THE CASE OF ITALIAN MUNICIPALITIES

(AN EXAMPLE OF FISCAL EQUALIZATION SYSTEM)

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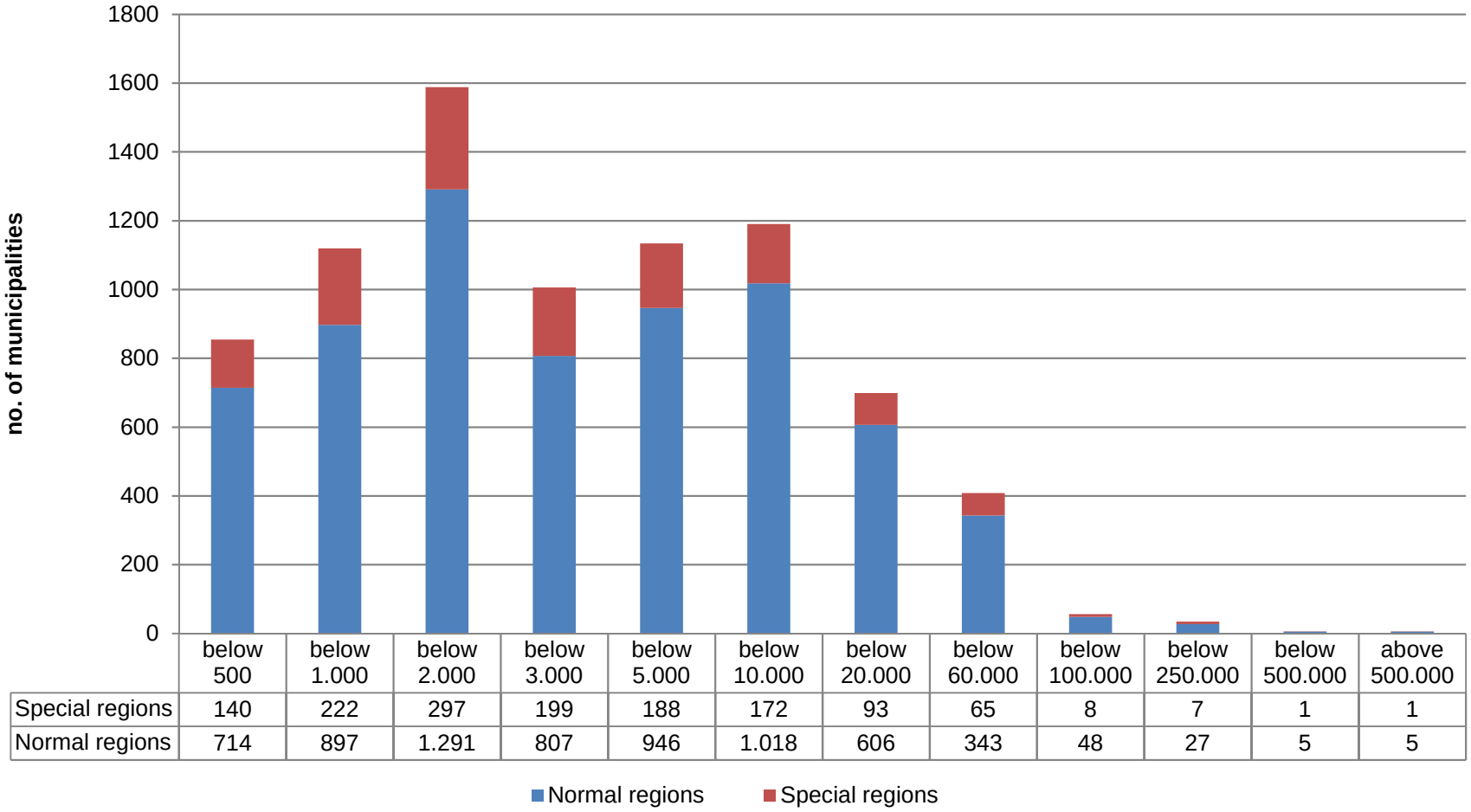
ITALIAN MUNICIPALITIES (COMUNI)
GOVERNANCE AND ELECTORAL SYSTEM

Comuni are ruled by a city council and an executive committee headed by an elected mayor (*sindaco*).

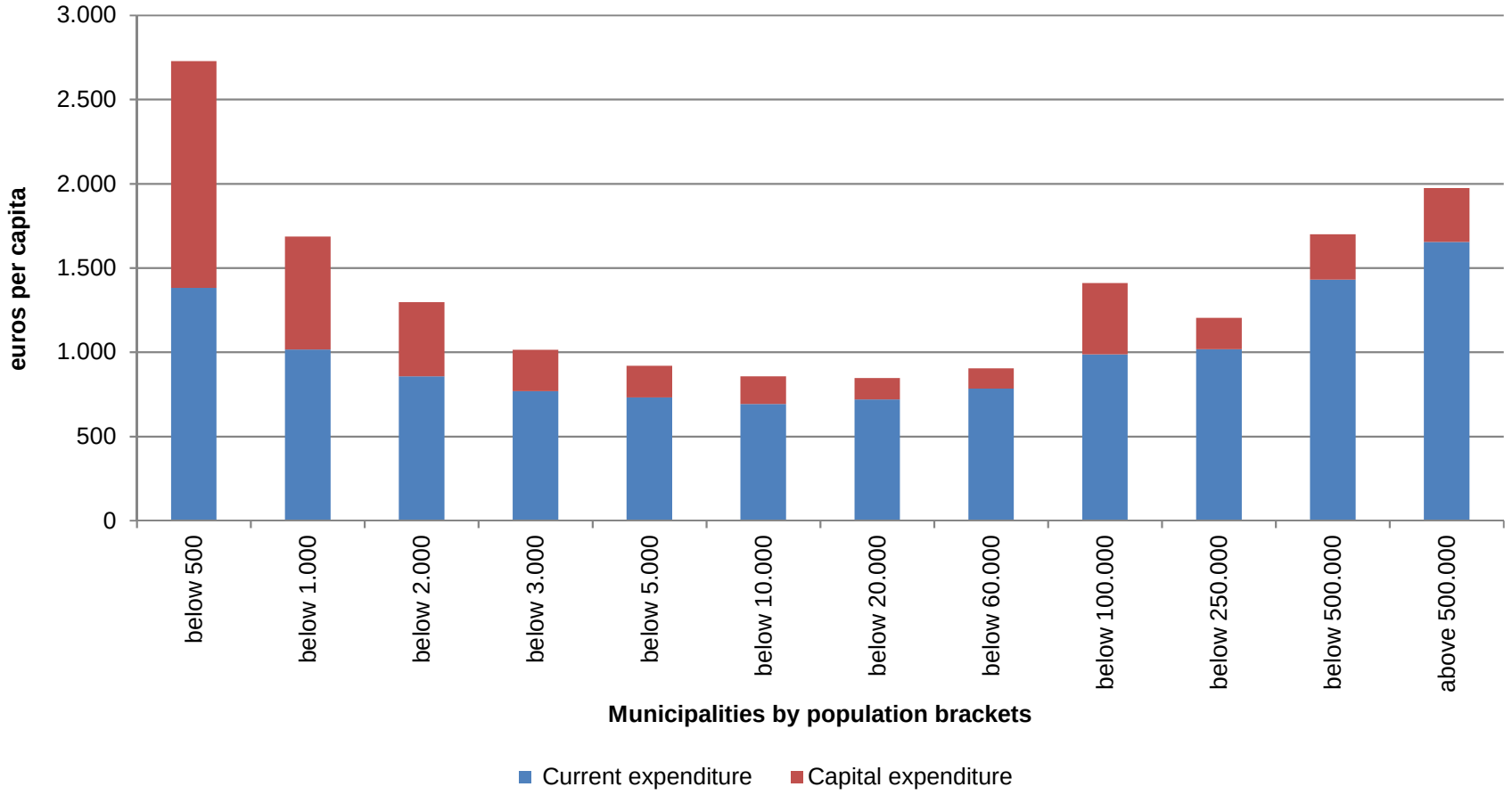
- Mayors are directly elected for five-year terms and are subject to a two-term limit
- in small municipalities (below 15000 inhab.) by first-past-the-post
- in large municipalities (above 15000 inhab.) by run-off

