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List of Abbreviations

CNEL	Consiglio Nazionale dell'Economia e del Lavoro – National Council of Economy and Labour
COFOG	Classification of the functions of government
CRA	Centro di Responsabilità Amministrativa - Centre of Administrative Responsibility
DEF	Document of Economics and Finance
DFP	Public Finance Decision
DPEF	Financial Economic Programming Document
DPS	Department for development and economic cohesion
EC	European Commission
EU	European Union
EUR	Euro, European Currency
EUROSTAT	Statistical office of the European Union
GDP	Gross Domestic Power
IMF	International Monetary Fund
INPS	Istituto Nazionale Previdenza Sociale - National Institute for Social Security
ISTAT	Istituto Nazionale di Statistica - Italy National Statistical Institute
MEF	Ministry of Economy and Finance
MIP	Monitoring System of Public Investments
MoP	Member of Parliament
NSRF	National Strategic Reference Framework
NUVV	Evaluation and Verification Unit for Public Investments
OECD	Organisation for Economic Co-operation and Development
PA	Public Administration
PCM	President of the Council of Ministers
PPS	Purchasing Power Standard
RGS	Ragioneria Generale dello Stato - General Accounting
RUEF	Joint Report on Public Economy and Finance
SECIN	Internal Control Offices
SM	Strategic Management
SNV	National Evaluation System of the Unitary Regional Policy
SP	Strategic Plan
UPB	Basic Provisional Units of Resource
UVAL	National Public Investment Evaluation Unit
UVER	Public Investment Verification Unit

1 Synopsis of the Study Visit

Country Visited	Italy
Purpose of the Visit	Component 3: Institutional Capacity Building Activity 3.4: Organise 3 five-day study visits (10 participants each) to OECD/EU member states and produce 3 country reports.
Period	Start Date (09.11.2014) – End Date (15.11.2014)
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2 General Information

Table 1: Italy Basic Data

Latitude North	47° 06'
Latitude South	35° 30'
Longitude West	6° 37'
Longitude East	18° 31'
Maximum span (km)	1,200
Territorial area (km ²)	302,071
Total area of woods (km ²)	104,675
Total length of coastline (km)	7,375
High seismic risk area (km ²)	28,026
Protected areas (km ²)	63,791
Highest mountain - Monte Bianco (m)	4,810
Longest river - Po (km)	652
Railway network (km)	16,726
Road network (km)	186,419
Regions	20
Provinces	110
Municipalities	8,092
Resident population (ISTAT 2014)	60,782,668
Resident foreigners	4,387,721
Number of households	25,872,613
Households' average members	2.3
Population density (inhab./km ²)	197

Source: ISTAT, 2014

2.1 Area

Italy is a peninsula located in Central-Southern Europe, with 7,400 km of coastline, a shape recalling a boot oriented N-W to S-E and lying in the western-central part of the Mediterranean sea.

The Country borders on France (476 km long border) in the northwest, the Ligurian Sea and the Tyrrhenian Sea in the west, the Ionian Sea in the south, the Adriatic Sea in the east, Slovenia (218 km) in the northeast, and Austria (404 km) and Switzerland (698 km) in the north. The country includes the large Mediterranean islands of Sicily and Sardinia and several small islands, notably Elba, Capri, Ischia, and the Lipari Islands. Vatican City and San Marino are two independent enclaves on the Italian mainland.

Rome is Italy's capital and largest city, with 2,863,322 (2014 data) residents in the proper town, while some 4.2 million people living in the greater Rome area.

The Country total surface is of 301,340 km²; out of them land is 294,140 km² and the rest (7,200 km²) is water.

