the mission of public enterprises in question¹⁹, oriented to the achievement of targets of economic and social nature²⁰.

Being in the presence of a very rich community of voluntary associations, 184, operating in many various fields, none of the corporations has used of voluntary work, that could have been valuable, for example, in the awareness and coordination of differentiated collection of waste or water and energy saving, in a mechanism of provision of complementary services²¹. The possibility of using voluntary work, especially for certain activities to raise awareness and collaboration, has been ignored in spite of regional legislation that favours the use.²² In the municipality of Terni voluntary work is mostly used, directly by local administration, in the areas of assistance for disable (welfare), natural park maintenance, care to abandoned dogs, services to immigrants and care for the elderly. There was no detectable positive correlation between the presence of agencies for the voluntary work and the intensity of voluntary activity in municipal corporations²³.

THE GOVERNANCE

Is my opinion that in Italy local public companies are managed primarily according to a principle of rationalization, rather than following the principles of competitiveness or privatization²⁴, nor our case is an exception. The property often hasn't the ability to implement industrial strategies, primarily concerned with service delivery and approval of budgets, preferably in moderate profit or in balance, towards an emphasis of bureaucracy. As a result the internal recruitment procedure is preferred, rather than searching for external expertise, often the same CEOs are recruited from within the same company or from public sector, as evidenced above, executive compensation is almost exclusively based on fixed pay.²⁵

However, the conversion of a group of firms in an aggregation, in a group, involves need for a monitoring as in a holding company, as required by art. 152 T.U.E.L. This leads to the introduction of accounting and information tools completely different from the traditional budget systems of local government²⁶, in order to produce information for decision makers and distribute the results of production²⁷.

In the Italian system are required, the following accounting documents, according to the TUEL: budget account (art. 228), income statement and statement of conciliation (art. 229), assets's

¹⁸ Cfr., Sven-Olof Collin and Elin Smith, *Window of entrepreneurship - explaining the influence of corporate governance mechanisms on corporate entrepreneurship in two riding schools*, cit.

¹⁹ Cfr. City Council deliberation n. 130/2009, cit.

²⁰ Cfr. Giuseppe Grossi, *La Public governante delle società partecipate da un ente locale: le relazioni di governo e gli assetti organizzativi*, in, *Le società partecipate dagli Enti Locali: il caso di Colle Promozione S.p.a*, Siena 2008.

²¹ Data from telephone interview from CESVOL, provincial network of volunteers in the Province of Terni.

²² Cfr. Sven-Olof Collin and Emidia Vagnoni, *The governante of voluntary work in public sector: institutional differences and invariant traits*, in, *Journal of Management and Governance*, 6/2002.

²³ As in, *ibidem*.

²⁴ Cfr. The classification in, Sven-Olof Collin, *Corporate governance in action: governance strategies of municipal corporations in Sweden*, in *Journal of Management and Governance*, 2007, and in, *La governance nei gruppi di interesse locale*, Milano 2006.

²⁵ Cfr., *ibidem*, H 1, H 6, H 7, H 8, H 10a.

²⁶ Cfr. Sergio Sabetta, *Controllo di gestione e qualità nelle aziende pubbliche*, in www.diritto.it/art.php?file=/archivio/20981.html.

²⁷ Cfr., Sven-Olof Yrjö Collin, Torbjörn Tagesson, Anette Andersson, Joosefin Cato, Karin Hansson, *Explaining the choice of accounting standards in municipal corporations: Positive accounting theory and institutional theory as competitive or concurrent theories*, in, *Critical Perspectives on Accounting*, 20 2009.

account (art. 230), table of parameters of comparison of the structural deficit (added to the budget account, ex art. 228, c. 5), table of parameters of management with three-year trend, added to the budget account (art. 228, c.5), which together constitute the statement of management, that the council submits annually to the Board of Directors. In purposes of reporting the public companies also voluntarily use non-accounting documents: accounts for the services or cost centres, consolidated balance of assets, account of assets of beginning and end of mandate, parameters of effectiveness and efficiency²⁸. Financial accounting, still in use in local governments, has long been abandoned because it can't detect the operations management in economic terms, is not an effective system to support cost control, does not provide information about the value and the equity and does not support the choices of pricing. Moreover the need for elaborate information is greater in those companies owned from large municipalities or from a group of them, even forcing the natural resistance of accountants to continue to do what they are doing, and have always been doing²⁹. Italian municipalities have placed a special emphasis upon the management of municipal companies, equal to that for the provision of the service, partly due to reduced financial transfers from the State³⁰.