MUNICIPALITIES BY POPULATION



	below 500	below 1.000	below 2.000	below 3.000	below 5.000	below 10.000	below 20.000	below 60.000	below 100.000	below 250.000	below 500.000	above 500.000
Special regions	140	222	297	199	188	172	93	65	8	7	1	1
Normal regions	714	897	1.291	807	946	1.018	606	343	48	27	5	5

MUNICIPALITIES EXPENDITURE



Only current expenditure of essential functions (34 billion euros) is considered for the evaluation of standard expenditure needs

ESSENTIAL FUNCTIONS
(34 BLN EUROS 80% OF TOTAL CURRENT EXPENDITURE)

CENTRAL ADMINISTRATIONS

tax office
(0.50 billion euros)

technical office
(1.02 billion euros)

civil registry
(0.55 billion euros)

general services
(6.39 billion euros)

LOCAL POLICE (2.64 BILLION EUROS)

COMPLEMENTARY EDUCATION SERVICES (3.57 BILLION EUROS)

TRASPORTS

public roads
(2.21 billion euros)

local public transport
(1.00 billion euros)

ENVIRONMENT

land management and planning
(1.67 billion euros)

waste management
(7.61 billion euros)

SOCIAL CARE

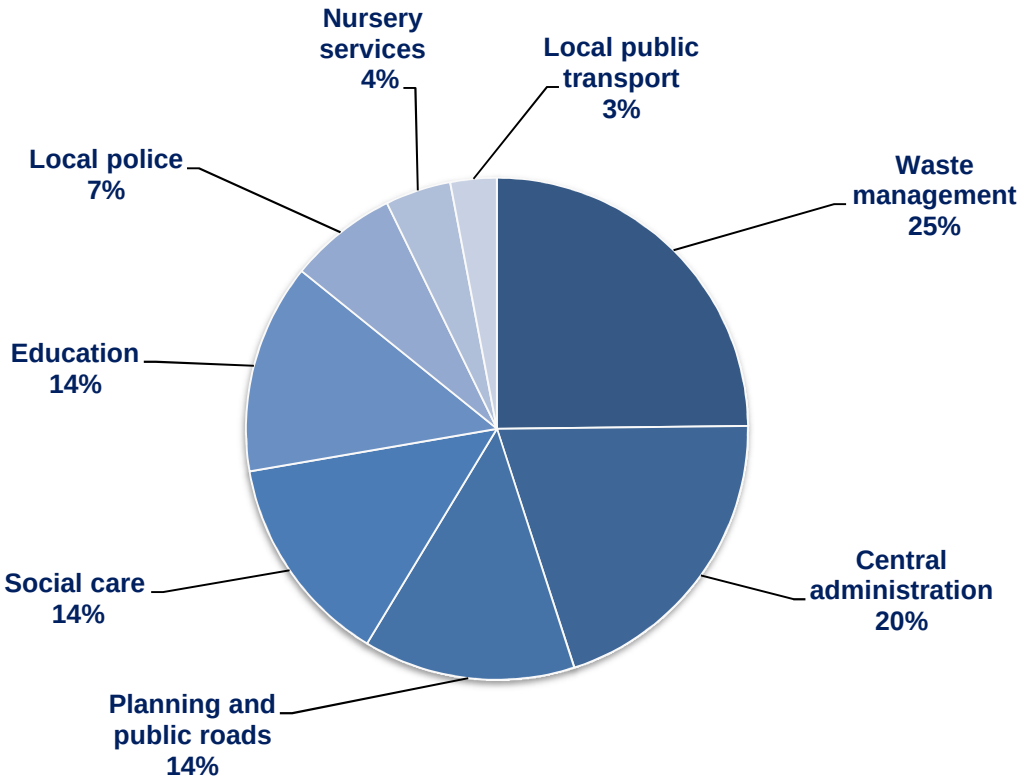
general social services
(4.67 billion euros)

nursery services
(1.44 billion euros)

THE ESTIMATION OF STANDARD EXPENDITURE NEEDS – THE ALLOTMENT COEFFICIENT

Expenditure needs

Functions	Billion euros
Waste management	8,66
Central administration	7,04
Planning and public roads	4,76
Social care	4,75
Education	4,72
Local police	2,43
Nursery services	1,48
Local public transport	1,04
Total	**34,88**



Standard expenditure needs are converted in an allotment coefficient according to the weight of each function in terms of standard expenditure

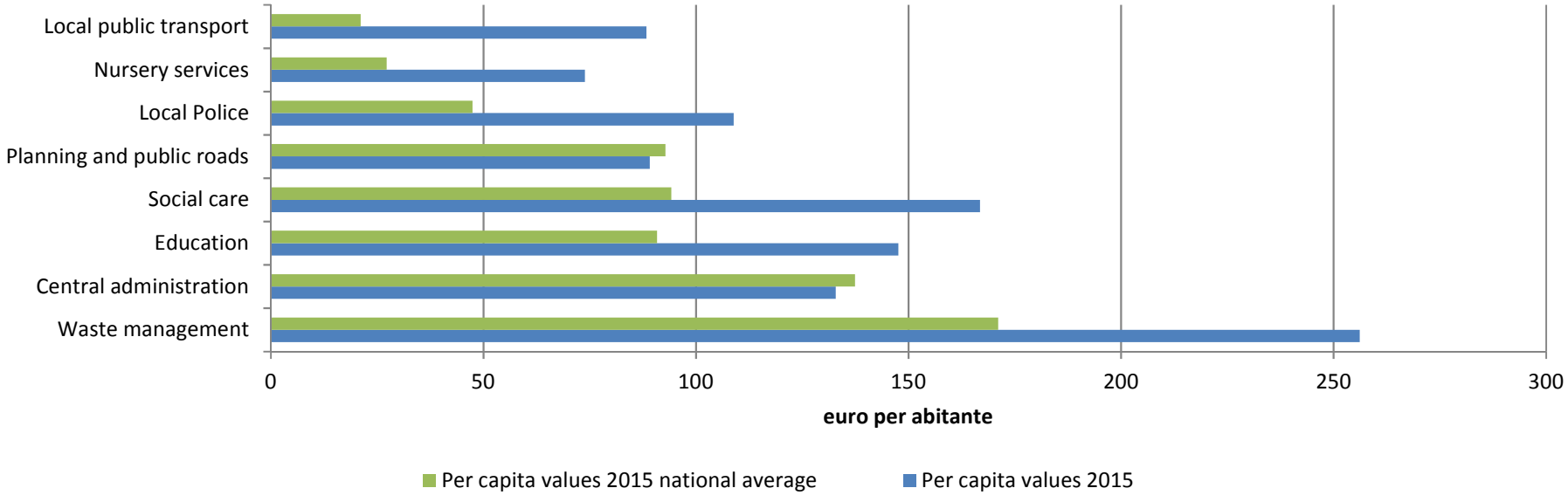
AN EXAMPLE
WASTE MANAGEMENT SERVICES

	Standard costs in euros (A)	PEDESINA (39 inhab.)			ROMA (2.864.731 inhab.)		
		Variable value (B)	Standard expenditure (C = A * B)		Variable value (D)	Standard expenditure (E = A *D)	
Basic standard cost per tonne of waste disposed (differentiated by cluster and region)			233,60	+		377,80	+
% of Recycled waste	**1,15**	51,28	58,97	+	38,83	44,65	+
Distance from disposal facilities in km (weighted average by type of waste)	**0,41**	70,00	28,70	+	29,97	12,29	+
Petrol average municipal cost (% difference from national average)	**1,22**	-10,76	-13,13	+	1,41	1,72	+
Final standard cost per tonne of waste disposed (G)			**308,14**	=		**436,46**	=
Tons of waste disposed (H)		36			1.681.245		
*Standard expenditure depending on tons of waste (I = G*H)*			11.093	+		733.800.228	+
Diseconomy of scale (J)			6.321	+		6.321	+
Total expenditure needs (K = I+J)			**17.414**	=		**733.806.549**	=
Expenditure needs of all municipalities (L)			**8.818.067.127**			**8.818.067.127**	
Allotment coefficient (M = K/L)			**0,000001974833**			**0,083216257953**	

AN EXAMPLE
ROME (THE BIGGEST CITY IN ITALY, 2,9 MLN INHAB.)