At its broad top stand the Alps, which are among the world's most rugged mountains. Italy's highest points are along Monte Rosa, which peaks in Switzerland, and along Mont Blanc, which peaks in France. The western Alps overlook a landscape of Alpine lakes and glacier-carved valleys that stretch down to the Po River and the Piedmont. Tuscany, to the south of the cisalpine region, is perhaps the country's best-known region. From the central Alps,

running down the length of the country, radiates the tall Apennine Range, which widens near Rome to cover nearly the entire width of the Italian peninsula. South of Rome the Apennines narrow and are flanked by two wide coastal plains, one facing the Tyrrhenian Sea and the other the Adriatic Sea. Much of the lower Apennine chain is near-wilderness, hosting a wide range of species rarely seen elsewhere in Western Europe, such as wild boars, wolves, asps, and bears. The southern Apennines are also tectonically unstable, with several active volcanoes, including Vesuvius, the continental Europe only active volcano which dominated above Naples and its island-strewn bay and Etna, the highest active volcano on Europe in the eastern side of Sicily Island. In fact at the bottom of the country, in the Mediterranean Sea, lie the islands of Sicily in the south and Sardinia on the west limit of the Tyrrhenian sea.

The 20 Italian regions have a great variability both in terms of amplitude and population. The largest, with over 20,500 km², are Sicily and Piedmont, followed by Sardinia, Lombardy, Tuscany and Emilia-Romagna with over 20,000 km². Among this group Lombardy is also the most populous region with 9,973,397 inhabitants, followed by Lazio and Campania that on a land area of 17,232 km², respectively, and 13,670 km² host over 5.8 million residents. Regions with a population below one million inhabitants are Umbria, Basilicata, the two autonomous provinces of Trento and Bolzano, as well as Molise and Valle d'Aosta. These last two regions, together with Liguria are also smaller in terms of extension with a land between 3,000 and 5,500 km².¹

2.2 Population

The population of Italy according to the most recent data (ISTAT, 2014) reached 60,782,668 units (31,298,104 female, 29,484,564 male), spread over 20 regions, grouped, according to the European classification into 5 NUTS 1 statistical units.

Table 2: Population by Statistical Unit
(NUTS 1 according to EUROSTAT classification²)

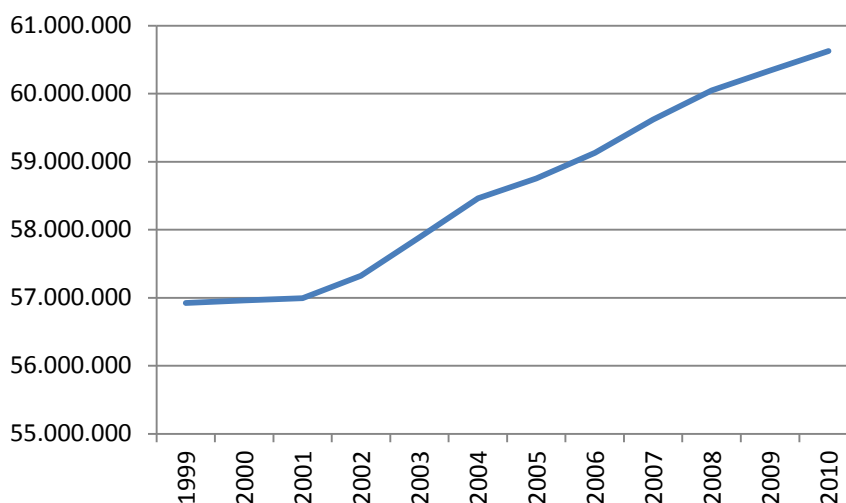
Italian Macroregions	Male Total	Female Total	TOTAL
North-west	7,831,929	8,298,796	16,130,725
North-east	5,666,649	5,987,837	11,654,486
Centre	5,814,515	6,256,327	12,070,842
South	6,885,890	7,281,929	14,167,819
Islands	3,285,581	3,473,215	6,758,796
TOTAL	29,484,564	31,298,104	60,782,668

Source: ISTAT, 2014

¹ Sources: Encyclopaedia Britannica; CIA The World Factbook, 2014; Annuario Statistico Italiano, ISTAT, 2014,

² NUTS - *Nomenclature des unités territoriales statistiques*. The "Nomenclature of Territorial Units for Statistics" established by EUROSTAT in order to provide a single uniform breakdown of territorial units for the production of regional statistics for the European Union.

