

**NEW RULES ABOUT PUBLIC FINANCE AND ACCOUNTANCY**

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**1. FOREWORD**

In the last three decades the italian legislation concerning public finance and accountancy has been changed almost every ten years; the reference text dates back to 1978 (law n. 468) and was later amended by three laws: n. 362/1988, n. 94/1997 and n. 208/1999.

As far as public finance management and planning are concerned, several regulations have jointly defined a set of rules which is much more complicated and

structured than one would imagine by taking into account the article 81 of the Constitution, that, as is widely known, refers to the annual budget only.

It is important to remember that with law n. 468/1978 both Financial Law and Cash Basis Accounting were introduced together with Accrual Basis Accounting, the Triennial Budget, and Cash Reports. Furthermore law n. 362/1988 created the Financial Economic Programming Document (DPEF) and the provisions linked with the financial law. Law n. 94/1997 restructured the annual budget, distinguishing between the so-called political budget, divided into basic provisional units of resource (UPB) which are subject to Parliament approval, and the so called administrative or management budget, which is then divided into expenditure categories. Finally law n. 208/1999, widened the content of the Financial law, set up a reserve fund for standing expenses and made compulsory the writing of a technical report about the schemes of legislative decrees.

Law n. 196/31st December 2009, which was introduced to make the existing regulations on Public Finance match the needs created by the institutional changes and the state of public finances, abrogated all these regulations and systematized the whole discipline modifying then every aspect of Public Finance regulation. This law in particular modified the coordination between different levels of government, the definition of the objectives of public finance, the harmonization of accounting systems, the planning of the objectives of public finance, the documents regarding public accounting, the financial coverage of the expenditures, the Cash Management of public entities, and the planning of cash flows and control systems. Nell'ultimo trentennio il legislatore italiano è intervenuto in materia di contabilità e finanza pubblica con cadenza pressoché decennale; il testo normativo di riferimento risale infatti al 1978 (l. n. 468) ed è su quel testo che hanno inciso i successivi interventi di riforma, introdotti con la l. n. 362/1988, con la l. n. 94/1997 e con la l. n. 208/1999.

## **2. THE MAIN CONTENTS OF LAW NUMBER 196/2009**

The new public finance and accountancy law is therefore a new organic regulation that implements changes by both making specific provisions immediately effective and by referring to delegated legislation. Much of legislation has been delegated to the Government, and therefore most of the reform will be realized by specific legislative decrees, such as the transition to cash only budget, the harmonization of accounting systems, the consolidation of a budget system structured in missions, programmes and actions, the strengthening of accounting systems and the creation of a Consolidation Act regarding public accountancy and treasury (see article 2, article 30, paragraph 8, articles 40, 42 and 49).

The key points of the law can be summarized as follows:

a) the law is aimed at realizing a unitary policy on public finance and an accounting harmonization which should be in line with the so called 'Fiscal Devolution' (law n. 42/2009). The principle according to which the objectives of Public Finance are shared at all levels of government and among all the entities that make up Public Administration is therefore reaffirmed. All data concerning different administrations must be gathered and published using the same methodology and the same accounting criteria. The reform implements this aspect establishing that all the entities making up the aggregation of Public Administration, as Public Accountancy calls it, must share an harmonization programme of accounting and budget systems and schemes as well as presentation and approval deadlines (articles 1, 2, 8; see, *infra*, § 3).

b) Planning cycle and tools are modified (art. 7 and 10), through triennial financial planning which includes details on the State budget. The law establishes that budget planning should be more detailed than the current one, and that it should outline the documents of the trends and planning steps of the economic accounts, of the cash account and of the borrowing requirement for all Public Administration offices (articles: 10,11, 12; see, *infra*, § 4).

c) The reform provides a new budget structure which is based on 'missions' and 'programmes', according to the scheme used experimentally since the 2008 budget. Law n.