	YEAR 2015		National average 2015		Gap % from national average 2015
	Per capita values 2015 (A)	Composition %	Per capita values 2015 (B)	Composition %	C = (A-B)/B*100
Waste management	256,18	24,08%	171,15	25,08%	49,68%
Central administration	132,93	12,49%	137,47	20,14%	-3,30%
Education	147,65	13,88%	90,86	13,31%	62,49%
Social care	166,82	15,68%	94,21	13,80%	77,08%
Planning and public roads	89,19	8,38%	92,85	13,61%	-3,94%
Local Police	108,91	10,24%	47,46	6,95%	129,48%
Nursery services	73,89	6,95%	27,30	4,00%	170,67%
Local public transport	88,35	8,30%	21,17	3,10%	317,34%
TOTAL	1063,93	100,00%	682,47	100,00%	55,89%

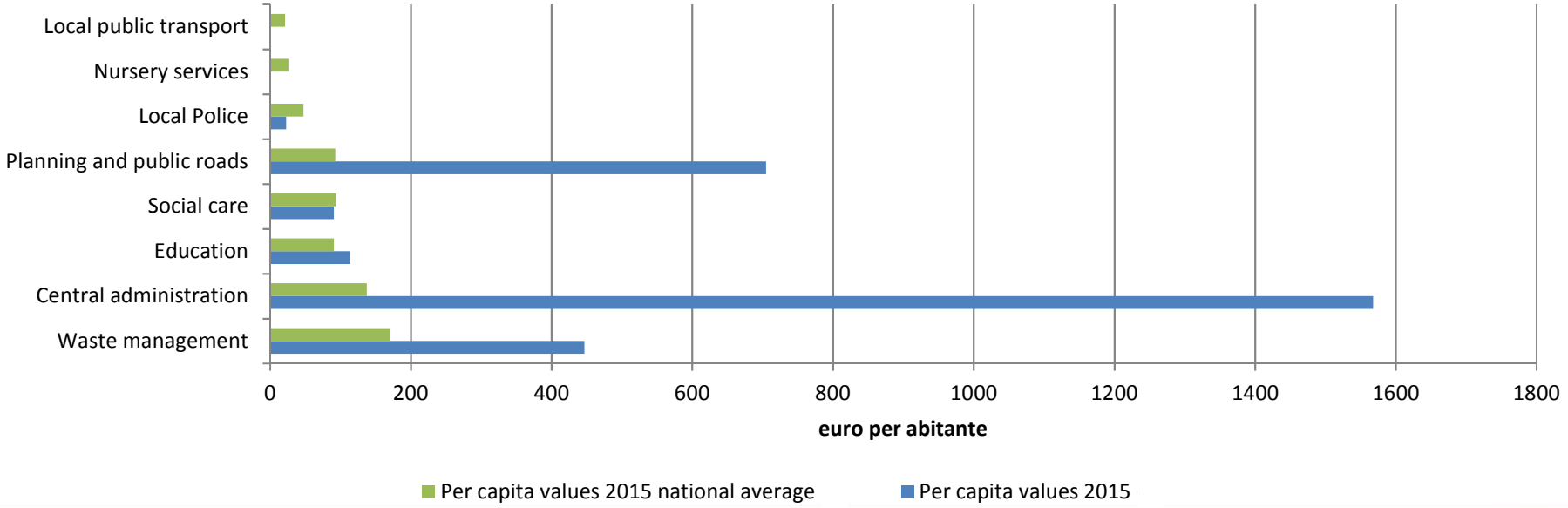
Standard expenditure needs 2015 and national average



AN EXAMPLE
PEDESINA (THE SMALLEST VILLAGE IN ITALY, 39 INHAB.)

	YEAR 2015		National average 2015		Gap % from national average 2015
	Per capita values 2015 (A)	Composition %	Per capita values 2015 (B)	Composition %	C = (A-B)/B*100
Waste management	446,96	15,16%	171,15	25,08%	161,16%
Central administration	1567,61	53,19%	137,47	20,14%	1040,31%
Education	114,26	3,88%	90,86	13,31%	25,75%
Social care	90,82	3,08%	94,21	13,80%	-3,60%
Planning and public roads	704,72	23,91%	92,85	13,61%	658,98%
Local Police	23,06	0,78%	47,46	6,95%	-51,42%
Nursery services	0,00	0,00%	27,30	4,00%	-100,00%
Local public transport	0,00	0,00%	21,17	3,10%	-100,00%
TOTAL	2947,43	100,00%	682,47	100,00%	331,88%

Standard expenditure needs 2015, 2013 and 2015 national average



SUMMARY OF DETERMINANTS OF STANDARD EXPENDITURE NEEDS

Homogeneous group of variables	2016 Methodology	
	No. of variables	% impact
TOTAL	**85 (40 from questionnaire)**	100
Service provided	23	28,68
Regional effect	15	20,87
Territorial morphology	6	11,08
Resident population	4	10,71
Input prices	8	5,20
Vehicles and road traffic	5	4,88
Local economy	3	4,61
Buildings and real estate	1	2,93
Census	2	2,67
Exogenous load factors	5	2,08
Managerial choices	8	2,11
Tourism	2	1,87
Investments	1	1,31
Deprivation	2	0,99

Main variables:

- Resident population (no.)
- Waste disposed (tons)
- Waste recycled (tons)
- Population above 65 (no.)
- Population between 3 and 14 (no.)
- Children served by Nursery (no.)
- School meals (no.)
- Presence of Metro/Tram service (yes/no)
- Surface area of the municipality (sqm)
- Altitude of the municipality (m)

THE ITALIAN MODEL OF MUNICIPAL FISCAL CAPACITY

REVENUES ITEM	MODELS	BILLION EUROS	%
Local income tax (ACI)	RTS (Representative Tax System)	2.6	10,3%
Property tax (IMU-TASI)	RTS with Tax-gap	12.3	48,8%
Fees	RFCA (Regression-based Fiscal Capacity Approach)	4.1	16,3%
Waste Management fees (TARI)	Neutralization against standard expenditure needs	6.3	25,0%
	Total fiscal capacity =	25.2	100,0%

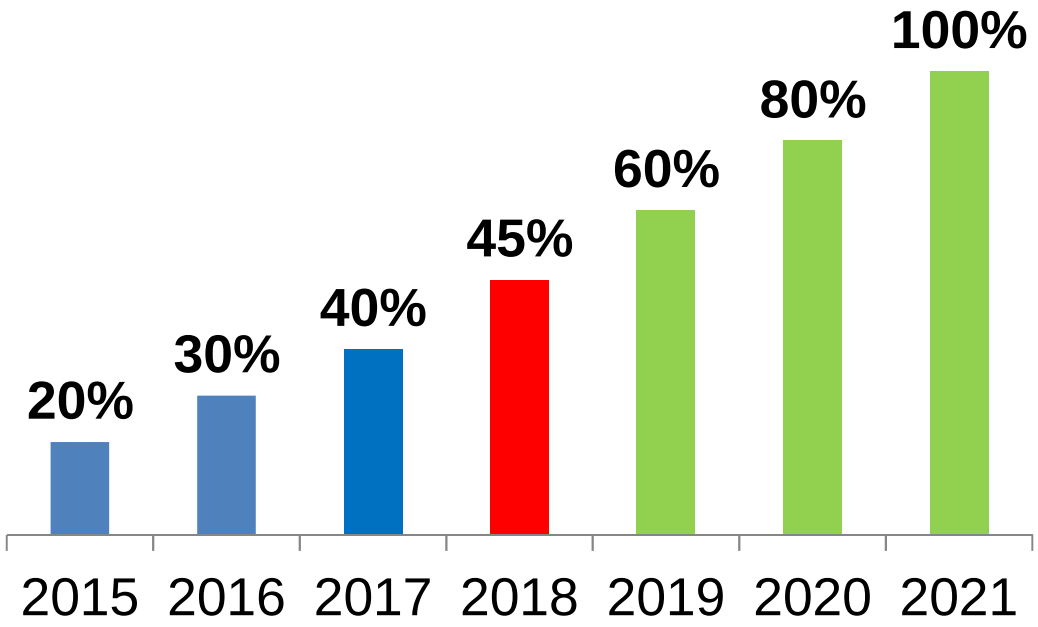
Macro budget (26.3 billion euros) = 25.2 + 1.1