Figure 1: Population Trends (1999-2010)



Source: ISTAT, 2014

The foreign component (1 January 2013) is 7.4 percent of the total population, with a net increase, in 2012, of 335,640 units (+8.3%).

Total foreign resident population on 1st of January 2014 is, according to ISTAT, 4,922,085. Out of them 3,874,726 have a regular registration as Italian residents of foreign citizenship.

2.3 GDP and Financial Budgetary Situation

In 2013, GDP at current prices totalled 1.619 trillion euro, with a reduction of 0.6% over the previous year. In volume GDP fell by 1.9%. A decrease of 2.3% of domestic final consumption and of 5.4% of gross fixed capital.

Figure 2: Italy National GDP, constant prices

Years 2001-2014, (Euro billions)



Source: IMF, 2014

Imports fell by 2.7%, whereas exports of goods and services saw an increase of 0.6%.

As far as the public budget is concerned the public debt increased steadily since 2007, topping 133% of GDP in 2013; despite such a persisting trend international investor concerns about Italy in the context of the broader euro-zone crisis eased in 2013, bringing down Italy's borrowing costs on sovereign debt from euro-era records of the previous years.

The government still faces pressure from investors and European partners to sustain its efforts to cope with Italy's long-standing structural burdens to growth, such as labour market inefficiencies and widespread tax evasion.

In same 2013 economic growth and labour market conditions deteriorated, with growth at -1.8% and unemployment rising to 12.4%, with youth unemployment around 40%.

Italy's GDP is currently 8% below its 2007 pre-crisis level.³

In 2013 the production has still suffered declines in volume in all major sectors, except agriculture, forestry and fishing (+0.6 percent). The decreases were 3.0 percent in industry (excluding construction), 5.8 percent in construction and 1.2 percent in services.

For all non-financial corporations, the profit share fell to 40.9 percent from 41.2 percent in 2012 and the investment rate to 21 percent, from 21.8 percent the previous year. Meanwhile the purchasing power of households has decreased by 1.2 percent.

Faced with a reduction of 1.6 percent of final consumption expenditure, in 2013 there was a significant recovery of the propensity to private savings, that rose to 9.3 percent after eight years of downturn.

The government net current deficit in relation to GDP amounted to -2.8 percent. The primary surplus (net borrowing less interest expenditure) expressed in relation to GDP is 2.0 per cent.

The total revenues of the government, amounting to 48.3 percent of GDP in 2013, remained unchanged from the previous year. Indirect taxes were down 2.6 percent while direct taxes were up 0.7 percent.

Total expenditure amounted to 51.1 percent of GDP, fell 0.3 percent compared to 2012.⁴

The declining trend in investments continued during the year. After the sharp downsizing in 2012 (-8%), investments continued to decline in 2013, albeit at a slower pace (-4.7%); the fall could be amplified by the high level of uncertainty and poor liquidity that characterize the current phase of the crisis, with a differential impact than individual components of capital goods.

In 2013, the government net deficit in relation to GDP was equal to 2.8%, down from the figure reported in 2012. In absolute terms, the deficit is 45.958 billion euros, a decrease of 2.66 billion compared to the previous year.

The primary balance (net debt to net interest payments) was positive and amounted to 32,243 billion euros, with a percentage of GDP by 2.0% (in 2012 was 2.2 per cent).

The current account balance (savings or government deficit) was positive: 2,361 million euro, compared to 9,993 million in 2012. This deterioration is the result of a decrease in current

³ Source CIA Italy Country Profile, 2014

⁴ ISTAT – Annual Statistical Report, 2014

revenues of around 3.1 billion euros and to increase the output current of approximately 4.5 billion euros.

