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# A system-wide analysis of local government finance in Italy

LOCAL DEMOCRACY RESEARCH CENTRE

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## Foreword

Over the last ten years, the evidence that there has been a major sustained failure to properly fund local services in England has become undeniable.

In that time we have been asking council leaders, chief executives, cabinet members for finance and section 151 officers their opinions on how local services are financed in England. We know from our survey this year that only 14% of senior council figures are confident in the sustainability of council finances. We know that around 8% say pressures on their finances could leave them unable to fulfil their statutory duties – meaning they will be incapable of providing the essential services relied on by local people across the country. We know they are doing everything in their power to make ends meet – raising taxes, cutting services, spending their finite reserves.

The next question is: how could local government finance be different?

This is the third in a series of reports on systems of local government finance around the world, carried out for the Local Democracy Research Centre by experts at the University of Northumbria. The international comparisons the team are drawing will help us to take the next vital step in examining how the local government finance system could be radically improved. By building our understanding of the different ways local services are funded in different places – especially outside of the English-speaking world – we can identify the most effective ways to ensure local governments work for their citizens.

This report is a fascinating assessment of local government finance in Italy. It covers the historical, legal and constitutional context, as well as some of the politics and peculiarities of the system. There are already very useful and illuminating lessons to draw for local government elsewhere. Over the next few months we will release further reports looking at Japan, Scotland, Ireland, France and Spain. These will reveal more lessons and insight that will be of real interest to anyone looking for ideas and inspiration faced with seemingly intractable problems of building a funding system that enables local autonomy.

**Jonathan Carr-West**
**Chief Executive, LGIU**

# 1. Research overview

There has been continual discussion about how the financing of local government works. Particular attention has been devoted to options for fiscal devolution; funding shortages, originating in the UK Government's 'austerity' policy of the early 2010s; and controversies over large-scale borrowing, resulting in a small number of English local authorities experiencing severe financial difficulties. Analysis of these situations typically focus on a single element of the finance system, rather than a wider connected system approach to local government finance. For example, considerations of the local authority take place without consideration of its relationship with central government, or local government autonomy without consideration of equalisation between location. The aim of this research is to counter this situation by placing local government finance in a wider complex system perspective that includes the functions of local authorities; capital finance and its regulation; audit and budgeting practice; funding redistribution and socio-economic variations; and the often-uneven culture of central-local relations.

This *system* is made up of multiple agents: for example, local government officers, civil servants, politicians, thinktanks, audit authorities, lenders and financiers who all have their own objectives and decision-making frameworks. All of these elements interact with each over time to form a whole that is more than sum of its individual agent objectives. It is this complex system of actors, regulations and institutions that enables and constrains local government finance. Calls for additional funding or tax-raising powers, and more recent unorthodox borrowing practices, often emerge from, and are constrained by, this broader and connected context. However, the relationships between the different elements of the system are often disregarded, resulting in a partial understanding or misrepresentation of the local government finance challenge. This research maintains it is not possible to comprehend local government by focusing on one component, authority, or agent. A holistic approach is necessary.

Many of these individual aspects of the *system* are characterised by relatively minor procedural reforms that in turn impact and restrict other elements of the system, often disproportionately. It therefore follows that more considerable changes to individual features in that system – such as a new tax-raising power or a changed approach to redistribution – could have considerable knock-on effects elsewhere within the system. Witness the pains in 2013 when 50% Business Rate Retention was introduced in parallel with unreconciled Business Rate revaluations. Understanding local government finance as a *system* implies that significant changes, such as new taxation powers or a new redistribution formula, would be implemented and potentially restrained within that system, not in isolation. This also implies that the local government finance system consists not only of legal and bureaucratic authority, but also of embedded practices and cultural assumptions that influence how any substantial change is absorbed and managed. Therefore, the contention in this research is that the local government finance discussion, and indeed all of the agents involved in this complex arrangement – all of whom have a stake in resilient local government finance – would benefit from a whole system perspective.

## 1.1 The research project

In order to reflect upon this situation in England, this project aims to provide a more in-depth understanding of the systems of local government finance in three countries: Germany, Italy and Japan. These countries have been selected for two reasons. First, all feature local authorities with broad responsibilities, a wide range of revenue-raising

powers, and an established role within the territorial governance of the state. Elements of practice within those countries are frequently presented as options for change in the English context. Second, these countries are all non-Anglophone. Local government and local government finance systems in Anglophone countries have a common ancestor in English practice and share many historical similarities. These include local revenue consisting primarily of property taxes; a lack of constitutional protection; limited functions; and more restrained legal or financial supervision by central officials. Non-Anglophone systems often feature different characteristics, but these too will be held together by embedded practices and assumptions. Ideas for reform that originate from these systems will benefit from a contextual understanding of how they operate in practice.

It is hoped that examining the operation of these alternative systems will provide new contextual information for future proposals to reform the local government finance system in England. Examples of isolated practices that can be seen in each of the case studies have been featured at points in the English debate; for instance, tax powers and shared revenues in Japan (Kimura, 2015; Bessho, 2016; Breach, 2019), and redistribution in Germany (Werner, 2018; Thöne & Bullerjahn, 2020). However, we are not aware of any analysis (in English) of these systems as systems. Without such understanding, it is not easy to comprehend the role and significance of individual elements of these systems, how they interact and, in turn, how they could inform new practices in England.

Previous examinations of international local government finance have typically drawn-out features that are exotic by Anglophone standards. That approach provides little sense of how those features operate in the originating national context and financial system, nor how they can be compared to the local government finance system in England. This project is the first known recursive application of such research to the system in England, to inform potential reform. The system focus will provide new understanding for practitioners, policy makers and academics engaged with the financing of local services and those seeking a broader understanding of sub-national governance systems and their relationship with the state and politics. The intention is that the insights in the research can be taken forward by local government practitioners and policy makers to help to articulate how new approaches to local government finances could be implemented effectively in England. In turn, the same insights have relevance for the international research locations, which may not have adopted a system-wide perspective before, and indeed any international location that is struggling to finance the increasing demand on local services.

This project examined the following features in each country:

- The structure of sub-national governance.
- Local authority functions.
- Local authority expenditure.
- Legal requirements regarding financial management.
- Sources and quantum of revenue, including central transfer grants.
- Powers concerning capital finance.
- Systems of equalising funding between territories.

## 2. Methodology

In order to examine this situation, a mixed research methodology has been developed and utilised within a cross-disciplinary perspective, blending insights from policy, territorial governance, finance, and real estate studies. Taken together, the empirical and secondary information products lay the foundation for creating a total system perspective of each location that is rarely seen in international literature.

The foundation of the empirical research is a multi-phase interview process. Respondents were identified in each study location (England, Germany, Italy, and Japan) based on their expert knowledge (derived from experience in various tiers of government, oversight organisations and academia) of the respective local government finance systems. Identifying respondents in each location was not straightforward due to the relative dearth of stakeholders with system-wide knowledge and the generally hidden nature of the sector. In order to overcome this issue, the research made use of knowledge brokers including the Local Government Information Unit, the Japan Local Government Centre in London and the Chartered Institute of Public Finance and Accountancy.