Central gov. resources

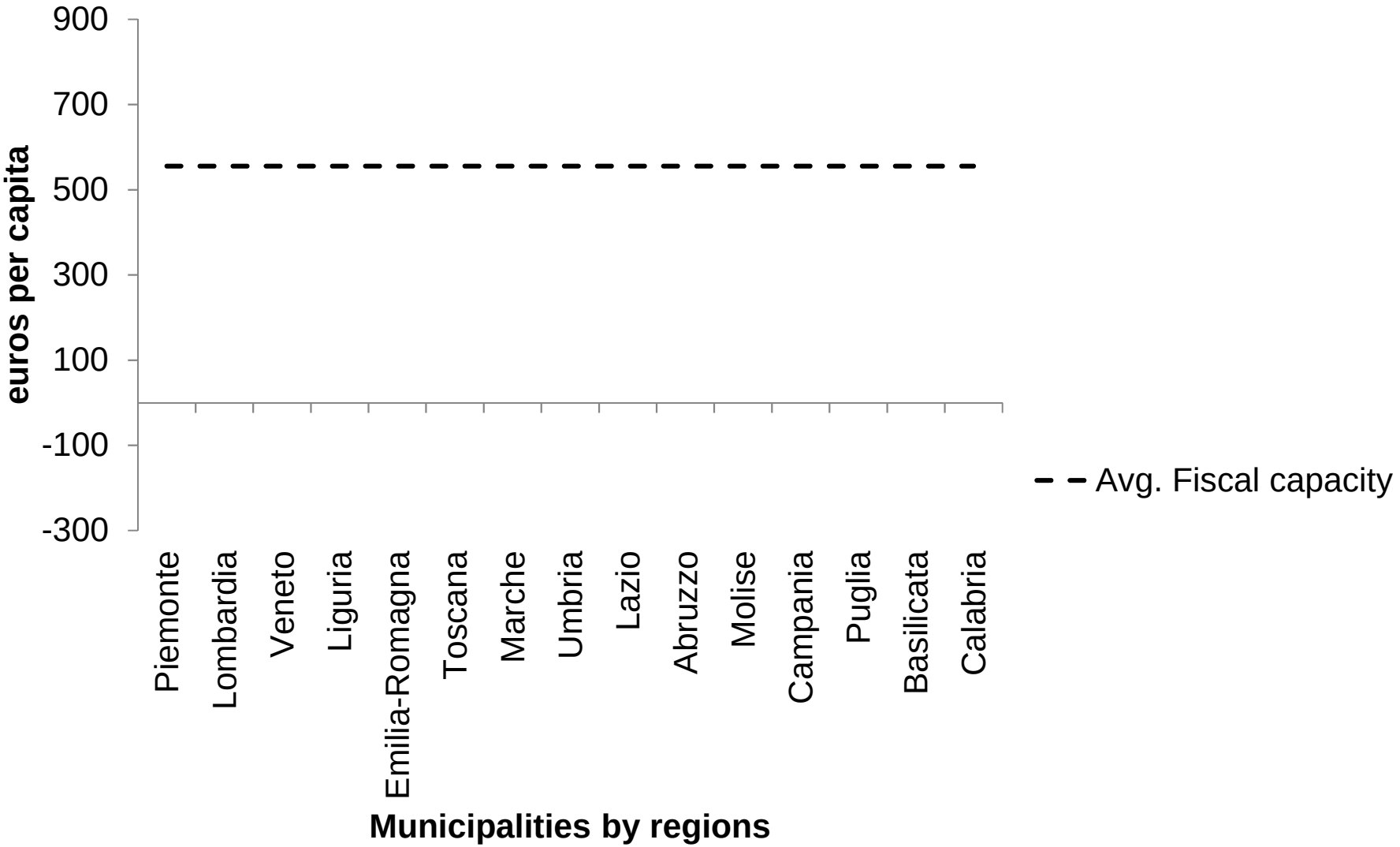
MUNICIPAL FISCAL EQUALIZATION SYSTEM

- Ex-ante macro-budget definition (closed-end system)
- Equalization grants = *expend. needs - fiscal capacity*
- Horizontal equalization
- Equalization target = 50%

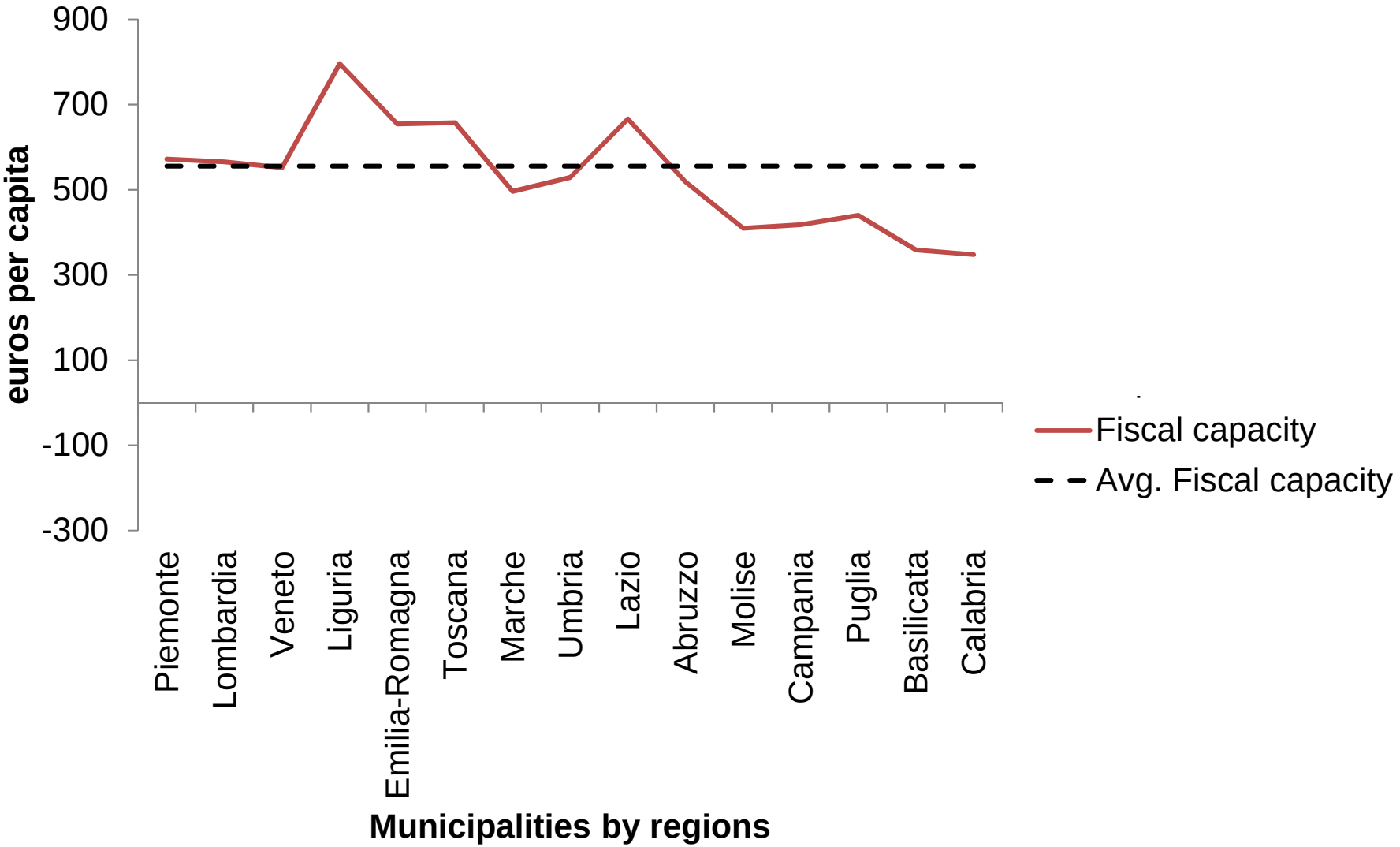
% of grants distributed through the standard system in the transitional period