Table 3: Italy Main Public Finance Indicators
Years 2009-2013 (Values as a percentage of GDP)

	2009	2010	2011	2012	2013
Net Deficit	-5,3	-4,2	-3,5	-3,0	-2,8
Primary Balance	-0,9	0,0	1,2	2,2	2,0
Tax Burden	41,8	41,6	41,6	43,2	43,3
Debt (%GDP)	112,5	115,3	116,4	122,2	127,9

Source: Banca d'Italia (National Bank of Italy), ISTAT

2.3.1 Main Economic and Commercial Characteristics

Italy has a diversified industrial economy, which is divided into a developed industrial north, dominated by private companies, and a less-developed, highly subsidized, agricultural south, where unemployment is higher. The Italian economy is driven in large part by the manufacture of high-quality consumer goods produced by small and medium-sized enterprises, many of them family-owned.

Italy also has a sizable underground economy, which by some estimates accounts for as much as 17% of GDP. These activities are most common within the agriculture, construction, and service sectors.

Italy is the third-largest economy in the euro-zone, but its exceptionally high public debt, as detailed in the previous paragraph, and structural impediments to growth have rendered it vulnerable to scrutiny by financial markets.

The country is also well known for its influential and innovative business economic sector, an industrious and competitive agricultural sector (e.g.: Italy is the world's largest wine producer), and for its creative and high-quality automobile, industrial, appliance and fashion design.

Despite these important achievements, the country's economy today suffers from many and relevant problems. After a strong GDP growth in 1945–1990, the last two decades' average annual growth rates lagged well below the EU average; moreover, Italy was hit particularly hard by the late 2000s recession, as highlighted in the previous paragraph. The stagnation in economic growth, and the political efforts to revive it with massive government spending from the 1980s onwards, eventually produced the mentioned severe rise in public debt. In addition, Italian living standards have a considerable north-south divide: the average GDP per capita in Northern and Central Italy significantly exceeds the EU average, whilst some regions and provinces in Southern Italy are dramatically below. Between 2000 and 2013, Italy received approximately 60 billion euros from the European Structural Funds, mainly for investments in depressed areas of the South. Despite such amount of European subsidies Italy is still a net contributor to the European Union (considering the balance between country contribution to the EU budget and the funding received from the EU).

Main issues affecting Italian economy are the lack of infrastructure development, market reforms and research investment, and also high public deficit.

In the Index of Economic Freedom 2014⁵, the country ranked only 86th in the world, in particular due to the high rate of corruption, an excessive state interventionism, and a strong labour legislation. In addition, the most recent data show that Italy's spending in research and development in 2012 was equal to 1.27% of GDP (10th in the World by expenditures)⁶, below the European average of 1.94% and the European target of devoting 3% of GDP to research and development activities.

As a possible result of such a low ranking, Italy has a smaller number of global multinational corporations than other economies of comparable size, but there is a large number of small and medium-sized enterprises, as it is in the Northern "industrial triangle" (Milan-Turin-Genoa), an area of intense industrial and machinery production, notably in their several industrial districts, which are the backbone of the Italian industry. This has produced a manufacturing sector often focused on the export of high added value market niches and luxury products, that on one side is less capable of competing on quantity, but on the other side is more capable of facing the competition from emerging economies based on lower labour costs, with higher quality products.

2.3.2 An Outstanding Issue: the North–South Divide

Starting with the unification of Italy in 1861, a wide and increasing economic divide has been noticeably growing between the northern regions and the southern half of the Italian state. In the early decades of the new kingdom, the lack of an effective land reform, heavy taxes and other economic measures imposed on the South, together with the removal of protectionist tariffs on agricultural goods, made the situation virtually impossible for many tenant farmers and land owners, mostly based on traditional latifundium ownership structure. Multitudes chose to emigrate rather than try to eke out a meagre living, especially from 1892 to 1921.

Table 4: Italy GDP Disparities within the Country
(Year 2011)

Region (NUTS1)	GDP million EUR	GDP per capita, EUR	GDP million PPS	GDP per capita, PPS	GDP per capita, PPS, EU28=100
North West	511,484	31,700	500,683	31,000	124
North East	364,560	31,200	356,862	30,600	122
Centre (IT)	340,669	28,400	333,475	27,800	111
South	243,895	17,200	238,744	16,800	67
Islands	117,031	17,400	114,560	17,000	68
ITALY	1,580,410	26,000	1,547,036	25,500	102
EU28	12,711,918	25,100	12,711,918	25,100	100

Source: EUROSTAT, 2014

In addition, the surge of brigandage and the mafia provoked widespread violence, corruption and illegality. After the rise of fascism, the regime tried to defeat the already powerful criminal organizations flourishing in the South with some degree of success. After the II World War till nowadays the authority of the mafia families, weakened during the Fascist period, recovered and used their capacity to influence the political decisions and often benefited of collateral support from prominent political representatives.

