

## THE MEANING OF PERFORMANCE AND “SPACE” FOR LOCAL PUBLIC AUTHORITIES: THE ITALIAN EXPERIENCE

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During the last twenty years local public authorities (LPA) faced different kinds of reform. In particular, changes have regarded:

1. the political and institutional system, that is a new distribution of power and responsibilities within public institutions and also between these subjects and the other economic and social ones;
2. the LPA role regarding public services production and provision;
3. the adoption, at least at the formal level, of managerial approach and techniques aiming to increase the efficiency and effectiveness of LPA activities and therefore to improve the customer satisfaction.

The above mentioned set of reforms can't be considered separately. It is necessary to think about their reciprocal influence and also their combined effect on the concept of performance regarding the LPA activities. Nowadays, local public services are not only produced by LPA but also other subjects, related with the LPA, are involved in the production and provision process. Specifically, these interactions between LPA and the other actors are based on ownership and/or contractual relations.

According to this framework, the present paper will try to clarify:

1. the extension of the operating areas within which the LPA produce their results considering the various subjects involved in producing public services;
2. the different meanings of performance related to the LPA operating areas;
3. the possible techniques suitable to give account for the different performance related to the different operating areas.

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SUMMARY: 1. Introduction; 2. A Possible Interpretation; 2.1 Changes of institutional and political system; 2.2 Changes on the sphere of activity; 2.3 Internal managerial innovations; 3. “Performance” and “space” in the new public sector; 4. Consolidated and Social reporting: the Italian approach; 4.1. Consolidated Statement: The case of the Municipality of Pisa; 4.2. Social Reporting: Electoral Mandate Report in the Municipality of Copparo; 5. Concluding remarks.

## 1. Introduction

During the past few years Italian Local Governments’ (LGs) reporting faced a continuous and deep reform process not only concerning what to disclose but also how information is disseminated. LGs have been releasing a number of financial and not financial data according to the laws and regulations set out at the national level as well as part of their own autonomous initiatives. Owing to the wide proliferation of this trend, it would be interesting to understand and study its causes and effects should be studied and to this aim and for this reasons the following premises are worthy of consideration:

- a) we consider LGs as “communities of individuals who organise themselves to create value through goods and services necessary for meeting general public needs”<sup>1</sup>;
- b) Italian Constitution and the present juridical framework delegate to LGs several administrative functions along with an increasing degree of autonomy; the most important autonomy profile concerns local fiscal policy. LGs exist in order to respond to local community’ needs and they also carry out some central government activities which imply that part of their financial resources are transferred from Central Government<sup>2</sup>;
- c) LGs are composed of two sides: 1) the political one in which there are the members of the Council and of the Executive Board who exercise their political mandate and 2) the managerial side (in which there are included general manager, managers, and civil servants) responsible for the management of local resources. At times, the two sides do not naturally share the same attitudes in playing their different roles in the organization<sup>3</sup>. Such characteristic can have an impact on achieved results and reporting<sup>4</sup>;
- d) LGs are public organizations financially accountable to all members of the community living in a certain territory. Therefore, LGs are accountable not only to the local community as a whole, but also to each person and organization involved in such community. When individuals and groups show conflicting interests and needs, LGs have to meet all of them balancing between different expectations. Financial accountability is carried out mainly through public financial statements<sup>5</sup>. According to the law LGs are accountable to the community for their overall performance so the citizenry can exercise its own choices (political or otherwise). However, electoral laws and power delegation influences financial management and accountability issues within the public sector; managerial model and institutional structure cannot be considered reciprocally independent because management activities take place within the framework of the institutional structure;
- e) LGs are now managed by a ‘business-like’ approach due to the last 15 years reform processes involving all the public sector organizations<sup>6</sup>.

<sup>1</sup> CATTURI, 1996: p. 130. For further information on this theme see CATTURI, 2003.

<sup>2</sup> MUSSARI, 2002.

<sup>3</sup> See BORGONOV, 1984.

<sup>4</sup> MUSSARI, 1994.

<sup>5</sup> For further information on the role of accounting for accountability in public sector see CHAN, 2003.

<sup>6</sup> See HUGHES, 1998, LYNN, 1996.

Described characteristics have been deeply studied by a number of talented scholars, not only as Italian but also, in a comparative perspective, from other Countries<sup>7</sup>.

Describing the reform processes constitutes the main focus of such studies together with their peculiarities and influence on performance. Present work, instead, is aimed to understand the effects of reforms upon the meaning of performance and space for LGs.

Therefore, next paragraph will provide the theoretical framework in which we can categorize the reform processes in Italy. Paragraph 3 will point out the influence of such reforms on both performance and space. Paragraph 4 will present two case studies; the first one concerns the consolidated statement drafted by the Municipality of Pisa; the second one is the “mandate statement” produced by the Municipality of Copparo.

## **2. A POSSIBLE INTERPRETATION**

For the majority of countries, including Italy, the main reason for enacting the reform in public sector was the need to increase accountability on public resources management. According to the literature, two main factors have pushed towards changes.

On one hand, the need to contain public spending and the public debt, due to the Maastricht Treaty; on the other, the need to renegotiate the “social contract” between public administrations and citizens because of the imbalance in the cost-quality ratio of public services provided<sup>8</sup>.