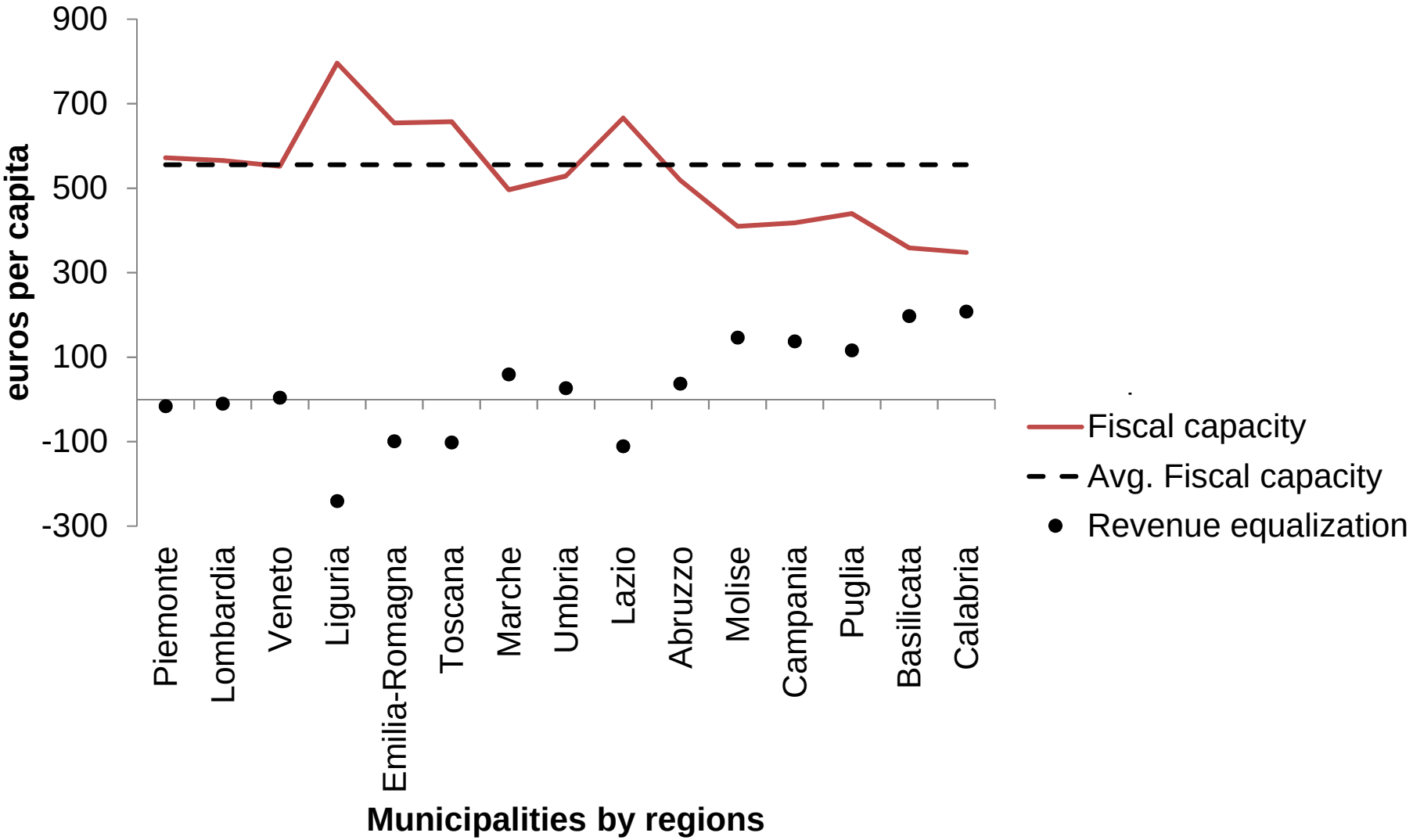
FISCAL CAPACITY AND STANDARD EXPENDITURE



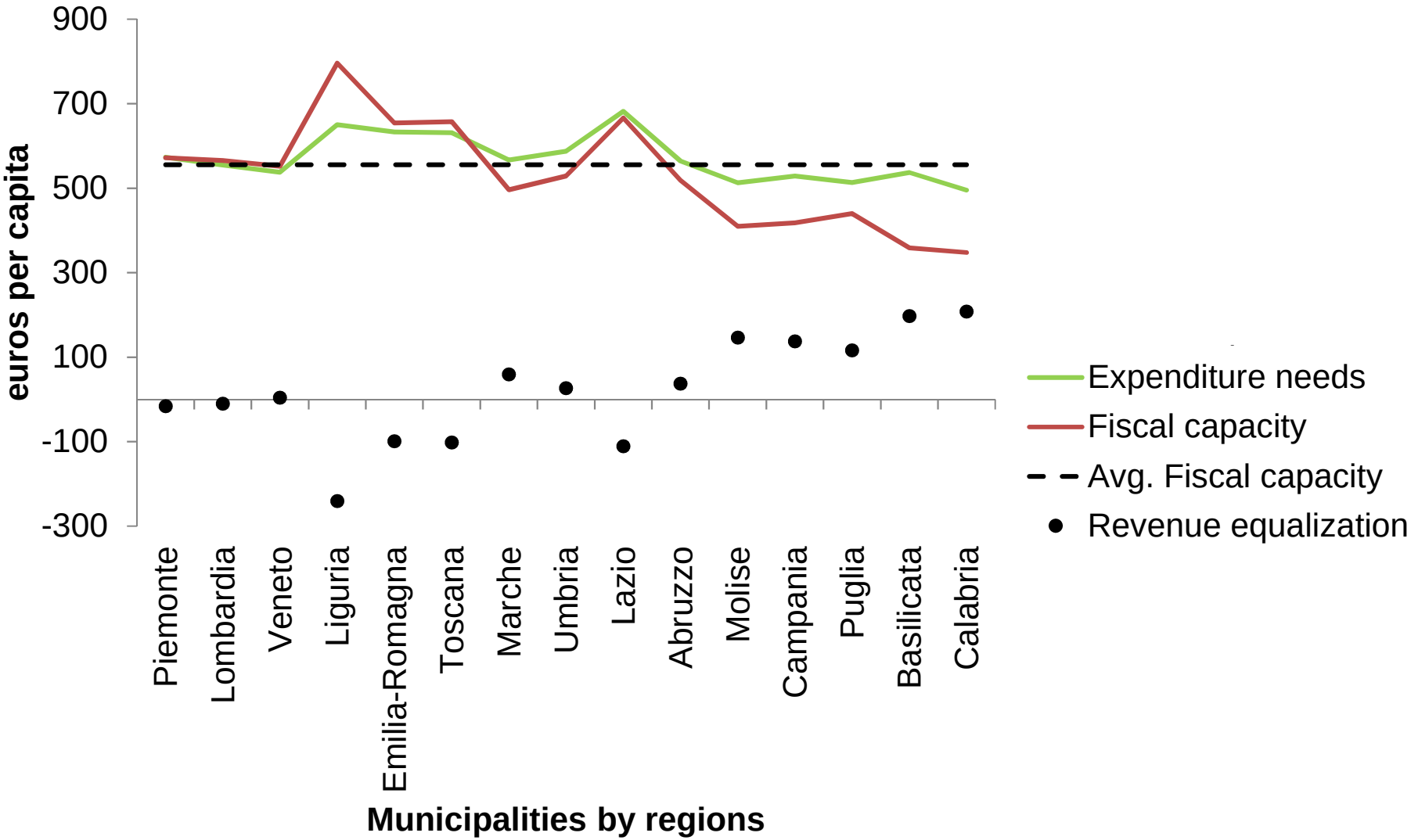
FISCAL CAPACITY AND STANDARD EXPENDITURE