The interview process:

- Initial scoping interviews to provide context for the research and direction towards relevant resources and information on practice within the local government finance system in England.
- Subsequent scoping interviews with local government finance experts in the study locations to provide context and direction to relevant information sources.
- The research team then returned to the respondents in the respective study locations with findings, to cross-reference and sense-check the evidence leading to a valuable process of draft refinement and gap analysis.

Alongside interaction with the stakeholders in each location, the research examined information from secondary academic literature, government documentation and legislation regarding the legal structures and institutions underlying local government finance systems in Germany, Italy, and Japan. Concurrently, data was sourced from government ministries and allied organisations to reflect the quantity and proportion of income sources in each location and to provide an opportunity for comparison. Reflective of the fragmented situation in England, obtaining detailed and accurate information on the operation of local government finance systems was complicated, with sources sometimes providing contradictory information. In such cases, the panel members were used as a validating mechanism for stress testing the information sources. The conceptual structure that features in each report was developed via a two-phase process. First, existing local government finance typologies were examined to determine the key issues and mechanisms that form the local government finance system, for example the OECD Making Decentralisation Work Handbook for Policy Makers (2019). This was then updated and validated with the respective panel of experts to form the interrogative structure of the reports.

## 3. Outputs

This report provides the second international analysis in this series of papers, a system wide analysis of the Italian local government finance system. Originality is found in the international scale of enquiry and its comparison with England – this is the first known

enquiry into Italy, as it relates to the functioning of the local government finance system in England. This is significant because Italy is increasingly held up as a recent exemplar of local government financial autonomy and local government financial resilience. Italy therefore offers a rich comparative resource for similar considerations in England. In contrast to federal democracies like Germany, Italy's journey is relatively recent (starting constitutionally in the early 2000's) and therefore offers insight for those considering how local financial autonomy, and greater financial resilience, might be brought about in England.

## 4. Political context

In recent years, the Italian local government finance system has had the following challenges:

- In Italy, the path towards local fiscal autonomy has not been linear, continuous or without contention. Under the provision of *autonomia differenziata* set out in the amended 2001 Italian Constitution, wealthy north-eastern regions presented a plan for additional devolution and financial autonomy. This brings into question the territorial system of equalisation in Italy because there is an implicit assumption that wealthy locations will retain more of their locally sourced income.

- A long-planned dissolution of the Italian Provinces, as part of an effort towards rationalising frameworks of fiscal federalism, was defeated in a national referendum and declared unconstitutional.

- While fiscal equalisation processes exist, Italy's regional structure displays long standing structural inequality, particularly between the North-East and Southern regions. In the Bolzano-Bozen region, GDP per capita was 2.7 times higher than Calabria in 2020.

- Consequently, there are significant imbalances in financial resilience and fiscal capacity between regions and their respective municipalities. This is related to the relative buoyancy of the local economy and property markets – the main source of municipality revenue. The result is that municipalities with less resource are increasingly reliant on shared tax and intergovernmental transfers to deliver local services and responsibilities.

- Italian local government has been reducing its debt burden and improving its financial position following European Union directives, constitutional changes in relation to appropriate debt, balanced budgets and equilibrium between revenue and expenditure.

- To some extent, this has slowed the process towards fiscal federalism and local autonomy as the overall government system has concentrated on balance sheet harmonisation.

- While there is a general constitutional move towards local financial autonomy and self-reliance, Covid-19 caused a severe reduction in local tax revenue and resulted in significant compensatory central government transfers.

# 5. Italian subnational governance structure

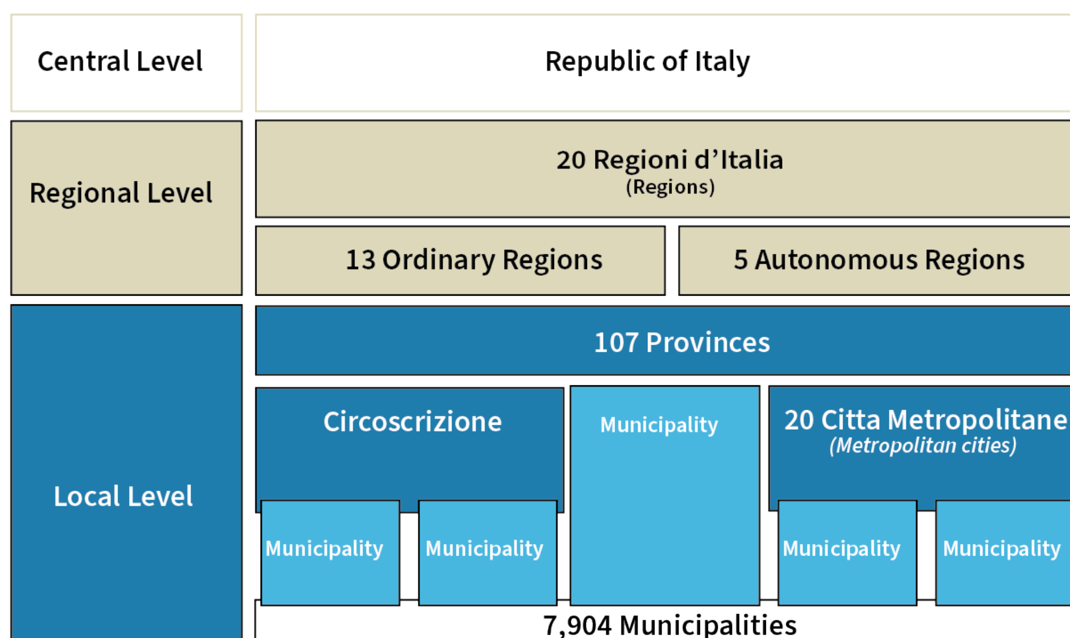
Italy is a parliamentary republic which recognises autonomy in its constitution. Articles 114 to 133 of the Italian Constitution lay out the basis for sub-national governance set within four layers of government administration:

1. Regions
2. Provinces
3. Metropolitan cities
4. Municipalities

According to the OECD Observatory on Sub-National Governance and Investment (2022), the movement towards decentralisation started in the early 1990s with law 142/1990 (the Regulation of Local Autonomies) and then the 1997 Bassanini reform, which laid the foundations for principles of subsidiarity and administrative autonomy – law 59/1997 granted administrative power to the respective regions. Legislative decree 267/2000 enshrined the unified laws on local authorities (*Testo Unico*). Local autonomy, the application of subsidiarity and the principle of proportionate financing were then integrated into the reformed constitution of 2001 – regions, provinces and municipalities were given the same status as central government. Article 119 recognised the financial autonomy of regions, provinces and municipalities and Article 120 states that central government must provide proportionate finance to deliver devolved functions.

While this reform laid the groundwork for fiscal autonomy, progress has been relatively slow. In response, the Framework Law of 2009 (Law 42/2009) further catalysed progress (recognising Italy as a regionalised country), empowering the Italian government to enact more complete fiscal autonomy (OECD, 2020). In practice, the framework for fiscal autonomy in Italy is based upon an interrelated combination of constitutional principles, legislation, and intergovernmental agreements. Intergovernmental agreements play a major role in moulding fiscal autonomy in Italy – in particular they help define the practical distribution of financial resource, revenue sharing models, and responsibilities (see Section 7 for more detail in relation to the mediating role of conferences, associations and prefects). The structure of local government in Italy follows below in Figure 1.