Described “macro-phenomena” must be taken into account in order to interpret the effects of the institutional, social and cultural changes in LGs.

In real terms, the pace and speed of institutional change will depend significantly on the solid cultural foundations from which its principles derive. In fact, the more the culture and society of an area accept a production and provision model for local public services, the stronger the institutions and network will defend it. On the other hand, it will be very difficult to introduce significant change in a system based on strong intra-organizational cultural habits (conventions regulating relations between “groups” in the same organizations) and inter-organizational cultural habits (regulating relations between different organizations, or between public services producers and their clients).

Essentially, public services production process is the result of the combined norms, beliefs, interests and values developed over the time in a certain environment and because they are its integral part, they also give character to the institutional framework related to them. Finally, institutional frameworks can be more or less favourable to the reforms which are being currently proposed and enacted.

Therefore, it is not surprising that although many countries (including Italy) share the same principles and rhetoric when they face managerial reform in public sector, it is possible to observe more rapid and significant effects of these reforms in Anglo-Saxon countries (linguistically and culturally speaking) adhering to the principles of Common Law than in the Civil Law countries (although change does not always produce positive effects in regards to the overall effectiveness of the interventions that have been carried out)<sup>9</sup>.

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<sup>7</sup> PROELLER, 2006; KICKERT, 2005; WOLLMAN, 2004; LÜDER - JONES, 2003; POLLITT – BOUCKERT, 2000; HOOD, 1991, 1995a and 1995b; MUSSARI, 1997, 2005a and 2005b.

<sup>8</sup> POLLITT – BOUCKAERT, 2000.

<sup>9</sup> With regards to civil law (typical of Continental European states), we are referring to a system which gives the most importance to the norms set by legislators, while statements from jurisdictional organs are less significant. On the contrary, in common law systems (typically Anglo-Saxon), jurisprudence is more important than the law coming from legislative bodies. However, it can be said that these seemingly contraposition is, in practice, quickly disappearing.

In addition, Italian public sector organizations managerial and cultural tradition do not readily adapt to modern management systems; they strictly follow laws and regulations and are often marred by formalities. Reasons for such approach to management are manifold. Firstly, in the past, Italian universities did not offer to students public management courses lessening in this way the diffusion of managerial approach to public sector management. Secondly, Italy also lacks a tradition similar to the French *gran école* (like the *Ecole nationale d'administration*) essential for forming a bureaucratic state elite, and expert politicians; as a consequence, top level bureaucrats mainly have an educational background in law or social and political sciences lacking management knowledge. Finally, it is interesting to point out that private sector managers' employment in public sector organizations is still rather scarce in comparison to other Countries, such as the United States, where the exchange process is constant and does, however, not always automatically produce benefits. Therefore, managerial culture faced strong opposition in entering public sector organizations, and the cultural fertilization has been weakened by civil servant' resistance to change.

Furthermore public sector characteristics foster described behaviours by civil servants. First of all, the public service was traditionally conceived as a monopoly operating within the state domain offering free service delivery or uniform and contained tariffs; consequently, the relationship between public service providers and their customers was defined by the typical relation between "State" and citizens; therefore, the user was thought to be in a position of "submission" regarding to the Government that in exchange offered protection and favourable economic conditions as previously mentioned.

Moving from these premises, past and present LGs reform processes can be classified in three main categories<sup>10</sup>:

- a) changes of institutional and political system;
- b) changes of the sphere of activity;
- c) changes of approach to management<sup>11</sup>.

### *2.1 Changes of institutional and political system*

The first typology of reform concerns institutional and political system. Its main effect is to re-distribute administrative powers among public institutions through progressive decentralization of public duties, transferring part of them, traditionally central governmental ones to territorial governments (regional, provincial and municipal governments)<sup>12</sup>. The aim is to increase the level of legitimacy for local policy by giving more powers and responsibilities to those governments dealing directly with citizen-clients and their needs. As a consequence LGs have been granted autonomy and thus, held accountable for the results they achieve.

The attempt by national Legislators to foster stronger relationships between local communities, motivated by socio-political considerations rather than managerial ones, is far from complete despite the ratification of reforms to the Constitution in 2001. The way towards a federal system of government is marked out and seems to be an ongoing and irreversible process. This implies that LGs need to establish a continuous dialogue with their stakeholders (firms, families, other

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<sup>10</sup> MUSSARI, 2005b.

<sup>11</sup> Different classification of reform processes are proposed by CASSESE, 2002 and REBORA 1999.

<sup>12</sup> Such process is called Vertical Subsidiarity and it can be technically distinguished from the horizontal subsidiarity. The former refers to a redistribution of powers from upper to lower levels of governments; the latter concerns the distribution of administrative responsibilities among non profit organizations, quangos and so on. On the role of hybrid organizations in public sector see KICKERT, 2001.

organizations) in the socio-economic context they govern, and consequently, it is crucial for LG to understand economic, political and social signals and ideas from the local community, and then decipher, interpret and translate them into policies, programmes and concrete managerial activities. These interventions must produce results that have to be carefully measured, evaluated and communicated by LGs. Therefore, changes to the institutional structure and system call LGs for a conscious and autonomous exercising of their powers. In other words LGs need to recognize that they have the autonomy to choose policies and programmes and acquire and organise their human, financial and material resources in order to bring their objectives and projects to fruition.