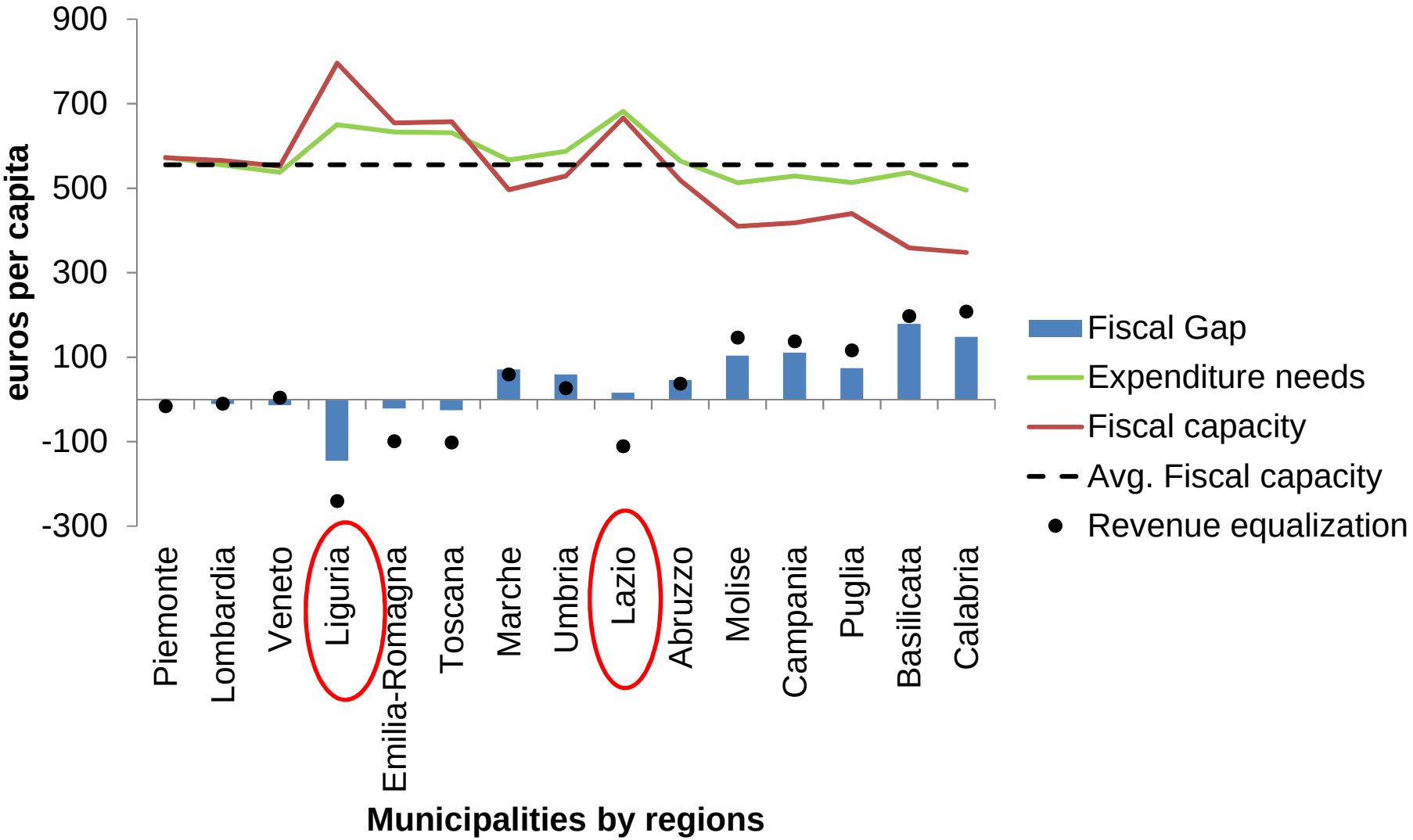
FISCAL CAPACITY AND STANDARD EXPENDITURE



FISCAL CAPACITY AND STANDARD EXPENDITURE



FISCAL CAPACITY AND STANDARD EXPENDITURE



THE CASE OF ITALIAN PROVINCES AND METROPOLITAN DISTRICTS

(AN EXAMPLE OF SPENDING REVIEW PROGRAM)

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THE ITALIAN REFORM OF PROVINCES

Italian Law n. 56 of 2014 has redefined the structure of Provinces, Metropolitan Districts

1. Transformation of Provinces in Second-tier Institutions and creation of Metropolitan District;
2. Determination of fundamental functions of Provinces and Metropolitan Districts;
3. Reorganization of the non-fundamental functions of Provinces.

ESSENTIAL FUNCTIONS
(3 BLN EUROS 50% OF TOTAL CURRENT EXPENDITURE)

- **Public education** (Provincial planning of the school network in accordance with regional planning, management of high school buildings);
- **Provincial roads** (Construction and management of provincial roads and regulation of road traffic);
- **Environment** (Provincial spatial planning coordination and protection and enhancement of the environment);
- **Transportation** (Planning of transport services in the provincial area, authorization and control of private transport in accordance with the regional planning);
- **General Functions** (Collection and processing of data, technical and administrative assistance to Local Authorities and additional planning and coordination functions for Metropolitan Districts)

MAIN EXPENDITURE DRIVERS

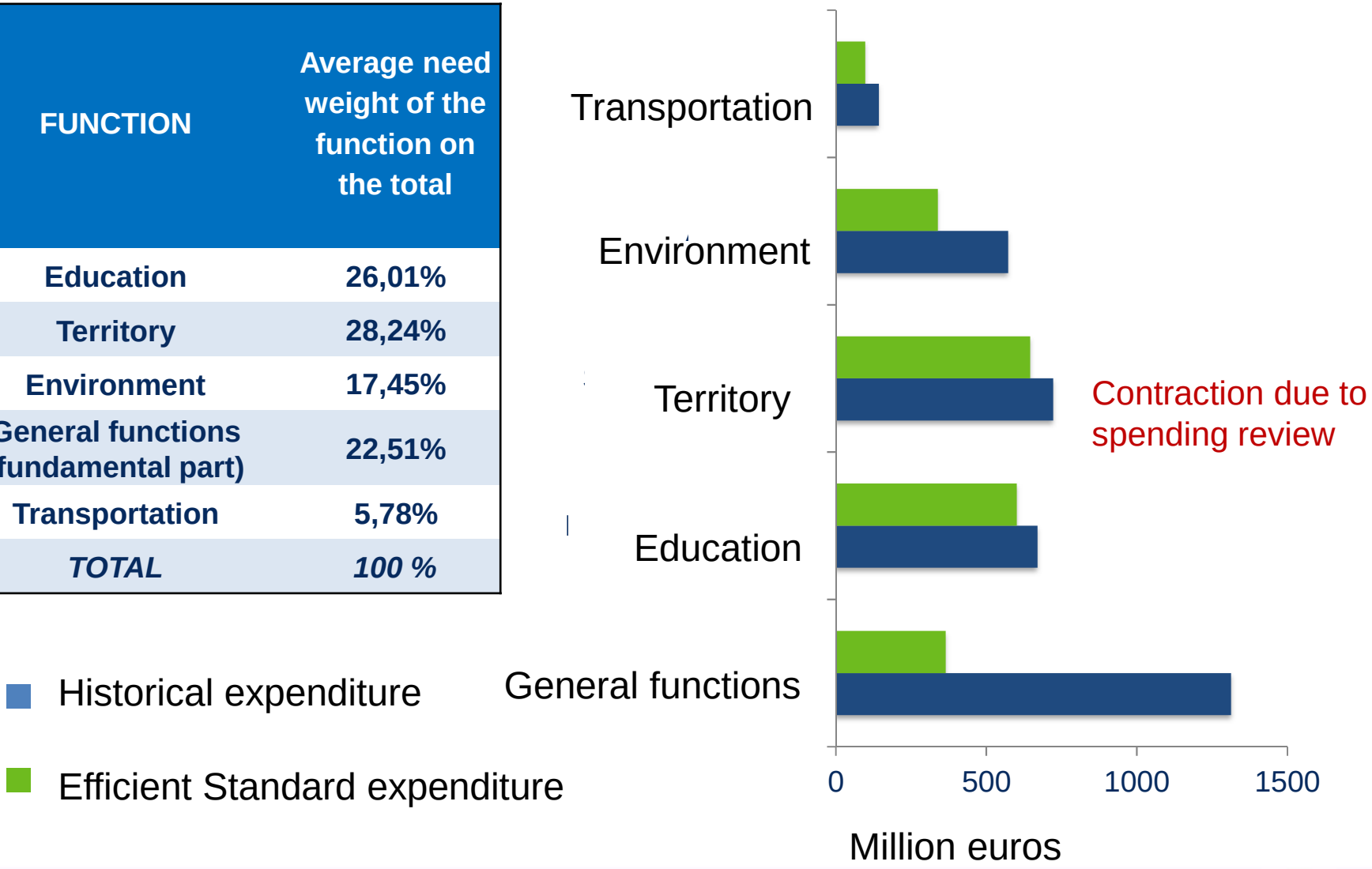
EDUCATION	Number of State high schools 5.100
TERRITORY	Km of provincial roads subject to maintenance 105.963
ENVIRONMENT	Resident population 51.525.535
GENERAL FUNCTIONS	
TRANSPORTATION AND LOCAL TRANSPORT	Number of vehicles in circulation 41.508.849