**Figure 1: Sub-National Structure in Italy**




Regions have a *regional* council (*Consiglio regionale*) and a regional president (Presidents) elected on a five-year term basis. The characteristics of the respective regions is not uniform. Fifteen regions have ordinary status (*regioni a statuto ordinario*) and five have special status (*regioni a statuto*) – specifically Sicily, Sardinia, Trentino-Alto Adige, Friuli-Venezia Giulia and Valle d'Aosta. These five regions have more legislative power and financial autonomy due to their socio-cultural and geographical characteristics. The Trentino-Alto Adige region is then sub-divided further into special status autonomous provinces (Bolzano and Trento) which hold the same powers as regions.

In 2009, Rome was given enhanced legal status via Article 24 of Law 42/2009 (*Rome capitale*) which gave the capital more competencies than a standard city, more fiscal and budgetary power, and additional organisational autonomy. However, the establishment of metropolitan cities (originally enacted in Law 142/1990) has been slow. Law 56/2014 (the Delrio Act) established the legal structure for autonomous governance in the 10 metropolitan cities (*citta metropolitana*) – Bari, Bologna, Florence, Genoa, Milan, Naples, Reggio Calabria, Rome, Turin, and Venice and four additional cities in the special regions (Catania, Messina, Palermo, and Cagliari). In contrast, provinces have faced an uncertain future in recent decades. Law 56/2014 of the territorial reform laid the groundwork for abolishing the intermediate role of the 107 provinces – traditionally held between region and municipality . The reform proposed that provinces become municipal cooperation bodies (*Ente Territoriali di Area Vasta*). However, this law was opposed by the provinces, a referendum voted against dissolution, and the policy was considered non-constitutional by the Constitutional Courts[1]. The consequence is a mixed situation of provinces and metropolitan cities, where the successful development of the latter has been caught up in the complicated argument over the legitimacy of the former (Crivello & Staricco, 2017).

1 Historically, the Mayor and Councillors of provinces have been elected. The intention in the 2014 act was to remove this process and hand it to existing elected officials at other tiers of government. However, elections are still in place today due to the referendum ruling. Nevertheless, the mandate, and the financing of provinces remains uncertain due to the 'open' and unresolved debate into the nature of provinces.

In early 2023, the Italian government presented a draft law to facilitate the *autonomia differenziata* – a plan for additional devolution presented by the wealthy northern regions of Emilia-Romagna, Lombardia, and Veneto (Branz, 2023). Under powers in the 2001 amended constitution (under Article 116), in 2018 these northern regions requested extra responsibilities and financial autonomy. This differentiated autonomy has the potential to compromise the system of equalisation, equity and balanced budgets in Italian local government finance, where the wealthier northern regions traditionally subsidise less buoyant regions in the south (Suwalski & Branz, 2019). This is because northern regions and municipalities exhibit a high share of locally sourced revenues, southern territories are still reliant on transfers (Ambrosanio et al, 2016). Six further regions have also signed pre-agreements (Piedmont, Liguria, Tuscany, Umbria, Marche, and Campania).

Municipalities are governed by municipal councils (*Consiglio*) and mayors (*Sindaco*) elected for five-year terms. Law 142/1990 imposed a minimum size for a new municipality, and this has led to stability in the overall number – as the existing number of municipalities makes it difficult to justify the creation of new municipal entities. However, the population of municipalities vary widely. According to OECD (2022), the average municipal size is 7,500 inhabitants, while the median size is 2,410 inhabitants. The territorial reform act actively encourages mergers of smaller entities through central and regional incentives. Through financial incentives, Law 142/1990 and Law 56/2014 actively promote inter-municipal cooperation through the development of municipal unions (*Unione dei comuni*) and mountain communities – municipal cooperation is compulsory for those locations with less than 5000 inhabitants (there were 562 unions in 2021).

## 6. Responsibilities (shared and exclusive)

In Italy, responsibilities can be considered across central, regional, and local government. The constitution serves as the basis for the legal system and largely outlines the powers and responsibilities for the respective levels of government. Central government is responsible for foreign policy, defence and social protection, electoral legislation and overseeing the legal basis for regional and local government. Regions are responsible for healthcare, transport, infrastructure, social services, schools, housing, economic development, and environmental protection.

Regions may also defer competencies to municipalities through regional legislation – however, municipalities are not governed by regional legislation apart from in the five special status regions. Broadly speaking, municipalities and municipal associations have responsibility for public services, town planning, environment, the local road network, culture and parks and social welfare. The specific division of responsibilities is presented below.

At the state level: Article 117 of the Italian constitution states that it has exclusive legislative powers in the following matters:

a. Foreign policy and international relations of the State; relations between the State and the European Union; right of asylum and legal status of non-EU citizens.

b. Immigration.

c. Relations between the Republic and religious denominations.

d. Defence and armed forces; state security; armaments, ammunition, and explosives.

e. The currency, savings protection, and financial markets; competition protection; foreign exchange system; state taxation and accounting systems and equalisation of financial resources.

f. State bodies and relevant electoral laws; state referenda; elections to the European Parliament.

g. Legal and administrative organisation of the State and national public agencies.

h. Public order and security, except for local administrative police.

i. Citizenship, civil status and register offices.

j. Jurisdiction and procedural law; civil and criminal law; administrative judicial system.

k. Determination of the basic level of benefits relating to civil and social entitlements to be guaranteed throughout the national territory.

l. General provisions on education.

m. Social security.

n. Electoral legislation, governing bodies and fundamental functions of the Municipalities, Provinces, and Metropolitan Cities.

o. Customs, protection of national borders and international prophylaxis.

p. Weights and measures; standard time; statistical and computerised coordination of data of state, regional and local administrations; works of the intellect.

q. Protection of the environment, the ecosystem and cultural heritage.

At the regional level (*Regioni*): Article 117 of the Italian constitution states, “the Regions have legislative powers in all subject matters that are not expressly covered by State legislation”. Article 117 of the Italian constitution also outlines areas of concurrent legislation:

a. International and EU relations of the Regions.

b. Foreign trade.

c. Job protection and safety.

d. Education, subject to the autonomy of educational institutions and with the exception of vocational education and training.

e. Professional learning.

f. Scientific and technological research and innovation support for productive sectors.

g. Health protection.

h. Nutrition.

i. Sports.

j. Disaster relief.

k. Land-use planning.

l. Civil ports and airports.

m. Large transport and navigation networks.

- **n.** Communications.
- **o.** National production, transport, and distribution of energy.
- **p.** Complementary and supplementary social security.
- **q.** Harmonisation of public accounts and co-ordination of public finance and taxation system.
- **r.** Enhancement of cultural and environmental properties, including the promotion and organisation of cultural activities.
- **s.** Savings banks, rural banks, regional credit institutions.
- **t.** Regional land and agricultural credit institutions.

The role of provinces (*Provincie*) has been significantly reduced over the last decade (see Section 7 for more details) where there has been an attempt to shift historic responsibilities (outlined in Legislative Decree 18 August 2000, n.267) to regions or municipalities under Law 56/2014. Regions can legislate regarding how they perform these assigned functions, including attributing competencies to the province. The general role of provinces is to serve as general-purpose bodies to coordinate the development of their communities.