Also procedures and sources for financial resources acquisition have been affected by substantial changes. Taxes levied directly on community increased in number and amount<sup>13</sup>.

Consequently LGs, after taking a significant portion of monetary resources from their own communities, use and give them back directly or indirectly to the community through policies and services with increasingly economic value. Such approach overcomes the old traditional funding procedures mainly consisting in resource transfers from the upper government levels to LGs, preventing them from being held accountable for their performance.

Moreover, it is also important to mention reform processes aimed to re-define LGs' Council and Executive Board competencies through the reduction of the number of its members. In 1993, Law n. 81 deeply modified the local electoral system, bringing about a majority system<sup>14</sup>. Since then, citizens chose directly both members of the Council and the Mayor. Legislator assigned wide administrative powers to the Mayor due to the new electoral system. Direct choice by citizens means that political objectives and related public policies are disclosed to the community and the elected politicians have to be held accountable to public scrutiny without any form of mediation. For these reasons, the head of the local government is responsible for appointing and removing:

a) the members of the executive board; b) the general manager or director<sup>15</sup>; c) the secretary<sup>16</sup>; d) LG representatives in agencies, companies and institutions<sup>17</sup>; e) the heads of offices and services; f) unit and project managers<sup>18</sup>.

The law provides counterbalances for the vast discretionary powers of the Mayor by qualifying him/her as the "responsible for administration" and setting out clearly the relationship of "mandate-power-responsibility" between the community and its "first citizen".

## 2.2 Changes of the sphere of activity

Public service provision is the second main reform area. During the last 20 years, privatisation, outsourcing, and other mechanisms aimed at increasing competition radically changed the way of provision of local public services to the citizens.

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<sup>13</sup> With regards to the level of financial autonomy and fiscal autonomy of Italian Municipalities, we present the data collected and here represented in the table below taken from the report published by the Corte dei Conti (Supreme Audit Court) regarding the financial management of Local Authorities in 2002 and 2003.

Year of Operation	Number of Governments	Financial Autonomy	Tributary Autonomy
%1998	11066242	1999	11696241
2000	10736543	2001	112556139
2002	13096848		

<sup>14</sup> See ROLLA, 2002 and VESPERINI, 1999.

<sup>15</sup> Law n. 267/2000 - Consolidated Act for Local Governments, (TUEL) art. 108.

<sup>16</sup> Law n. 267/2000 - Consolidated Act for Local Governments, (TUEL) art. 100.

<sup>17</sup> With regards to the appointment of representatives in agencies, companies and institutions, the will of the Council should be taken into consideration.

<sup>18</sup> Special managerial duties and those for external projects must follow Articles 109 and 110 TUEL as well as the norms and regulations set out by LGs.

A new spirit of competition is replacing the traditional monopolistic mentality and the provision of public services, once strictly within the government domain, has been partially transferred to private companies following competitive principles in order to gain efficiency.

Outsourcing processes needed a change in the traditional organisational structure of LGs<sup>19</sup>.

When LGs choose to outsource services, they need to change production processes. In the past service production was mainly carried out following vertical integration mechanisms and took place within the public organization boundaries<sup>20</sup>.

The reform process pushed toward the creation of autonomous organizations totally or partially owned by the Municipalities. During the last 5 years, Italian Legislators stimulated and obliged the adoption of the joint stock company as legal structure for companies producing certain local public services according to EU Directives.

Consequently, local public service sector is now constituted by a network of companies producing services for the community. But it is interesting to point out that not all the companies involved in the network are totally or even partially owned by the LGs and not all of them are for profit organizations. In number of cases, especially for social services, non profit organizations substitute LGs in services production and provision.

Therefore, final performance results and policy outcome stem out from concurrent activities which need to be coordinated and managed in a public governance perspective. As a consequence, LGs should build both capacity and skills necessary to coordinate not only their own activities but also other actors' ones (other public institutions, public and private companies, non-profit organisations) balancing the conflicting stakeholders' interests<sup>21</sup>.

From a theoretical perspective it is necessary to affirm that "publicness" of services is not related with the characteristics of the<sup>22</sup>. Consequently provision of public services by external entities cannot be considered a "real" privatisation because we are dealing with services which maintain their public nature (for the good of the public) even when they are provided by companies legally not coinciding with the LG.

The main effect of outsourcing concerns the subdivision of the overall responsibility related not only with the provision of local public services, but also with the fulfilment of public needs<sup>23</sup>.

The former can be ascribed to the service provider, leaving out of consideration its economic nature and ownership; the latter remains to the LGs.

In other words, LGs are left with the responsibility of defining and assessing the external provider' activity through coordinated policies and strategies; the provider must deliver the services in an efficient and effective manner<sup>24</sup>.

In terms of performance, the social and economic impact (outcome) fall within the responsibilities of LG even when local public services are provided by external companies; LGs are obliged to define policies (autonomously or in collaboration with other institutions- system policy) that absolve specific public responsibilities. Since LGs have these specific legal responsibilities, they are obliged to provide effective solutions and programmes to satisfy the general public needs; therefore, the production of services are understood to be technical and economic activities through which public policy is realised.