196/2009 codifies on a permanent basis the new budget which is divided into big functional aggregations (the State's main missions) and a limited number of programmes characterized by defined and quantifiable objectives, which need to be approved by Parliament and which all correspond to a centre of responsibility (art. 21). This also leads to greater flexibility in planning and allocating budget resources and gives the possibility of resource adjustments within the same mission (see, *infra*, § 5).

d) Law n. 196/2009, with art. 39, adds a spending review to the budget process, and the creation of special teams in charge of analysing and assessing expenditure, which have the task of monitoring the measures which were taken during the budget planning session (art. 39, paragraph 1). The assessment of the results achieved compared to the programmatic targets stated in the DFP and the monitoring of the efficiency of the measures aimed at reaching such targets are based on the cooperation between the Economy Ministry and the administrations involved. It is aimed at monitoring public expenditure and its evolution in time, and at reaching the overall efficiency within the Public Administration (see, *infra*, § 6).

### **3. PUBLIC FINANCE OBJECTIVES AND THE MULTI-LEVEL INSTITUTIONAL SYSTEM**

In the last few years the national sovereignty has been downsized in favour of supranational (European Union) and sub-national (Regions and local entities) levels of government and a multilevel system has therefore been created and has then evolved.

As far as the first issue is concerned, this fact is confirmed by the agreements signed during the creation of the European Monetary and Economic Union, which imposed greater precision while implementing budget policies, following the directives of the Stability and Growth Pact adopted within the EU. On the other hand the second issue is a consequence of the change made to Title V of the Italian Constitution (implemented by law n. 3/2001), which deeply redefined institutional relations between central and peripheral entities, giving new functions to regional and local levels of government which are granted a

wide sphere of autonomy. The creation of a multi-level system highlighted the need to guarantee an indispensable coordination between the objectives of the financial policies of central Governments and territorial entities through the rules established by the Stability and Growth Pact. In Italy this requirement is met by the Internal Stability Pact, which was first born with the 1999 Financial Law (law n. 448/1998), and whose implementation rules were later modified by the following financial laws throughout the years. The new public finance and accountancy law confirms what has just been said, mentioning explicit cooperation - not just of the public administration as a whole but between all its components as well - in order to reach the objectives of Public Finance.

For the same reason law n.196/2009 says that Regions, the autonomous provinces of Trento and Bolzano and the local agencies will set the targets of their annual and long term budgets in line with the programmatic ones stated in the DFP (article 8, paragraph 1). It also stipulates that the internal Stability Pact should be characterized by stability, consistency, compliance with European parameters and respect of agencies managerial autonomy. (article 8, paragraph 2).

The Public Finance Decision and the Stability Law are intended to, respectively, defining the content and sanctions of the Internal Stability Pact (see article 10, paragraph 2, letter f) and identifying its implementation rules (see article 11, paragraph 3, letter m). It is clear that lawmakers, because of the above mentioned rules, had to face the problem of the governance of a multi-level financial relation system, in a context that, evolving towards devolution models, indicates two potentially conflicting objectives to be achieved: on the one hand the 'right to a budget' of the local legislative assemblies with their autonomy guaranteed by the Constitution (article 119) and on the other hand the national public finance, its unitary character and the transparency of accounts. In this field the coordination between the above mentioned laws and law n. 42/2009 -concerning fiscal devolution- is still unsatisfactory.

#### **4. THE BUDGET PROCESS**

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The law amended the State's economic and financial planning tools and timing, putting off of the fulfilments linked to the planning cycle as opposed to what law n. 468/1978 had stated. The new planning cycle started with the Joint Report on Public Economy and Finance (RUEF), edited by the Minister of Economy and Finance and handed in to both Chambers by the 15th of April of each year. This report is supposed to update the macro-economic and public finance provisions for the current year according to the final balance and the manoeuvre approved in the previous year. (article 12).