PPPs

The Green Paper on PPPs, produced by the European Commission on 30 April 2004, defines as "cooperation" between public authorities and the business world that aim to secure the financing, construction, renovation, management or maintenance of infrastructures or the provision of a service. The DL 223/2006, ratified by Law 248/2006, has also taken measures to avoid the phenomenon of cross-subsidization of public companies, preventing the operation outside the territorial areas of belonging, acquire contracts by public entities other than parent or entrusting contracts in house³¹. The Municipality of Terni, having scarce financial resources and a high level of debt has recently used the instrument of PPP for the execution of important works of urban renewal, for a total 65000th mc in the centre of town, while in order to make them more competitive in the market has turned some municipal organizations in PPPs³².

The Municipality also participates in a Municipal-Association-Private (MAP) structure, the CESVOL (Centre for Voluntary Services), whose structure is public, but managed by groups participating³³. The structure is supported by public funds and banking foundations and stands on the market in competition with similar realities of the trade unions or professional services, its competitiveness is based on the network of conventions that has been able to start with the accountancy professionals, adapting to market conditions.

SHORT CONCLUDING REMARKS

In addition to the considerations mentioned above, i would like to highlight that the recent Italian Finance Act has started the privatization of local public services, covering ever more restrictive

²⁸ Cfr. R. Mussari, G. Grossi, P. Monfardini, *Le performance dell'azienda pubblica locale*, Verona, 2005.

²⁹ Cfr., Sven-Olof Yrjö Collin, Torbjörn Tagesson, Anette Andersson, Joosefin Cato, Karin Hansson, *Explaining the choice of accounting standards in municipal corporations: Positive accounting theory and institutional theory as competitive or concurrent theories*, cit.

³⁰ The opposite of what happens in Sweden, cfr., ibidem.

³¹ Cfr., art. 13 del D.L. n. 223/2006, and Cristina Giorgiantonio e Valentina Giovanniello, *Infrastrutture e project financing in Italia: il ruolo (possibile) della regolamentazione*, in Banca d'Italia, *Questioni di Economia e Finanza*, (Occasional Papers).

³² Cfr., for the different strategies, Sven-Olof Collin, *In the twilight zone a survey of Public-Private Partnerships in Sweden*, in, *Public Productivity & Management Review*, Vol. 21, No. 3.1998.

³³ Cfr., Sven-Olof Yrjö Collin, Elin Smith, *Democracy and Private Property: Governance of a Three-Party Public-Private Partnership*, in, *Public Organiz Rev*, 2008.

management by public entities, reduced to only in-house firms for services to economic importance. In the future this will make it even more attractive the use of PPPs³⁴. I wonder if is "action of good administration is.....to limit the State action only to bad business, and let the good become very good in the free development of privates activities"³⁵.

www.centrostudimalfatti.it

³⁴ See in this regard the reflections in, Sven-Olof Collin, Lennart Hansson, *The propensity, persistence and performance of public-private partnerships in Sweden*, in, *Public-Private Partnership theory and practise in International perspective*, London, 2000.

³⁵ From a speech by Senator Orso Mario Corbino, President of the Higher Council for Water, who in a speech at the meeting of the Council of February, 1919, in Lapo Farinata Degli Uberti, *Il Comune di Terni contro la Società Terni per la rivendicazione del patrimonio idrico dell'Umbria*, Pistoia, 1926.