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<sup>19</sup> BARRETTA, 2001: pp. 327-329; DIPARTIMENTO DELLA FUNZIONE PUBBLICA, 2004; SAVAS, 2000; VELJANOVSKI, 1989, WALSH, 1995.

<sup>20</sup> For an historical survey of the different ways used to produce local public services, see MELE, 2003.

<sup>21</sup> See REICHARD, 2005.

<sup>22</sup> GROSSI – MUSSARI, 2004.

<sup>23</sup> GARLATTI, 1994.

<sup>24</sup> GROSSI – MUSSARI, 2004; MELE, 2003; ROBOTTI, 2002.

The new distribution of responsibility should be accompanied by mechanisms of assessment, monitoring and accountability different from the past traditional ones<sup>25</sup>. Responsibility for transferred production, stated in a contract regulating the relationships between LGs and service provider, must consider that service providers operate according with commercial law and their activities are not directly influenced by political factors<sup>26</sup>.

Therefore, the first level of assessment and responsibility concerns quantity, quality and cost of produced outputs evaluated according to quantitative (financial and not financial) and qualitative indicators. The second level is a long term one. LGs should apply strategic control assuming political responsibility for the capacity to coordinate the different actors providing local public services. Consequently, LG's performance is related to the impact of its socio-economic policies and programmes<sup>27</sup>.

It is quite common for small LGs to adopt cooperative strategies to manage important direct (i.e. municipal police) or indirect (accountancy and computer services) services. In particular, the TUEL legislation allows joint provisions of management control systems activities (Art. 147, subsection 4)<sup>28</sup>. Sometime, LGs operating in the same geographic area set up a financial entity or company with its own specific mandate statement in order to share intellectual, financial and material resources.

According to the law, many different forms of cooperation and collaboration among LGs and between LGs and other public sector organizations can be used; not all of them imply to constitute a new organization. Sometime they just mean a negotiated programming mechanism (the 'Area' Contracts, Territorial Pacts, Institutional Joint Programmes).

Thus, the reform process radically changed the role of LGs in the public service provision. It shifted from producer to regulator but very often without gaining new knowledge or improving internal competencies to manage the new responsibilities.

### *2.3 Internal managerial innovations*

The third area of reform concerns the LG operational models; in this case, reform objective is to identify technical and organisational solutions and operative and management methods (often adopted and adjusted from private sector) through which LGs may improve their performance<sup>29</sup>. Their goal is to increase the level of customer satisfaction.

According to the law, LGs tend to introduce managerial techniques, paying attention to management activities and the connection between goals and results using new technologies to improve efficiency and effectiveness<sup>30</sup>. Incentives in this direction were offered by the reforms of public personnel in the 90s rationalising LGs organisational structures<sup>31</sup>. Before such reform, some managerial and operational responsibilities were assigned to politicians and managers had no real managing power.

Indeed, top positions in the bureaucratic structure were politicians. Consequently, the intervention on behalf of elected officials in executive activities proved to be a sensitive issue because it was

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<sup>25</sup> Concerning the change of the concept of accountability through time see MULGAN – UHR, 2000; BEHN 1998 and 2001; PARKER – GOULD, 1999.

<sup>26</sup> The service contract regulates the relationship LG and the companies that have won bids for the provision of local public services. Particular attention is drawn to the service contract that determines the levels of services to be guaranteed and identifies the instruments to verify that those levels are achieved.

<sup>27</sup> JOYCE, 2000; BRYSON, 2004.

<sup>28</sup> BIANCO, 2002.

<sup>29</sup> MUSSARI, 1997.

<sup>30</sup> On e-government experience in Italian public sector see CAPOCCHI, 2003.

<sup>31</sup> Following the interantional trend, human resource management in the last years is progressively adopting knowledge management approaches. For further detail, see MARCON, 1997 and LODGE – HOOD, 2005.

believed that they infringed on the economic and financial functionality of LGs. Law n. 142/1990 and then other norms and regulations (Decree n. 29/1993, Decree n. 80/1998, TUEL, Law n. 165/2001) provided feasible solutions for the “conflicting” issue between “politics” and “management”, stimulating a profound process for reform aimed at neutralizing the negative effects mentioned above. The underlying principle is that “programming and controlling power are political bodies’ responsibility, while administrative, financial and technical management is assigned to managers who have discretionary powers in spending, in organising human resources and in applying managing control systems”<sup>32</sup>.

Management reform brought about the need for new structural management models. Legislator was careful in focusing on this fundamental aspect, defining the general director or general manager as a role aimed to balance activities of managers and as a “link” between politicians and managers. In other words, the role of general manager or director calls for him/her to represent an “interface” between policy level and administrative level and to coordinate the complexity of LGs activities, interventions, projects and programmes.

With reference to managerial responsibility, TUEL legislation (art. 107, subsection 6) specifies that “managers are directly and exclusively responsible for the integrity and efficiency of administrative operations and for results produced by their own activities”. Consequently managerial autonomy on available public resources is firmly linked to the responsibility of obtaining results deriving from their use.