In the 1950s the *Cassa del Mezzogiorno* (South Italy Development Fund) was set up as a huge public master plan to help industrialize the South, aiming to do this in two ways:

⁵ See http://en.wikipedia.org/wiki/Index_of_Economic_Freedom

⁶ Source World Bank (<http://data.worldbank.org/indicator/GB.XPD.RSDV.GD.ZS/countries>) and OECD (2014), "Expenditure on R&D", in OECD Factbook 2014.

through land reforms creating 120,000 new smallholdings, and through the "Growth Pole Strategy" whereby 60% of all government investment would go to the South, thus boosting the Southern economy by attracting new capital, stimulating local firms, and providing employment. However, the objectives were largely missed, and instead a passive subsidy attitude tended to prevail. As a result the South became increasingly subsidized and state dependent, incapable of generating private growth itself.

Even at present, huge regional disparities persist. Problems in Southern Italy still include widespread political corruption, pervading organized crime and very high increasing unemployment rates.⁷

2.3.3 Italian Welfare and Pension System – An outline

A short outline of the Italian social and healthcare system is provided hereinafter.

To be noticed that the different administrative levels in charge of the social and health care are playing a specific prevailing role. Generally:

- Healthcare services are under the responsibility of the Regional governments;
- Social services of Municipalities;
- Pensions of the National Institute for Social Security (INPS).

In general terms the utmost majority of the services are coming from the public sector and therefore their costs are covered mostly by the national budget as far as their subsidized part is concerned. Variable mechanisms of contribution from the beneficiary citizen to the cost of the service are foreseen, in most of the cases in accordance with a progressive principle (pays more who has a higher income).

Healthcare system

The *territorial assistance* consists of the structures and personnel delegated to basic care, providing medical services, diagnostic and other ones such as assistance provided in residential or semi-residential facilities. This is an offer more capillary over the territory compared to hospital structures. The "family doctor" is the main reference for the basic care of the citizen under this form of assistance. These general basic service physicians in 2011 were about 46,000 nationwide with a slight increase over the previous year, ranging from 7.6 to 7.8 doctors per 10,000 inhabitants, whereas the number of patients per doctor is 1,143.

The *medical services on-call* are 4.9 per 100,000 inhabitants, stable value over the last three years, as stable is the number of physicians on-call during the same period, 20.1 per 100,000 inhabitants in 2011. Clinics and public and private laboratories operating within the national health service are about 16 per 100,000 inhabitants in 2011.

As far as the *hospital services*, in year 2011 in Italy these health institutions were 1,184. They correspond to the typical structure of countries that have a national health care system: in fact, 50.3% of such institutions pertains to the public sector (with 161,426 beds), whereas 44.3% are private institutions operating within the national health service (45,108 beds); the remaining 5.4 percent is represented by private non-accredited structures.

Overall, there are 3.5 beds per 1,000 people with an usage rate in 2011 of 78.7%, a hospitalization rate of 124.1 per 1,000 citizen and an average stay of 8 days.

⁷ See Wikipedia. http://en.wikipedia.org/wiki/Economy_of_Italy

The 86.0% of total personnel of the health institutions are operating in the public facilities, the remaining 12.9% in the private accredited and 1.1% in the private non-accredited. As an average 2.2 physicians and 5.0 units of support staff per thousand inhabitants.

In 2012 total expenditure for the health system was of 110.8 billion euros, corresponding to 7.1% of the national GDP.

Social Care

Social residential structures, beds and people housed. Residential structures in 2011 amounted to 12,033 units offering 386,803 beds, with 369,523 hosts. Every 1,000 residents there are 6.5 beds available against 6.2 people housed. The accommodation capacity of the structures has got an average of 32.1 places per residence.