Not later than July 15th the Government is to send the guidelines for the distribution of budget objectives to the Permanent Committee for the Coordination of Public Finance and to the Chambers. In such a way the Government makes the system of 'autonomies' aware of the programmatic objectives set year by year as well as the penalties for local agencies in case they break the limits of the internal Stability Pact. Subsequently, once the judgement of the committee- which is due by 10th of September - has been acquired, the Government draws the blueprint of the Public Finance Decision (DFP) which is then handed in to the Parliament by 15th of September - for its approval or possible amendments - which replaces the Economic and Financial Planning Document (DPEF) with some differences (article 10). The cycle ends with the presentation and implementation of the regulations that constitutes the Public Financial Manoeuvre (article 11), that is to say the Stability Bill of Law (which replaces the Financial Bill of Law and which acquires triennial programmatic importance), the Budget Bill of Law, the Bills linked to the manoeuvre, which, can even be presented out of session by the end of February and finally, the Stability Pact update (article 7).

## **5. THE BUDGET STRUCTURE**

The estimated budget, based on the financial accountancy system registers debit and credit both in the competence phase (assessment and appropriation) and in the cash phase (encashment and payment). It gives every single Ministry the power to carry out expenses after a review and a Parliamentary vote.

In the beginning the Parliament used to vote on all ‘budget’s chapters’ (several thousands) which were then inserted in the estimated expenditure reports one for each ministry. This framework made the procedure extremely tight and it did not assure the control of neither efficiency nor effectiveness in relation to the public policies to be implemented. As a consequence this control was limited to formal aspects.

With regard to the need to define public policies of each sector, and to monitor the efficiency of administrative activities by Law n. 94/1997, target functions were introduced in the budget structure; moreover the Parliament's approval process was shifted from the single spending category to basic estimated units. Each unit corresponded to an administrative centre of responsibility. The complex organizational structure of the State - ‘who’ does ‘what’ - was then perfectly represented but ‘if’ and ‘how’ target objectives were reached remained unaccounted for.

To address this need law n. 196/2009 (art. 21, paragraph 2) codified yet another budget structure, based on ‘missions’ and ‘programmes’. Missions represent the main functions and strategic objectives of public expenditure was aimed at; programmes consist of the statement of the objectives and goals to be reached. In other words, programmes are the budget classification units through which missions are carried out. They represent a homogeneous aggregation of activities carried out within each single Ministry, in order to reach well defined objectives. Such programmes are to be approved by Parliament.

Each programme is agreed upon through the second level of functional classification, the C.O.F.O.G. (Classification of the functions of government). The implementation of each programme is assured by a single administrative unit, which is a first-level organizational inside the Ministries, a Department or General Direction (see article 3, paragraph 2, legislative decree n. 300/1999).

Each phase of the estimated expenditure includes the ‘preliminary notes’ that outline the criteria adopted to express the targets formulated in terms of levels of services and interventions, resources to be allotted for their implementation as well as effectiveness and efficiency indicators to be used to evaluate the outcomes.

## **6. THE SO-CALLED ‘SPENDING REVIEW’**

The ‘expenditure analysis and evaluation’ introduced by article 39, law n. 196/2009, is slightly different from the traditional formal juridical control method - which does not take concrete results into account - and uses its own tools of economic analysis to check the results of resource management by each administration.

The resulting activity clearly meets the need to overcome the incremental logic of public finance decisions, contributing to the evolution of the system towards a real planning of needs, in which the budget is defined upon a zero-base criteria. That means an evaluation of the effectiveness carried out each year independently from the previous years allocations.

The triennial planning and the link between expenditure and results reminds us of the Anglo-Saxon *spending review* which is based on the fundamental feature of establishing the triennial spending limits which are a series of objectives agreed on between *Treasury* and the other Ministries in a previous phase of the budget planning process.

On the contrary, in the Italian system, budget planning seems to be following a *bottom-up* procedure (article 23, law n. 196/2009). The Ministries, on the basis of the Mef (Ministry of economic and finance) instructions, outline the objectives and the resources according to the current legislation, without an initial political decision that establishes the resources available for expense programmes.

In practice, even though the new tool is a sign of an evolution towards to budget policy, it risks becoming a formal fulfilment, into another missed opportunity, as it does not have a direct impact on the budget process.



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