Finally, the reform process contributed to modifying significantly the definitions for results, responsibilities and control not only in terms of relationship between LGs and local communities, but also between policy makers and LG managers. As a result, there have been deep innovations in organisational culture and assessment methodologies which have replaced a bureaucracy marred by formalities towards a business-like mentality.

Management techniques modernisation should include mechanisms which allow for the proper mix of resources and objectives aimed at satisfying the needs of the public at large efficiently and effectively. Internal control systems should permit managers to have at disposal, through diverse space and time contexts, the information necessary to implement efficiently and effectively the political program. Therefore, as part of their responsibilities, each LG is obliged to find the best solutions to technical issues and to assess its own results based on its own context.

Despite the best efforts of Legislators to express their intentions clearly and properly, no law can forcibly instil “economic” or “managerial” concepts and convictions in LGs. Such an ambitious goal is not feasible neither by imposing techniques and instruments in a top-down approach, nor replying mechanisms and tools already used and tested in other organisational contexts nor by skilled managers from the private sector. Innovative concepts take time to be accepted; reform processes monetary and social costs are high and difficult to sustain.

The uniform and harmonious achievement of desired results and also the assessment and evaluation of the reform impact is a very difficult task.

The three reform profiles (reforms to the institutional and political infrastructure, public intervention in the production of direct goods and services and the introduction of new concepts and management techniques) are all interconnected. Besides the uncertainties and contradictions which emerge from the overall picture described above and from the interventions which have been made (vertical subsidiarity aims at fostering a closer relationship between LGs and citizens, while horizontal subsidiarity put citizens at a distance with regards to local public services), it can be said that local empowerment brought about by institutional reforms, the streamlining of public

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<sup>32</sup> Subsections 1 e 2, art. 4, TUEL.

interventions and improvements to the conditions for LG management can be considered great steps towards innovation and that each of these activities needs the support of the others.

Finally, reform processes have a deep influence on reporting and accountability practices and they directly impact on resource management, achieved results and inevitably on assessment and reporting methods.

The role of accounting and reporting is now to allow citizens to ascertain and understand financial and not financial phenomena and reports or other media representations must foster an open debate within the community at large.

To summarise:

- a) LGs are accountable for their results first and foremost to the local community, that is, the collective subject who provide them the financial resources they use in the production processes;
- b) the major part of performance results do not come directly from LGs activities, but ensue from the LGs capacity to steer the complicated network of interdependent organizations that are responsible for a large portion of public services provision;
- c) it is useful to distinguish between one or more concepts of ‘result’; these concepts are defined according to the extension of the areas where those results are produced;
- d) there are a number of ways through which LGs can be held accountable for every result considered.

### **3. “Performance” and “space” in the public sector**

Previous considerations show the main changes on public sector occurred in the last fifteen years.

The described reform processes have produced effects both on the meaning of performance and on the concept of space within which results are obtained.

From the practical point of view, it is possible to point out at least three big changes:

- 1) the extension of areas where LG results are produced;
- 2) the different definitions of the term “result” or “performance” that are generally correlated to the areas identified;
- 3) more appropriate technical solutions for reporting those results.

In order to understand the expected changes, it would be useful to introduce some simplifications. First of all, it is important to stress that when dealing with the overall picture of the evolution of LGs reporting and accountability, the focus will be on the relations between LGs and their communities. Therefore, internal relationships of trust between the Major and the members of Executive Board and of the political majority in the Council, the General Director or Managers and the Secretary will not be taken into consideration; nor will the relationship between managers and the Director or managers and the members of Executive Board including managers and their staff, because they are traditionally placed within the competencies of management control and evaluations of the management staff.

Hence, there won't be included in our theoretical framework neither the economic relations between LGs and companies dealing with the local public group nor the relations between LGs and companies not included in the local public group providing local public services under contract.

It is clear that our goal is not to shed light on the hierarchical or economical relationships. We don't believe that LGs accountability towards the community is more significant from an organisational point of view than LGs accountability towards politicians and managers. Yet, the purposes we have

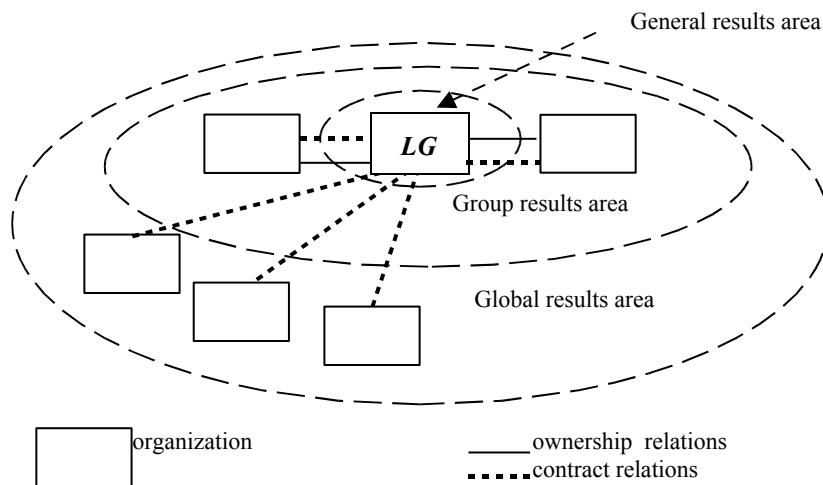
set for this study is to provide a detailed definition of the meaning of performance and space in the new environment designed by the reform processes.