CALCULATION OF STANDARD EXPENDITURE

FUNCTIONS	Main components (M)	Additional components (X)
EDUCATION (Number of high schools)	44,932.64 euros per school + 516.55 * (% of sqm in climate zone EF) 5,136.76 for Metropolitan Districts 1,245.85 for other Provinces	Pupils with disabilities from state secondary schools of second grade (5,451.23 per pupil) Area in square meters of school buildings (2.84 per square meter)
TERRITORY (Km of roads)	2,9499 euros per kilometer of provincial roads subject to maintenance 1,591.97 for Metropolitan Districts (10% maintenance hypothesis)	Km of roads in mountainous areas (1,820.11 per km) Total number of employees (16.77 per person employed)
ENVIRONMENT (Resident population)	3,22 euros per inhabitant + 1,07 for Metropolitan Districts - 0,26 for other Provinces	Total surface area in square kilometers (605.21 sq km) Risk of landslides (13.38 per inhabitant exposed to serious risks)
GENERAL FUNCTIONS (Resident population)	7,80 euros for Metropolitan Districts 5,08 euros for mountainous Provinces 3,63 euros for large areas institutions	Value of tangible fixed assets, land and buildings (2.18% for Metropolitan Districts, 1.56% for other provinces)
TRANSPORTATION (vehicles in circulation)	2,11 euros per circulating vehicle + 1,34 for Metropolitan Districts - 0,32 per other Provinces	

COMPOSITION OF STANDARD EXPENDITURE AND COMPARISION WITH HISTORICAL EXPEND.

FUNCTION	Average need weight of the function on the total
Education	26,01%
Territory	28,24%
Environment	17,45%
General functions (fundamental part)	22,51%
Transportation	5,78%
TOTAL	*100 %*



OWN TAX REVENUES
OF PROVINCES AND METROPOLITAN DISTRICTS

Fiscal capacity

RES (standard tax rate)

Actual tax revenues

Potential tax revenues

RES (max tax rate)

Tax on landfill waste disposal

Tax base: Municipal waste tax

Standard tax base: 1% (increase up to 5%).

Tax on vehicle property transfer

Tax base: no. of property transfers

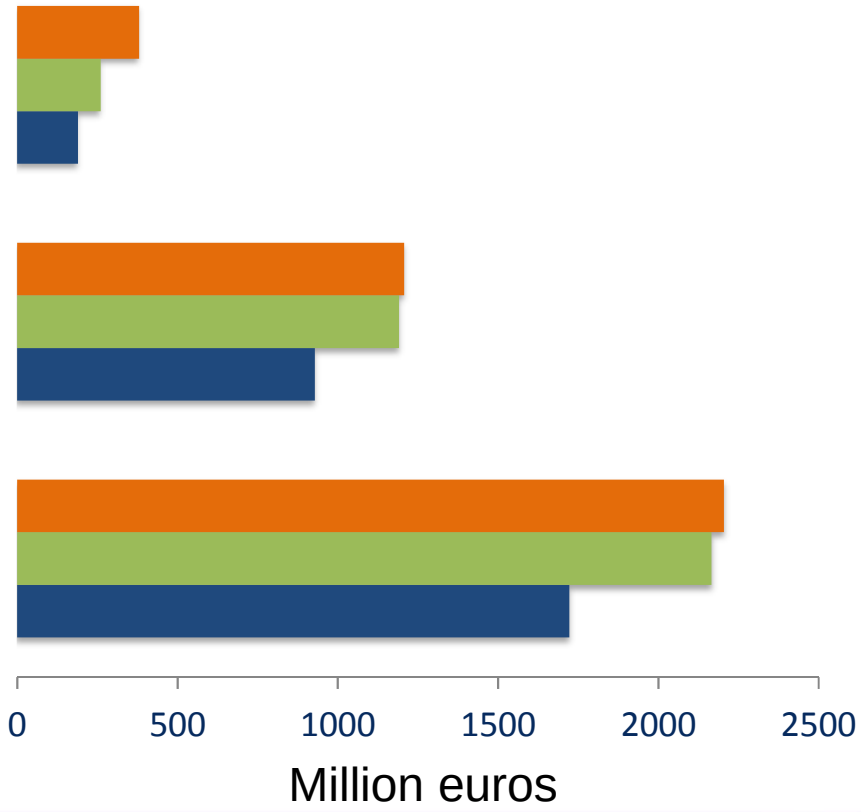
Standard tax rate: 150,8 euros (increase up to 30%)

.

Car Insurance Premium Tax

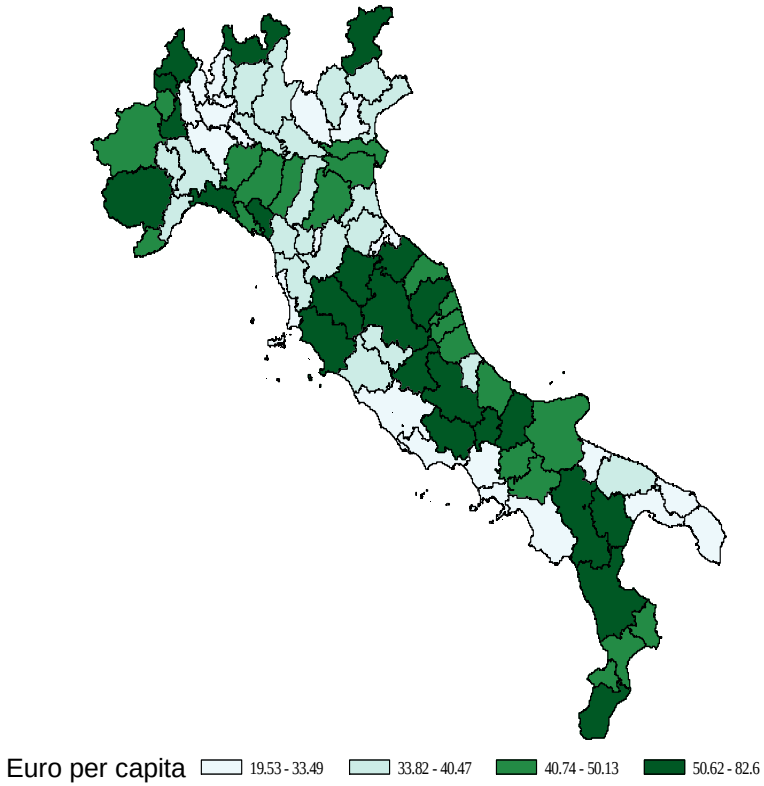
Tax base: insurance premium.

Standard tax rate: 12,5% (3.5% changes up or down)

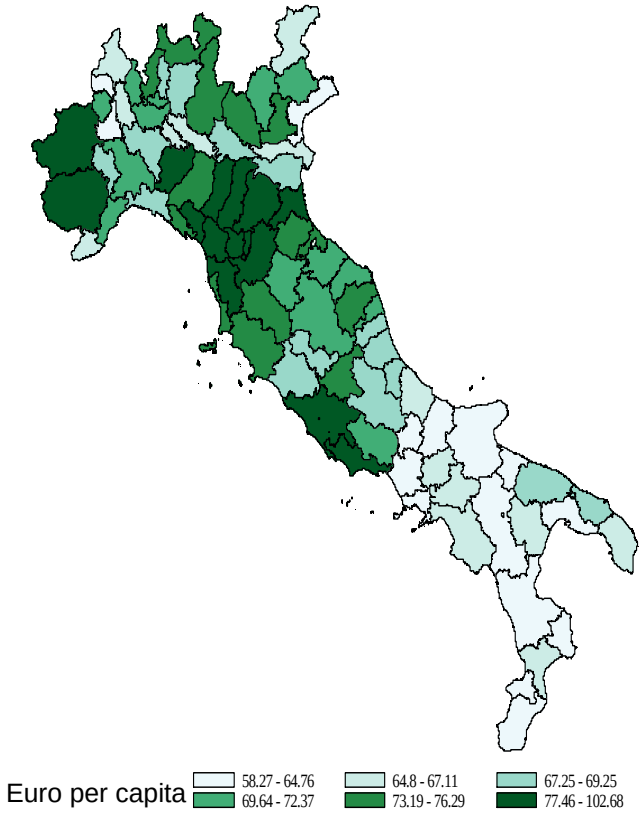


EVALUATION OF FISCAL GAP

Standard (efficient) expenditure of fundamental functions per inhabitant



Potential tax revenues per inhabitant



FISCAL GAP = STANDARD EXPENDITURE – POTENTIAL TAX REVENUE

Allocation mechanism 2015 spending cuts (900 million euros), based on a comparison between potential revenues and standard expenditures