Provinces have competency in the following areas as outlined in Law 56/2014 Article 1 Comma 85:

- **a.** Coordination and protection of the environment
- **b.** Planning for transportation services, including private transportation, and managing and regulating the construction and traffic on provincial roads.
- **c.** Planning the school system in compliance with regional planning
- **d.** Collect and processing data and providing technical and administrative assistance to local authorities.
- **e.** School building management.
- **f.** Monitoring and preventing discrimination in the workplace and promoting equal opportunities within the province.

Law 56/2014 Article 1 Comma 86 - 88 also outlines the following fundamental functions:

- **a.** Care of the strategic development of the territory and management of services in associated form based on the specificities of the same territory.
- **b.** Care of relations with other forms of government, including stipulating agreements and conventions.
- **c.** Preparation of the tender documents of the station contractor, monitoring of service contracts and organisation of competitions and selection procedures.

Metropolitan cities (Città Metropolitan)

Law 56/2014 outlines general institutional purposes and the fundamental functions of metropolitan cities. The general institutional purposes are:

1. Care for the strategic development of the metropolitan territory.
2. Promotion and integrated management of services, infrastructures, and communication networks of interest to the metropolitan city.

3. Care for institutional relations relating to its level, including those with European cities and metropolitan areas.

As originally conceived, metropolitan cities were responsible for the following fundamental actions:

1. Adopting and updating a three-year strategic plan for the metropolitan area, which serves as a guideline for the municipalities within the metropolitan area and for the exercise of functions delegated or assigned by the regions.
2. Engaging in general spatial planning, including communication structures, service networks, and infrastructures within the competence of the metropolitan community.
3. Structuring coordinated management systems for public services and organising public services of general interest within the metropolitan area.
4. Managing mobility and viability, and ensuring compatibility and coherence of municipal urban planning within the metropolitan area.
5. Promoting and coordinating economic and social development within the metropolitan area, including support for innovative economic and research activities.
6. Promoting and coordinating computerisation and digitisation systems within the metropolitan area.

At the municipal (*Comuni*) scale, Law 42/2009 Article 21 identifies the following fundamental functions:

a. Local police.
b. Public education for children between 0-3 years old.
c. Traffic and transport.
d. Environment.
e. Social services.

Art. 13 of Legislative Decree 267/2000 states that municipalities are responsible for all administrative functions that concern their population territory, “especially in the organic sectors of services to the person and the community, the organisation and use of the territory and economic development except for what is not expressly attributed to other subjects by state or regional law, according to their respective competences.” These include:

a. Social welfare, in particular, personal social services and community assistance.
b. Education, including school-related services such as canteens, school buses, assistance for the disabled, preschool childcare and nursery schools.
c. Culture and recreation, including museums, exhibition halls, cultural activities, and theatre.
d. Planning, including town planning, housing, and land registry.
e. Transport, in particular, running of local transport and maintenance of local roads.
f. Economic development, including drafting of plans for trade, planning,

programming, and regulation of commercial activities, as well as establishment and management of industrial and trade zones.

g. Environment, including waste management.

h. Local police.

In Italy, the constitution requires the state to define essential levels of service (LEP) for civil and social rights throughout the country, but there has been a lack of guidance. The Constitutional Court has criticised the state's delay in defining these levels; standard requirements have been based on historical service coverage. The National Recovery and Resilience Plan addresses some key areas, such as early childhood education and care services, with dedicated funding until 2026.

## 7. The regulatory regime

The constitution forms the basis for a system of 'Fiscal Federalism' (*federalismo fiscale*) – regions, municipalities, and to some extent provinces and metropolitan cities, have powers over local finances; however, the state keeps control of the fundamental principles, laws, and the parameters within which local fiscal autonomy plays out. The legislative framework for the system is grounded in Law 42/2009. The Consolidated Law on Local Authorities (*Testo Unico degli Enti Locali – TUEL*) is the primary legislation that governs the organisation and operation of municipalities in Italy – it sets out the underlying principles, rules, and procedures for local government finance. The Budget Law (*Legge di Bilancio*) is a law passed each year by Italian central government that conditions the overall fiscal framework each year – it sets the parameters for local government revenue (for example the parameters within which municipalities can alter local tax), expenditure, borrowing and financial planning and reporting. Both laws set out the revenue sources available to municipalities (including local property, a potential portion of personal income tax, fees and charges, and transfers from central government – see Section 9 for a detailed breakdown). The laws also set out the timescales and flexibilities for the preparation and adoption of budgets each year, alongside multi-year financial plans.

This legislative framework also sets out the national accounting standards and regulations, to ensure consistent and comparable financial statements and meaningful scrutiny of municipal finances. In terms of financial control and oversight, the central Ministry of Economy and Finance (MEF) scrutinises local government finance. In practice it is the MEF that sets the accounting standards for municipalities and monitors related financial performance.

In addition, and independently, the Court of Audit (*Corte dei Conti*) is an independent entity that auIn addition, and independently, the Court of Audit (Corte dei Conti) is an independent entity that audits municipal finances, scrutinising financial statements for legality, regularity, and efficiency and sanctioning public officials who have overseen financial irregularities. It is *trusted* by the constitution in “matters of public accounting” (Article 103, para 2) and supervises all things related to the finance of local governments. Each region also has an audit institution (*Corte dei Conte Regionali*) that operates under the supervision of the Court of Auditors, auditing municipalities in the respective regions. Although not directly comparable, in contrast to the National Audit Office in England, the Court of Auditors has a bigger remit, actively included in the constitution, taking part in local government fiscal policy development , and the planning of any corrective action. Playing both a consultive and jurisdictional function as a constitutional body. Each

year, municipalities must detail their revenue, expenditure, and financial activities for approval from MEF and the Court of Audit. In parallel to this procedure, municipalities instruct their own internal audit procedures (via Internal Audit Units or Controllers) to scrutinise financial operations – they manage and advise on risk and provide advice on improvements. In practice, this is the municipal strategy for maintaining compliance with the state based regulatory regime, and internal auditors work in collaboration with the MEF and the Court of Audit.

In addition, the Italian state has a territorial presence based on Prefectures (*Prefecture*) at the provincial scale[2], headed by a Prefect (*Prefetto*). Prefectures are responsible for coordinating and delivering state policy at the local level. The Prefecture works in partnership with municipalities to ensure the proper functioning of local government – for example ensuring compliance with law and regulation as it relates to financial management (see Section 7 for further discussion). It also plays an important role in liaising and resolving disputes between different levels of government – in this, it can be seen as a key mediating interface for ensuring consistency of approach in relation to state policy at the local scale. The Prefectures also help review and approve the local budget and financial operations. In the case of financial irregularities, they can intervene if financial regulations have been broken and take control of the municipality.

Under Article 120 of the constitution, central government can intervene in municipal affairs in three circumstances:

1. failure to comply with international rules and treaties or EU legislation,
2. a case of grave danger to public safety and security, and
3. whenever action is necessary to preserve legal or economic unity and, in particular, to guarantee the basic level of benefits relating to civil and social entitlements, regardless of the geographical borders of local authorities.