Essentially, it can be said that the relationship between a LGs and service provider can be established by a contract relationship (service contract) and a financial and political control relationship since providers are part of the municipal group, or only by a contract relationship (service contract) since provider supplies local public services without being part of the Group.

Following the previous considerations we have identified three distinct areas where results are achieved by LGs; each area is defined by specific characteristics and each includes the previous one; (see fig. 1):

- a) the first area of services production does not take into account relationships of interdependency; indeed, it deals only with the LG in itself;
- b) the second area takes all the interdependent relationships of between the LG and the companies of its municipal group producing local public services; this area includes all the municipal group with the exception, however, of those companies also providing other kinds of services different from local public services (i.e. other commercial activities);
- c) the third area is much more extensive and includes the interdependent relationships of between LG and the companies with service contracts but not included in the municipal group.

Fig. 1 – Areas of performance



In the proposed theoretical framework LG should remain in the focus of attention. We are convinced that there is no ‘place’, within the socio-economic, pluralistic and democratic contexts of society, wherein it is more appropriate to try to balance often conflicting public interests than in LG. However, the extension of each area will depend upon the extension of the other areas as well; the more a LG outsources provision of local public services to third parties, the less its area of activity and conversely, the more extensive the activity of the other two areas (respectively the second or the third depending on the inclusion of the company in the municipal group). Each of these different areas is associated to a different idea of how results should be defined, how they should be technically measured, and how they should be reported. It is necessary, indeed, to distinguish between, general results achieved by LGs (general results), results attained by municipal group (group results) and results achieved by all the producers of local public services (global results).

Different areas require different performance measurements and consequently different ways to communicate them<sup>33</sup>.

In Italy such difference implies also a different regulation concerning documents compulsoriness and contents.

The term “general results” refers to the economic activity of a LG. Primarily, it deals with the results stemming from the economic and financial relations that annually LG has with other organizations in the same economic scenario.

According to the Law, general results are disclosed in the annual Report, composed of the following documents:

- 1) a Budgetary Statement aimed to control the degree of accomplishment of the forecasts contained in the annual budget.
- 2) a Balance Sheet gathering assets and liabilities, as well as the net equity;
- 3) an Income Statement demonstrating the positive and negative economic reason for an economic surplus or for a loss<sup>34</sup>.

To obtain the information for the documents listed above LGs use both budgetary accounting (obligation basis) and financial accounting (accrual basis).

The accounting data from the annual accounts is enriched by financial ratios and performance (quality, efficiency, effectiveness) indicators.

The group results are determined by the LGs and their companies<sup>35</sup>. In this case we are dealing with the results that have been achieved through the economic processes carried out by LGs in addition to those carried out by the companies subjected to the financial control of the LGs<sup>36</sup>. The technical methodology used to calculate group results consists of the consolidated accounts that include both the consolidated Balance Sheet and the consolidated Income Statement<sup>37</sup>.

At the moment, consolidated financial statement is not a very common tool used by Italian LGs but it should be a useful instrument for those LGs that deal with a large number of owned companies because it allows a clear picture of the current economic status and functioning of the local public group. Such information is not ascertainable just by reading and analysing the single annual accounts published by the each company. However, this does not mean that the accounting documents drafted by LGs or the companies part of the municipal group (that have their own objectives in terms of information and data) are any less important. On the contrary, every company’s own documents are complimentary to the consolidated financial statement. The methodology used to gather information for the consolidated financial statement is still accrual accounting and thus, it must be implemented in a uniform way in all the companies part of the municipal group as well as in the LG.

“Global results” cover all the relations between LGs and the companies dealing with them and the local group, namely all other companies which, according to the law, do not fall under LGs control but are granted local public service contracts.

The term “global results” refers mainly to the overall effectiveness of public policy that once put in place and carried out involves different economic actors. These actors have competencies and responsibilities which are distinct but at the same time, integrated, aimed at the achievement of social objectives of LG policies.

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<sup>33</sup> BEHN, 2003.

<sup>34</sup> For details see MUSSARI, 2002.

<sup>35</sup> See GROSSI, 2001.

<sup>36</sup>

<sup>37</sup> For details see GROSSI, 2004.

LGs can use a number of documents, different in shape and content, on the basis of which global results can be illustrated: electoral mandate report, social report, environmental report, ethical report, gender report among others. The variety suggests that a wide range of documents is used. None of them is compulsory or imposed by the Law. Each of them gives an account of performance results in specific fields in terms of public policy (environmental and social report, gender report, etc.) or with a particular temporal wideness linked with political terms (electoral mandate report). Unfortunately, in the real practice we do not always find a clear link between specific policies and corresponding reports.

The awareness of significance and importance of overall global results has not been considered enough yet and thus efforts at providing a tenable evaluation of the impact of public policy promoted by LGs is still lacking. Furthermore, such shortcomings could be caused by certain management practices looking towards short-term results achievement and therefore not taking into consideration strategies and policy recommendations presented as medium to long-term projects necessitating instead well defined policies including the management of material, financial and intellectual resources that only a LG can activate.