Social services provided by municipalities. The total expenditure for the assistance supported by the municipalities in 2011 exceeded 7 billion euros and, for the first time since 2007, has decreases from the previous year (-1.4%). 17.7% of municipality social spending is for nurseries services, one of the main services provided.

The main recipients of the services offered are the families and children (40.1%), then people with disabilities (23.2%) and the elderly (19.8%).

The expenditure for social services provided by municipalities consists mainly of direct interventions and services to users, equal to 2,733 million euros (38.9% of the total), whereas for the assistance structures is of 2,421 million euros (34.4%). The remaining 1.873 million are cash transferred to other public and private service entities and represent 26.7% of total expenditure.

In 2011, the national per capita average expenditure amounted to 118.3 euros.

Nurseries. In 2011, municipalities have spent 1,245 million euro on day care services, while the contribution of households was 289 million, accounting for 18.8 percent of overall expenditure. Compared to 2010, the two items have increased both, that public about 1.5%, that of families even more, by 5.1%.

Children assisted (201,565) are substantially unchanged from the previous year.

Pensions

The INPS is among the largest and most complex public social security institutions in Europe, it handles almost all of the Italian pension and has a budget of such an entity that is just second after that of the State. most employees in the public and private sector and self-employed workers are INPS insured.

In 2013 the total expenditure on pensions, amounting to 272.746 million euros, increased by 0.7% over the previous year and its impact on the GDP grew by 0.22 percentage points, from 16.63% in 2012 to 16.85% in 2013.

Old-age pensions account for over two-thirds (71.8%) of total pension expenditure; follow those survivors (14.8%) and welfare pensions (7.9%); much lower the weight of disability pensions (3.8%) and indemnity (1.7%).

The average annual amount of pension is equal to 11,695 euro, 213 euro more than in 2012 (+ 1.9%).

Italian retirees are 16.4 million, about 200 thousand less than in 2012; on average each one receives 16,638 Euros per year (EUR 323 more than in 2012); you must take into account that, in some cases, a single retiree can also count on more than one pension.

3 Government and Public Administration

3.1 Constitutional Structure

The **politics of Italy** is conducted through a Constitutional Republic with a multi-party system.

Article 1 of the Italian Constitution states

"Italy is a democratic Republic founded on labour. Sovereignty belongs to the people and is exercised by the people in the forms and within the limits of the Constitution."

According to the Italian Constitution the government is based on a parliamentary republican system, where the citizens vote directly the two Chamber representatives: Chamber of Deputies and the Senate.

1. **Executive power** is exercised collectively by the Council of Ministers, which is led by the Prime Minister, officially referred to as President of the Council ("*Presidente del Consiglio*").
2. **Legislative power** is vested in the two Chambers of Parliament primarily, and secondarily on the Council of Ministers, which can introduce bills and holds the majority in the parliament.
3. **Judiciary** is independent of the executive and the legislative branches. It is headed by the High Council of the Judiciary. The President is the head of state, though his position is separate from all branches.

The **President of the Republic** is the head of the state and represents the unity of the nation.

The President serves as a point of connection between the three branches: he is elected by the lawmakers, he appoints the executive, and is the president of the judiciary. The president is also commander-in-chief of the armed forces.

Italy has been a democratic republic since June 2, 1946, when the monarchy was abolished by popular referendum.

The Constitution was written by the Constituent Assembly of Italy and promulgated on January 1, 1948.

3.1.1 The President of the Republic

The President of the Republic is the highest constitutional body with the task of exercising, stably and impartially, the steering and controlling power to guarantee the proper functioning of the other branches of government.

He/she represents an element of balance that serves as a guarantor of the actual functioning of democratic rules.

According to the Constitution the President of the Republic represents the national unity. This means he/she's representing the Italian people beyond any political division.

The President of the Republic has the following characters:

- Is monocratic;
- Has impartial functions acting as link between the constitutional bodies, assuring and controlling the compliance of the Constitution, he embody the State;
- Is non-partisan, acting outside and above the various branches of government;
- Is neutral, since he is not an expression of any political force.