For example, if a municipality faces financial difficulty, central government can impose corrective measures (for example debt restructuring, or increased local tax levels – see Section 10 for more detail on the issue of municipal insolvency) to restore financial stability. In addition, under Article 138 of the Testo Unico, the Minister of the Interior has the right to annul the acts of the local authorities. In some circumstances, the state has the power to dissolve local entities entirely and remove local administrators as a sanction. For example, this may be done because a local budget has not been approved in the way prescribed by law. There is also a power to dissolve municipal and provincial councils that are thought to have been undermined by corruption.

Inevitably, in a complicated system of sub-national autonomy and interstate relations, there is demand for a process of negotiation, mediation, and cooperation between the respective tiers of government. The Permanent Conference for Relations between the State and Regions, and the Autonomous Provinces of Trento and Bolzano, commonly known as the State Regions Conference carries out this role between region and state. The Conference is comprised of representatives from central government, the 20 regional governments and the autonomous provinces of Trento and Bolzano. The State-Regions Conference provides a forum for central and regional government to discuss, agree and

2 In practice province and prefectures are separate entities. Provinces are an autonomous form of sub-national government while prefectures ensure compliance with national policy at the respective territorial scale.

coordinate revenue sharing, intergovernmental transfers, and the allocation of specific funds for territorial rebalancing – under the principles of subsidiarity and solidarity. In addition, the Conference plays a role in maintaining central policy consistency across the respective regions (while recognising their territorial difference) and seeks to find consensus in relation to legislative matters. The typical Conference operating procedure is to issue consensus-based agreements, resolutions, and recommendations for regional and central government.

The Local Autonomies Conference (*Conferenza della Autonomie*) carries out the same role between municipalities and Italian national government. The forum deals with issues related to autonomy, legislation, and financial capacity. The Autonomies Conference is comprised of representatives from the respective municipalities, provinces, metropolitan cities, and regional authorities. The central role is to safeguard local government interests and autonomy – allowing local governments to raise issues, negotiate with central government and find consensus around finance and administration. There is also a third conference – The *Conferenza unificata* – that joins the regional and local conference (established, and the role defined, by Legislative Decree no.28 in 1997). The Constitutional Court (Ruling 31/2006) has recognised that the system of conferences is a key means of implementing the principles of fair co-operation (Congress of Local and Regional Authorities, 2017). The National Association of Italian Municipalities (ANCI) and the Union of Italian Provinces (UPI) also act as collective representatives for local levels of government. Alongside the conferences they maintain continuous dialogue with central government in relation to issues impacting local areas.

When consensus cannot be achieved, there is the provision of the respective Constitutional Courts. At the national level, there is the Corte Costituzionale – this Constitutional Court is responsible for ruling on the constitutionality of laws and regulations passed by central government (for example the attempt to dissolve provinces). At the local level, the Constitutional Courts are known as Regional Administrative Tribunals (T*ribunali Amministrativi Regionali*) and deal with disputes in regions (each region has one). These courts are independent judicial bodies and operate under the Council of State (*Consiglio di Stato*). The Regional Courts have the power to annul or alter local administrative acts that are considered to be non-compliant with national laws and constitutional principles.

## 8. Capital finance

Sub-national government in Italy accounted for 56% of public investment in 2020 (OECD). The majority of this investment is made by the regions. Following Covid and the Italian Internal Stability Pact, sub-national government investment declined significantly. To manage this deficit in spend, municipalities have received EUR 500 million annually for 2020-2024 – to fund small capital works in relation to energy efficiency and sustainable territorial development (OECD, 2022). The state is also making significant funding contributions for regeneration projects, the construction of public buildings and social infrastructure demands (up to 2034). Following the 2020 Stability Programme, the Italian state also created a territorial investment fund worth €400m per year from 2025-2034.

Article 119 of the constitution outlines the ‘golden rule’ that local authorities can only borrow funds to finance investment expenses. Expanding in this, Article 204 of the TUEL states that local authorities can only take out new loans and other sources of financing if the annual amount of related interest, in addition to the charges already in place (loans previously contracted, bonds previously issued, credit openings stipulated and guarantees

given, net of state and regional interest subsidies) does not exceed a pre-determined level of current revenue [3].

Local authorities must also comply with the European rules of expenditure control and public debt sustainability – consequently Constitutional Law 1/2012 introduced the principle of a balanced budget into the constitution. The principle of the balanced budget requires municipalities to achieve equilibrium between revenue and expenditure in a given period. This reaffirmed the idea that debt can only be used to finance investment expenditures. It also added that debt can only be proceeded with "the contextual definition of depreciation plans" and on condition that the balanced budget is respected. There is also the possibility of a ban on using debt for investments if the authority fails to attain a balanced budget. This is because of specific rules around debt servicing and its relationship with maintaining a balanced budget each year. In reality, the Constitutional amendment in 2012 modified the central fiscal federalism principle in articles 117 and 119 to ensure a progressive equilibrium between revenue and expenditure (Gagliano, 2013). In doing so the legislative control over the harmonisation of the public accounts becomes exclusively a state responsibility, presenting, in some respects, a tension between local autonomy and state oversight In recent years, there has been some criticism of the limiting impact of the budgeting and scrutiny process. Arguments suggest that the nature and duration of the budgeting process can make it difficult to exploit lending opportunities and to satisfy lender requirements (Ministry of the Interior, 2022).

In 2022, municipal debt amounted to EUR 32.4 billion, while regions accounted for EUR 39.1 billion and provinces and metropolitan cities EUR 5.6 billion (Banca D'Italia, 2023). Municipalities may issue bonds (known as *obbligazioni dealing enti locali*) according to prudential rules - 20% of operating revenue net of healthcare funds for regions; and interest below 10% of operating revenue for local governments (OECD, 2022). Most sub-national debt is in the form of bank loans with domestic financial institutions – most notably with the Italian public bank Cassa Depositi e Prestiti. Due to favourable interest rates, this type of loan has increased, while the use of bonds has declined from 30% in 2006 to 6.5% in 2020. If a municipality is going to issue a bond, it must first obtain permission from the MEF after demonstrating financial stability, repayment capacity and the reason for the issuance. Irrespective of this reduction, alongside Germany, Spain, and France, Italian municipalities remain a major issuer of bonds (OECD, 2022). In addition, while municipalities have benefited from low interest rates for some time, national interest rates have increased considerably in recent years to combat inflation (reaching 3.5% in June 2023, the highest rate since 2001) - this represents a major risk in terms of the servicing of respective debt agreements.

## 9. Sources of income

In contrast to England, Italy has a more structured sub-national governance system. Intergovernmental finances display complex horizontal and vertical interdependence between state, region and municipality. As such the sources of available income and discretion in use must be understood in the context of the sub-national situation and the respective municipality (OECD, 2022).

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3 Decreed by the state, the precise ratio/level, has fluctuated yearly between 6-10% in recent years as the competing aims of budget harmonisation and local investment need have fluctuated. The Parliamentary Budget Office (Ufficio parlamentare di bilancio - UPB), that has autonomy under the 2012 Constitutional Law, has the mandate to scrutinise the balanced budget rule.