The methodologies used for an account of global results do not fall strictly within the domain of accounting, as in the case of quantitative assessments (experimental, quasi experimental and non experimental methodologies etc.) and qualitative assessments (observation mechanisms, interviews, semeiotic analysis, etc.). The analysis for assessing the impact of policy requires a time because the effects of government policies (both positive and negative) take long time to show themselves often coinciding with the mandate period of the running government.

#### **4. Consolidated and Social reporting: the italian approach**

According to framework described in the previous paragraphs, the need to disclose more information regarding performance, especially related to organizations included in the Municipal Group or connected by contract implies the necessity/opportunity for LGs to draft consolidated and social Reports.

Following case studies we would try to emphasise what kind of information are included in such documents and what purposes incentive their drafting. It is necessary to repeat that they are not imposed by the law; therefore, all LGs using them have to bare the related costs.

Pisa case study has been chosen not only because it is one of the first experience of consolidated statement among italian LGs, but it also constitutes a best practice in Italy.

Similarly, Municipality of Copparo drafted one of the first example of social reports in 1998 but it is still working in its continuous improvement<sup>38</sup>.

##### *4.1. Consolidated Statement: The case of the Municipality of Pisa*

Municipality of Pisa is situated in Tuscany. Around 90.000 inhabitants live in its territory. In terms of population it is the 4<sup>th</sup> biggest Municipality in Tuscany.

In 2005, in order to have a better control of its shareholdings in companies producing local public services, the drafting of a consolidated statement has been decided and funded<sup>39</sup>.

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<sup>38</sup> Described Electoral Mandate Statement can be downloaded at the web address: [http://www.copparo.net/bil\\_mand/bilanciomandato.pdf](http://www.copparo.net/bil_mand/bilanciomandato.pdf)

<sup>39</sup> The consolidated statement is referred to 2004 financial statements.

Such activity became a task carried out by a special Office in the General Directorate whose traditional assignment is to manage and control LG's owned companies helping elected politicians to steer and assess their performances.

Municipality's shareholdings portfolio is composed by several companies, mainly joint stock companies working in the local public services field. In addition, there were also a few limited companies and one cooperative society, carrying out research activity in technological innovation<sup>40</sup>. Consolidated statement covers the area of Municipal Group within which 20 companies have been inserted.

The document has been drafted according with IPSAS n. 6. Such choice is justified by the fact that there are not Italian public sector accounting standards and therefore it has been necessary to adopt international standards.

According to the methodology used to prepare the statement, only companies with certain characteristics have been included<sup>41</sup>.

Firstly, only companies with relevant dimensions. Therefore, smaller companies' financial statements are not considered for inclusion in the consolidated one. The aim of such choice is to reduce drafting process complexity without deeply affecting final results reliability.

The second feature regards the relevance in quantitative terms of the Municipality economic investment in the company and the existence of the control requisite.

Thirdly, companies are included in the statement also when the Municipality holds the majority of the shares or more than 20% of the vote rights. The last requisite regards the importance of the activities carried out to satisfy population needs in Pisa. The last criteria is not related with quantitative variables but with a consideration of the sensitivity of the activities provided to population.

In 2005 Municipality of Pisa drafted its first consolidated statement according to the mentioned methodology.

The aim of such voluntary activity was to try to have a clear picture of the Municipal Group financial performance. In this sense consolidated statement, despite its technical shortcomings<sup>42</sup>, can provide the needed information to the LGs managers because it include the most part of the companies owned by the LG.

#### *4.2 Social Reporting: Electoral Mandate Report in the Municipality of Copparo*

Copparo is a small Municipality situated in the Province of Ferrara with less than 20.000 inhabitants. The analysed report covers the period from 1999 to 2004 and it is aimed to demonstrate consistency between results and policies proposed in the electoral programme.

Its structure is made up by six sections explaining the main characteristics of the Municipality, its mission, internal governance and assessment of objectives fulfilment. Considering our scientific purpose, it is interesting to note that the document shows many different activities carried out through strong collaboration with other partners, namely other government levels (region, province, central government)<sup>43</sup>.

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<sup>40</sup> For further detail see [http://www.comune.pisa.it/aziende-esternalizzazioni/doc/situaz\\_societa.pdf](http://www.comune.pisa.it/aziende-esternalizzazioni/doc/situaz_societa.pdf)

<sup>41</sup> See <http://www.comune.pisa.it/aziende-esternalizzazioni/pdf/Proget2003coordbilancio.pdf>

<sup>42</sup> Technical shortcomings are manifold. Firstly, the fact that companies accounting regulation is different from LG's one. Joint stock company's accounting system is reregulated by the commercial code, while other public organization's rely on Ministry of Treasure codes, and LGs are subjected to TUEL. Therefore, LGs accounting system uses obligation basis, while companies normally adopt accrual accounting., making consolidation process rather difficult. The second fault concerns the fact that in a Municipal Group companies carry out really different activities and their core businesses can be also very dissimilar. As a consequence, in public sector consolidated results have less informative potentialities compared to the same documents in homogeneous private groups.