REVENUES	
Potential revenues (A)	3.045.081.463
2015 spending cuts (B)	900.000.00
TOTAL (C = A-B)	**2.145.081463**

EXPENDITURE	
Standard current expenditures (D)	2.120.250.802
Interest expense (E)	240.501.605
TOTAL (F = D+E)	**2.360.752.407**
Structural imbalance (G = F-C)	**215.670.944**

figures in euros

THE CASE OF ITALIAN MUNICIPALITIES

(AN EXAMPLE OF MONITORING AND INCENTIVE MECHANISMS)

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OpenCivitas
Conosci, confronta, valuta gli Enti Locali.

OpenCivitas (www.opencivitas.it) is a web portal containing information coming from all local Governments in Italy. The data are elaborated in order to benchmark and evaluate the different performances and promote transparency, efficiency and effectiveness of local Governments

OPENCIVITAS
ROMA vs PEDESINA

Spesa media per abitante

Spesa Storica vs Fabbisogno

Livello servizi vs livello servizi standard

Comune di Roma

Popolazione al 31/12/2013
2.863.322

Spesa storica
€ 3.784.946.628

Fabbisogno Standard
€ 3.192.414.770

Differenza in €
€ +592.531.858

Differenza %
+18,56 %

Livello quantitativo delle prestazioni globale
(3,20)
Livello su scala da 1 a 10

Livello quantitativo delle prestazioni per servizio

Tributi	(5,20)
Ufficio Tecnico	(3,20)
Anagrafe	(4,80)
Altri Servizi Generali	(3,60)
Polizia Locale	(5,60)
Istruzione	(6,40)
Viabilità	(4,60)
Trasporti	(4,00)
Territorio	(3,00)
Rifiuti	(3,20)
Sociale	(3,80)
Asili Nido	(6,80)

Comune di Pedesina

Popolazione al 31/12/2013
38

Spesa storica
€ 82.486

Fabbisogno Standard
€ 61.370

Differenza in €
€ +21.116

Differenza %
+34,41 %

Livello quantitativo delle prestazioni globale
(6,40)
Livello su scala da 1 a 10

Livello quantitativo delle prestazioni per servizio

Tributi	(9,20)
Ufficio Tecnico	(10,00)
Anagrafe	(2,20)
Altri Servizi Generali	(6,40)
Polizia Locale	N.D. - Spesa storica e livello dei servizi offerti non misurabile
Istruzione	N.D. - Livello dei servizi offerti non misurabile
Viabilità	(6,40)
Trasporti	N.D. - Spesa storica e livello dei servizi offerti non misurabile
Territorio	N.D. - Livello dei servizi offerti non misurabile
Rifiuti	(8,40)
Sociale	N.D. - Livello dei servizi offerti non misurabile
Asili Nido	N.D. - Spesa storica e livello dei servizi offerti non misurabile

Servizi non erogati dall'ente
Asili Nido

Servizi con spesa storica non misurabile
Polizia Locale, Trasporti

Spesa media per abitante

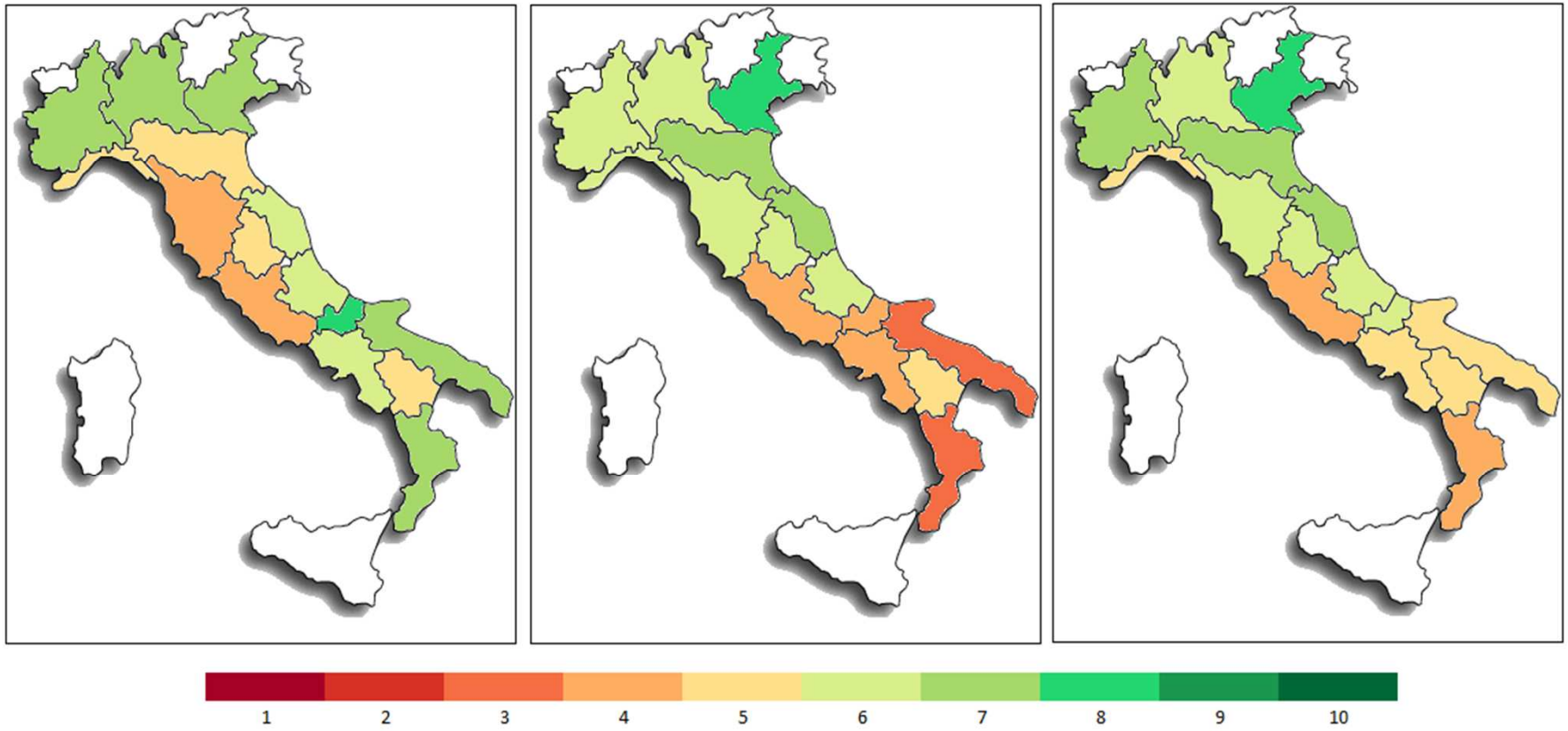
Spesa Storica vs Fabbisogno

Livello servizi vs livello servizi standard

REGIONAL AVERAGES

All municipal functions (2015)

Expenditure score | **Service score** | **QLS score**



CONCLUSIONS

THE ITALIAN EXPERIENCE

Italian Municipalities

Equalization system
(Corrective and compensatory mechanisms)

Structural imbalaces
(Assessment of the financial sustainability of local gov. reforms)

Italian Provinces

Standard expenditure
Fiscal capacity
Fiscal Gap

Standard costs and optimal level of services
(Monitoring and incentive mechanisms)

Evaluation of the infrastructural gap
(Planning of investment decisions)

Italian Regions

The fiscal gap analysis can also be a tool for the evaluation of the long run sustainability of the municipal financial structure in Lithuania

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