In Italy, regions finance their expenditure through their own taxes, their sharing of national VAT proceeds, property asset revenue, economic activities and from equalisation transfers – for territories with lower fiscal capacity and debt-based revenue (Brosio, 2018). The main form of tax at the regional scale is the Regional Surcharge on Productive Activities (a form of corporate income tax) – also known as the *Imposta Regionale sulle Attivita Produttive* (IRAP). IRAP is a regional tax levied on net business activity – it is calculated on the basis of the value added by businesses, professionals and the self-employed. In addition, regions have the power to levy an additional Personal Income Tax (the *imposta sui redditi delle persone fisiche - IRPEF*). Both taxes are established and regulated by the state. However, in practice, the tax rates vary from region to region as there is discretion to vary limits within parameters set out by central government.[4]

Since 2001, regions have also received a share of VAT (or *Quota Parte Regionale dell'IVA*) collected within their territorial boundaries for the purpose of financing the national equalisation fund. The President of the Council of Ministers determines the share of the overall VAT which is given to regions. This increased from 38.55% in 2001 to 70.14% in 2020. The VAT powered equalisation fund is used to cover healthcare costs that cannot be covered by local taxation. Regions that are in financial surplus only get to keep a portion of the VAT revenue collected in their own territory, while regions in financial deficit receive the full amount of VAT revenue collected in their territory, plus extra equalisation funds that are not tied to a specific territory (see Section 11 for more detail).

In terms of local tax, the main municipal tax in Italy is the *Imposta Municipale Propria* or IMU. The IMU can be thought of as primarily a property tax on residential and commercial property but also includes taxation for waste (*TARI*). Historically, there was also the TASI Tax, which accounted for the services that property owners benefited from (such as street lighting) – this has now been merged in to the IMU. The IMU is calculated on the basis of the cadastral value of a given property (the value assigned by the Italian Land Registry) based on the hypothetical income a property would achieve if occupied by a tenant. Different property categories (residential, commercial, agricultural) are given their own tax rate baseline by the Italian state and then municipalities have the power to vary these rates within parameters set by the state. The actual tax is calculated by multiplying the cadastral value by the relative municipal tax rate minus any deductions or exemptions. The tax is levied either on owner occupiers, or if the property is leased – the tenant. In practice, homes that are the principal residence of inhabitants are not taxed – secondary homes and business premises are the basis for the tax yield. In addition, municipalities also have the power to levy an additional surcharge (*Addizionale Comunale - IRPEF*) on the personal income tax rate – varying between 0.1- 0.9%.[5]

Additional taxes can include Tourist Tax (*Tass di Soggiorno*) – some municipalities levy a tourist tax upon visitors staying in holiday accommodation – and also Vehicle Tax (including levies on ownership and movement within the territory). Local government in Italy also has the power to instigate charges and fees for waste management, parking, and

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4 The IRAP base rate is typically 3.9% - regional authorities can lower rate to 2.98% or increase it 4.82%. The IRPEF rate varies from 1.23 to 3.33% between regions.

5 A recent fiscal reform in 2022 will likely reduce the PIT, revising the rates of the regional and municipal surcharge on PIT and add exemptions to the IRAP for some categories of employment (particularly for self-employed persons). This will disadvantage those regions that have set higher tax rates. In part, the Italian state plans to compensate regions with €8bn in transfers for their healthcare services, since the IRAP represents the main source of financing for the health sector and plans a supplementary €76m transfer to compensate regions that applied a higher IRAP rate (see Section 11 for more details).

permits and licenses. These are supplemented by concessions and contracts for public transportation and infrastructure projects as well as revenue from property and land. Traditionally, local government in Italy also benefits from central government transfers, including the General Fund (*Fondo di Finanxiamento Ordinario*) and the Equalisation Fund (*Fondo di Solidarieta Comunale*) – the ultimate intention is to fully transition to local sources of revenue and equalisation under fiscal federalism.

The General Fund is primarily financed through the national allocation of shared taxes (including Personal and Corporate Income Tax and VAT). It is then distributed on the basis of population size, economic performance, and fiscal capacity – based on the principle of fair and equitable resources across local government in Italy. Practically it is allocated in partnership with the municipal budget planning process and forms a significant part of municipal revenue.

## 10. Degree of own budgeting and accounting

In recent years, regions accounted for 68% of sub-national government expenditure, with municipalities accounting for 30% and provinces and metropolitan cities accounting for the remaining 2%. Health accounted for 49% of overall expenditure – Italy has a rapidly ageing population, and the old age dependency ratio is expected to climb from 39% in 2020 to 67% in 2050 (Lennkh-Yunus, 2023). In the past, this restricted regional autonomy as regions had to finance health spending first through the provision of a 'health pact' with central government. As part of this pact regions had to first ensure a balanced budget in relation to health by funding any deficit through their own reserves and/or via increased local tax. The next largest spending areas were general public affairs, economy and transport, social care and education. Social care (5%) and education (6%) comprised relatively low contributions to spending as they remain central government responsibilities.

In terms of spending power and revenue, municipalities accounted for 30% of overall sub-national revenue (provinces and metropolitan cities only 2%). In recent years, intergovernmental transfers have accounted for the majority of local government revenue (OECD) – 61% in 2020 due to compensatory measures for Covid-19, up from 47% in 2016. The main source of municipal tax revenue during this period is the IMU property tax while charges and income accounted for 11%. Table 1 below describes the breakdown of revenue sources at the municipal level in Italy.

**Table 1: Breakdown of local revenue sources in Italy**

| Revenue type[6] | % of income |
|---|---|
| Transfer Grants (from central government) | |
| **Government Transfers: General Fund and Solidarity Fund***<br>*(Largely discretionary but elements are earmarked for specific use)*<br><br>**In recent years the relative share of government transfer has increased due to the impact of Covid-19. This is projected to decrease to closer to 50% - the pre-Covid-19 level.** | **61%** |
| Taxes (shared and local) | |
| **Local Surcharge on Income Tax**<br>*(Discretionary in use and rate)* | **12% (42% of total local tax)** |
| **IMU Property tax**<br>*(Discretionary in use and rate)* | **16% (58% of total local tax)** |
| **Minor taxes (Dog Tax, Entertainment Tax, Liquor Tax and Secondary Residence Tax etc).**<br>*(Discretionary in use and rate)* | **<1%** |
| ***Charges and income*** | |
| **Charges for water, wastewater, refuse collection and landfill, street cleaning and various concessions.**<br>*(Discretionary in use and rate)* | **11%** |
| **Income from assets** | **<1%** |
| **Other income** | **<1%** |
| Total Revenue | 100% |
| **NB: It is important to note that regions play a significant role in the fiscal autonomy of sub-national government. In terms of fiscal autonomy, regions also benefit from IRAP (the afore mentioned tax on business activity) a share of VAT and their own levy on personal income tax. The fiscal autonomy of provinces and metropolitan cities, in terms of spending power, is very small.** | |

Table 1 shows clearly that Italy has a varied basket of taxes at the local level and discretion over rates of taxation and the spending of transferred revenue. Compared with England, Italy has more discretion and flexibility. However, compared with a similarly decentralised governance system, like Germany, it has a less varied basket of revenue sources. For instance, German municipalities can also secure tax on business productivity (collected at the regional scale in Italy) and a share of VAT. While transferred revenue accounts for a large share of revenue, particularly following Covid–19, Italian municipalities have considerable discretion over its spending, compared with a high degree of ring-fencing in England. While the overall contribution of property tax appears relatively low (16% of

6 Information based on adjusted numbers from OECD (2022) World Observatory on Subnational Government Finance and Investment and Italian Ministry of Economic Affairs. The actual spread of revenue in each municipality is variegated due to relative equalisation and discretion around tax rates.

income in the aftermath of Covid-19) it must be noted that the IMU also funds the Municipal Solidarity Fund, the principal means of horizontal territorial equalisation in Italy. Hence, the Italian local government finance system has significant exposure to the vagaries and often uncertain performance of local property markets.