<sup>43</sup> In order to improve territorial mobility, for example, the Municipality in 1999 suggested to build a roundabout and to develop the railways to reduce traffic on the roads. The investment and the design of the new infrastructures have been realised together with the European Union (for the funding) and with the Region and the Ministry of Transportation. (Bilancio di Mandato 1999 – 2004, Comune di Copparo, pag. 42).

Moreover, several objectives, especially regarding social service have been accomplished together with non profit organizations, or other small Municipalities nearby<sup>44</sup>.

As a consequence, the Electoral Mandate Report constitutes the only complete source of information concerning all the activities carried out by the Municipality alone and under its coordination by the different actors working in the economic context.

The delicacy of the report is shown by the fact that not all the objectives scheduled in the Electoral Programme have been accomplished. Therefore the need to point out responsibilities and to apply sanctions should raise.

The document is bounded to the identification of missed objectives and to the proposition of new deadlines for their fulfilment but no individual responsibilities are mentioned.

Moreover not all objectives are expressed in terms of outcome but rather they are more often represented as a list of activities and actions to carry out. In that sense part of the informative potentialities are missed, but it is still possible to understand if results are satisfactory compared with promises.

The document is not externally audited although there is a sort of technical judgement concerning the consistency between results and electoral promises written by an expert; therefore, reliability of data is not warranted.

Finally, although its shortcomings mainly caused by the process of its editing and the limited reliability of data included, Electoral Mandate Report can be an useful tool to cover the widest area designed in the theoretical framework. Being its content not only quantitative and referred to accounting data, it could show manifold dimension of performance together with the contribution of the other actors intervened in the policy implementation.

## **5. Concluding remarks**

The meaning of space as defined in the theoretical framework can be useful to understand present economic environment in local public services provision in Italy.

In particular, it not only shows that recent reforms are progressively widening the area within which public services are provided but it also let understand that LGs' role tend to increase in complexity. Outsourcing means for LGs to remain responsible for public needs' fulfilment and therefore to be held accountable for other actors performance. In that sense, reality is becoming consistent with the theoretical approach to accountability proposed by Stewart in 1984. For public sector organizations and LGs in particular, accountability profiles are shifting from probity and legality levels to policy level, becoming more difficult to disclose in quantitative terms in written documents<sup>45</sup>.

Moreover, it is possibile to note that splitting responsibility for service provision and for needs fulfilment makes even more difficult to assess individual performance, because overall results stem from collaborative efforts and contributions. Such feature clashes with the strong need for clearer distribution of responsibility in managerial approaches and requires a great caution in personnel evaluation.

The described framework makes also evident that LGs still need to be evaluated by looking at the management of financial resources at their disposal.

Although this kind of analysis of accountability alone is too limited, it is still unavoidable and necessary; in other words, the increasing attention for social and environmental performance should not decrease attention to traditional control procedures.

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<sup>44</sup> In order to provide better social services to community, the Municipality prepared 4 Local Plans (according with the Law n. 328/2001) jointly with the non profit organizations involved in the service provision and with the receiver of the services themselves.

<sup>45</sup> STEWART, 1984.

Indeed LGs and the top political positions are called upon to integrate their professional, financial and technological energies for the proper functioning of LGs, the local public group and other economic partners to guarantee, within the pre-requisites of the budget, an adequate and appropriate social and economic development of the territory under their governance.

Consequently, an accurate definition of policies and strategies are necessary in order to guide LGs, the local public group and all the other companies producing and providing public services to the community. These directives are more and more necessary since there has been a increase of inter organisational relations creating a network connecting companies and LGs despite the existence of a participation. We are dealing with a task that requires knowledge that the traditional political class and top level civil servants could not have. Hence, with a lack of clearly defined and verifiable direction and strategy, players are likely to act disharmoniously and conflicts surely arise.

Necessity to coordinate and cooperate is even more relevant considering that LGs areas are overlapped, especially when many small LGs jointly run a company to produce local public services or in the cases in which a private company provides them for many small LGs close sited.

Analysis of the two cases shows interesting profiles. First of all, the idea that the larger the area is the more complex the drafting and the less the accounting data are<sup>46</sup>. This means that reports could show political distortions. Main characteristic of accounting data is that they often are externally audited in order to warrant reliability of information disclosed. When documents presents many qualitative and not audited data there is a strong risk that information provided have been biased by political influences.

At the same time such reports should contain useful information not only for internal managerial reasons but also for citizens to clearly judge the quality of achieved results.

Moreover, the same documents should allow comparisons and benchmarking between different companies. In this sense, voluntariness of their drafting represents a limit, but still LGs really interested in disclosing consolidated and social performance to fully exploit their peculiarities can produce them.

Present analysis allows also to forecast some presumable trends in this field. Given the direction undertaken by European legislator in regulating the sector, outsourcing and externalization will likely increase together with the public services provision by private joint stock companies or PPPs (Public and Private Partnerships)<sup>47</sup>.

Therefore the third described area would probably further expand, making even more important to regulate information disclosures and their characteristics.

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<sup>46</sup> In this sense, consolidated statement is in countertendency.

<sup>47</sup> On PPPs see SAVAS, 2000.

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