Spending power and fiscal resilience must be understood in tandem with the legislation on the financial distress of municipalities and provinces – codified in Title VIII of Part II, Article 244 of the Consolidated Law on the organisation of local authorities (TUEL). The financial distress and insolvency procedure can be used when a given municipality can no longer carry out its basic functions or is unable to discharge liquid and collectable debts. In this case, there is provision to create an extraordinary liquidation body appointed by the President of the Republic after a declaration of financial instability – and a rebalanced budget proposal must be prepared to restore financial stability. In this case, the municipality must work exclusively with the restored budget to avoid future financial instability. The reorganisation of a municipality in this case, including achieving a financial equilibrium, can take up to five years (overseen ultimately by the Ministry of Interior). Article 6 of 2011 introduced a new ‘guidance procedure’ to prevent financial imbalances in local entities. If the Court of Auditors finds financial mismanagement, irregularities, or imbalances in a local authority’s budget, it will set a deadline for corrective measures.

The Regional Audit Sections will identify the necessary measures and verify their adoption. If the entity fails to adopt satisfactory measures, the Court of Auditors will refer the matter to the Prefect and Permanent Conference. They have 30 days to verify the imbalance and assign the Council a maximum of 20 days to resolve bankruptcy. If the Council takes no action, the Prefect will appoint a commissioner to dissolve the council under Article 141 of TUEL. A multi-year financial rebalancing procedure (based on the liabilities to be rebalanced and any unfulfilled commitments) is designed to prevent financial collapse in local authorities by allowing elected bodies to retain management control while being subject to controls to prevent the situation from deteriorating.

The financial stability of Italian municipalities varies significantly. Since the introduction of Law 66/1989, which introduced a procedure of insolvency (Padovani et al, 2018; Ambrosanio et al, 2016), around 8% of Italian municipalities have resorted to the procedure. The vast majority of insolvency procedures and signals of financial distress are in Southern Italy (Ministry of the Interior, 2022). Local authorities are divided into three types of distress: 1) deficit, 2) pre-instability and 3) failing – the precise rules for government extreme cases of insolvency are specified in the Testo Unico. In the last decade, 102 municipalities have ended up in financial failure, with the majority in Sicily, Campania, and Calabria (Congress on Local and Regional Authorities, 2017).

## 11. Territorial equalisation methodology

Following fiscal federalism, the intention was that local government should fund its obligations from its own tax, and from the proceeds of fiscal equalisation when this is not possible. In Italy there are two forms of equalisation, those related to fundamental obligations and those related to non-fundamental obligations. In terms of fundamental obligations, enabling Law 42/2009 allows for full equalisation of expenditure need. According to Brugnano (2020), standard expenditure needs are used as the benchmark for financing local government – all citizens are guaranteed a minimum level of compulsory service. The state defines the essential level of benefits to maintain consistency between

territory[7]. The state distinguishes between fundamental functions at the local level (that receive full financing) and remaining local functions (which receives only partial equalisation in fiscal capacity).

The gap, defined by the difference between spending need and fiscal capacity, is filled via vertical redistribution of state resources. In relation to non-fundamental obligations, the same enabling law allows for partial equalisation of expenditure funded horizontally via the tax resources from wealthy municipalities – the primary revenue for achieving this is the local property tax (Brosio, 2018). In reality, there is increasingly very little vertical redistribution and almost all equalisation is horizontal[8]. This is largely because the enabling law specifies that central transfers should not exceed historical costs and should not create additional costs for the state.

The Municipal Solidarity Fund (*fondo di solidarietà comunale*) is the most important equalisation method for municipalities. The fund was created by Law 228/2012 (and first implemented in 2013) and is managed by the Ministry of Economy and Finance and the National Association of Italian Municipalities (ANCI). Both institutions define the allocation formula and monitor its implementation. The central principle of the fund is solidarity; poorer municipalities should be cross subsidised by more affluent municipalities (Corte dei Conti 2019; Bucci et al, 2023). The total size of the Municipal Solidarity Fund in 2021 was €6.6bn and it is set to be increased yearly up to €7.7bn in 2030 (OpenCivitas, 2022).

Funds are allocated on the principle of equalisation and in part to offset historical figures relating to municipalities' own income and transfers, with the final target being to abandon revenue distribution based on historical expenditure. Criteria are centred around the difference between fiscal capacity and expenditure need; the aim is that by 2030, 100% equalisation will have been achieved. As of 2022, the percentage of the fund distributed in line with equalisation criteria is 60%, with the remainder based upon the traditional model of historical spending. In 2019, 93% of municipalities received a positive balance from the fund - those with a negative transfer (those distributing their income to fund less buoyant locations) are primarily located in the north and centre of the country, reflecting those areas' local wealth and self-sufficiency (474 municipalities paid resources into the Municipal Solidarity Fund compared with 6,054 beneficiaries).

The theoretical outcome is that transfers from central government are almost entirely designed for equalisation purposes. Ring-fencing is deemed unconstitutional. The exception to this rule is when the government system is operating under exceptional circumstances, for example during Covid-19 and in its aftermath, when central government increased the total fund using state resources. These funds were ring-fenced for the performance of social functions, particularly relating to strengthening social services, the expansion of some nursery services and school transport for disabled pupils. There is now some ambiguity in relation to whether these central resources will remain in place. While the intention of fiscal federalism in Italy is to allow for self-sufficiency – there is a practical difference between this intention and the implementation of true autonomy and territorial equality (Raffer & Padovani, 2020). The result is a continual element of state

7 Legislative Decree 216/2011 defined the list of fundamental functions and gave guidance on the monitoring of these functions via the collection of local government data. In reality benchmarks are ambiguous and rarely evident. In particular the essential levels of benefit have never been defined and the result that historical spending is still used as a benchmark on a regular basis.

8 Vertical equalisation refers to the distribution of income from the state while horizontal equalisation refers to the distribution of income between local areas, based on a ratio of relative local need and economic circumstance.

funding to achieve equalisation and minimum service provision. This is particularly acute during financial distress and cyclical economic activity, when the local tax base, held locally and redistributed territorially, varies.

## 12. Conclusion

Italian local autonomy, and the principles of subsidiarity and proportionate financing, is built into the amended 2001 Constitution – all aspects of sub-national government were given the same status as national government. Specifically, Article 119 recognised financial autonomy for local government and Article 120 laid down the basis for proportionate finance. This Framework Law of 2009 then hardwired fiscal federalism into administrative procedures between central, regional, and local government. Like Germany, it is essentially a codified constitution and sets out the respective roles for different tiers of government. The result is that each region, and municipality, has the discretion to determine its own constitutional mandate. This is being pushed even further with the increasingly recognised movement towards differentiated autonomy prioritised by the northern regions.

On the other hand, English local government exists under a system of parliamentary sovereignty. Laws are passed as an Act of Parliament once a bill is introduced by the Government and approved by the House of Commons and House of Lords. Acts of Parliament form the basis of the UK constitution and must be followed by all local governments under the rule of law – rather than a codified constitution. Legal responsibilities are therefore uniform (although they can have different outcomes) across local government bodies, with the exception of Scotland, Wales and Northern Ireland which are devolved nations.

In Italy, amendments to the constitution must be approved by all levels of government and the Constitutional Courts, meaning that the subnational level cannot be abolished nor have their powers unilaterally altered by the central tier of government (see again the case of the Italian provinces). In contrast, England is a unitary state. The central government may create or abolish lower administrative divisions and has overriding authority to delegate powers to the local level – without recourse to principles of territorial solidarity or equivalence. Whilst an overhaul of the current English parliamentary system would be required to implement a version of the Italian system, devolution of powers and local autonomy could be achieved by affording local governments autonomy through new Acts of Parliament. Previous acts have amended the responsibilities of Local Government (the 1972 Local Government Act laid the foundations for the current structure in England), but as devolution has been established in some parts of the UK (Scotland, Wales, and Northern Ireland), the responsibilities and degree of financial autonomy differ. The consequence of asymmetric devolution is that Scotland, Wales, and Northern Ireland each have their own parliament and manage their own devolved matters, but England does not and therefore is reliant on the UK Parliament to manage its constitution.

The following observations can be made about the Italian local government finance system, as it relates to the potential for change in England:

- Italian local government finance is a complex adaptive system that continues to evolve in response to local, regional, national, and international circumstance. It must also be seen in the context of competing themes of fiscal autonomy; the European Union demand for balanced budgets, and consequent austerity and financial restructuring in Italian government; historical economic

underperformance and regional inequality; and additional cost pressures due to Covid-19, the current geo-political situation and inflation. While all of these narratives appear different, they cannot be separated in the context of local government financial management.

- In contrast to England, in the main, the problem of unfunded mandates does not exist in Italy. While the availability and buoyancy of local income does vary, it is rare to find any mis-match between transferred powers and the means to pay for them. This is because the movement towards fiscal federalism has evolved under the principles of subsidiarity, proportionate finance, and territorial solidarity. This can be seen in contrast to England, where powers have been devolved but not meaningfully funded by central government (Muldoon-Smith and Greenhalgh, 2015; Lee, 2017). This is because sub-national government in England, as a specific entity, does not have any codified legitimacy. The proliferation of unfunded mandates in England can be as the consequence of the power hierarchy born from central government control over decentralisation (Rodriguez- Pose and Gill, 2003).

- Italian municipal revenue is more diverse than England with municipalities receiving a higher share of their revenues through local and shared tax. Municipalities have the powers to levy tax on property and personal income – they can also vary (upward and downward) these taxes within nationally prescribed parameters and laws. In contrast, the English system is grounded upon grants provided by central government. The reliance on property tax, in both Italy and England, presents a risk as property markets become more volatile and, in the case of Business Rates in England, the relationship between property size and productivity diminishes.

- Italian local government finance is specifically autonomous, in the sense that a given local government unit will act independently of all other sub-national units and structures. This in contrast to other European models of sub-national governance. For example, in Germany, local government can be considered an embedded autonomy - autonomy is located within, and supported by, continual intergovernmental cooperation and interstate relations. In Italy, relative autonomy is heavily bounded within the unit of governance (see Section 6) which can lead to a degree of intergovernmental rivalry and defensive action over respective resource and responsibility.

- While the Italian Constitution presents a firm basis for the allocation of competencies between different tiers of government, the reality is that there is significant overlap between their responsibilities (Raffer & Padovani, 2020). This separation of function can be considered as a set of general guidelines drawn up as Italy moved from the principle of uniformity to the principle of differentiation - where different kinds of local authorities have the ability to carry out tasks differently in contrasting areas of the country (Boggero, 2016)..

- In reality, there is a great deal of negotiation, and the need for continual consensus building, in relation to respective responsibility and the related means of payment. This negotiation is facilitated by a rich territorial system of Conferences, Municipal Associations, the Court of Auditors, the local Prefecture, and the Constitutional Courts who all come together to actively interpret, protect,

and literally grease the wheels of the principles of local autonomy. England does not have a comparative system of territorial mediation and oversight. Reflective of the centrally controlled form of decentralisation in England, the National Audit Office (NAO) has an independent national remit to audit the public accounts, and to assess value for money - reporting this information to Parliament via the Public Accounts Committee. The NAO, while effective, does not specifically have local government collaboration as part of its remit.

- The recently announced Office for Local Government (Oflog) could offer the opportunity to actively work with local government in relation to fiscal autonomy. It has the potential to proactively work with local authorities to manage budgetary challenges and potentially dealing with some of the thornier issues in the local government domain: the meaningful allocation of resources, the reinvigoration of Business Rate Retention, the basis for Council Tax revaluation, the trialling of a more progressive, flexible, and varied basket of local revenue. However, this largely depends on what type of creature Oflog becomes, whether it is part of central government machinery or whether it is given independent status.

- Not all municipalities and regions in Italy are in favour of fiscal autonomy. Less wealthy locations are inevitably more in favour of revenue sharing, while those with more wealth argue in favour of more local retention. In addition, regions argue for the power to allocate resources to municipalities, while municipalities prefer a direct relationship with central government – as the state is considered more financially viable and politically fair (Brosio, 2018). Parallels can be seen in England where Central London authorities and the core cities in England regularly call for the capacity to retain more of their own income. This reveals the often-hidden reality that fiscal decentralisation and autonomy is not a unanimous panacea for the limitations of local government finance in England, rather a contested and varied instrument.

- Nor is the implementation of fiscal autonomy straightforward. In Italy, De Siano and D’Uva (2017) argue that the process started in the 1970s with the transfer of administrative functions to ordinary statute regions (Law no. 281/1970). The transition to fiscal federalism, instigated by the Fiscal Federalism Framework in 2009, is projected to last until at least 2030 – as the system of local government finance transitions from the historical model based on historical finance to the new system based on formula grants. At the same time referendum results, in relation to provinces, have questioned the fabric and rationale underpinning the territorial basis for fiscal decentralisation (Congress of Local and Regional Authorities, 2017).

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LGiU

## About the Local Democracy Research Centre and LGIU

The **LDRC** was set up by LGIU (Local Government Informaiton Unit) to investigate the things that matter to our members and to local government around the world. We bring together experts, policy makers and academics to do practical research on some of the biggest challenges for the sector and to shape the future of local democracy.

The **LGIU** – Local Government Information Unit – is a not-for-profit, non-partisan membership organisation. We are for local government and anyone with an interest in local democracy and finding local solutions to the challenges that we all face. Councils from across the UK, Ireland and Australia are supported by our full member benefits, including in-depth policy analysis and other resources, innovative research and local government training. Our new Global Local subscription service now brings colleagues from other countries into the LGIU community.

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