The President, has two additional fundamental powers: the choice of the President of the Council and the early termination of the chambers. Through these two functions he/she actually acts as arbiter of the political game in the State, since his/her margin of manoeuvre is very crucial in dealing with any government crisis.

In Italy, the President of the Republic is elected by Parliament in joint plenary session with additional involvement of delegates from each region, elected by their respective regional councils (which members are directly elected).

He remains in office for seven years and can be immediately re-elected.

3.1.2 The Parliament

Parliament is the legislative body of the State.

In Italy is in force a “perfect” bicameral system: the Parliament is composed of two separate rooms: the Chamber of Deputies and the Senate. They are equally empowered of the legislative and the political function, without any distinction of competence.

The Chambers differ only with respect to:

- *active electorate*: the citizens of majority age have the right to elect their representatives to the Chamber of Deputies, while for the Senate only citizens who have reached the age of 25;
- *passive electorate*: citizens who have turned 25 may be elected deputies, whereas senators the ones who have turned 40;
- *number of members*: Chamber of Deputies 630, Senate 315, to whom must be added those not elected;
- *non-elected members*: some Senators can be not elected in two cases: life members of the Senate appointed by the President of the Republic and life senators by rights as former Presidents of the Republic.

The mandate of the Members of the Chambers is five years. The Chambers may be dissolved before the expiry of the term. Such an act is undertaken by decision of the President of the Republic in extraordinary cases when he/she detects the impossibility of forming a majority within the two Chambers, capable of expressing a new government.

3.1.3 The Government and the Council of Ministers

The Government is the set of bodies responsible for executive function, i.e. the function of identifying and turning into concrete action and programmes the political will expressed by the electorate and to ensure the implementation of these programs.

The Constitution establishes the Government of Italy as composed of the President of the Council and the Ministers. The President of the Republic appoints the President of the Council and, on his proposal, the Ministers that form his/her cabinet.

The appointee can be the leader of the majority coalition that won the election, or it can be a person instructed by the President to form a national unity government in times of crisis for the nation. Either way, the government must receive the confidence of both Chambers so the Executive derives its legitimacy from the Parliament and the great number of political parties forces the President of the Council to bend to their will.

If the majority coalition no longer supports the government, the President of the Council can be ousted with a vote of no confidence, and a new government must be formed, or new elections are scheduled, under the responsibility of the President of the Republic.

The President of the Council is responsible of steering the government general policy and of fostering and coordinating the activity of the ministers.

The Council of Ministers, as government key body, is responsible for the collegial operation and for the activities that is undertaking as such, while ministers are held accountable for their departments.

3.1.4 The Constitutional Court

The Constitutional Court is the organ that ensures the respect of Constitution against violations by the powers of the State and against any attempt to waive or distort the principles therein enshrined.

The functions of the Constitutional Court are:

- Judgement of legitimacy on the ordinary laws of the state and the regions and other acts having the force of law, being this one its own specific function;
- Judgement on jurisdictional disputes between the powers of the state, between the state and the regions or between regions;
- Judgement on accusations made against the President of the Republic;
- Feedback on the admissibility of a popular referendum for repealing a law.

The Constitutional Court consists of 15 members chosen from among judges, including retired ones, of the ordinary and administrative higher courts, the university full professors of law and lawyers with at least 20 years of professional practice.

The 15 judges are appointed:

- 5 by the president of the republic;
- 5 by parliament in joint session;
- 5 of the supreme courts.

The judges shall hold office for nine years and are not re-elected.

3.1.5 The Judiciary

The Judiciary is the body with the power to exercise the judicial function: to apply the law to each case, when there is a dispute between two parties or there was unlawful conduct.

The judge is responsible to decide on the merits of each case, to determine what are the reasons and the wrongs, by applying the law provisions for the resolution of disputes and committing sanctions or penalties that may be relevant.

Italian Constitution contains the principles aimed at ensuring the fair and equitable exercise of the judicial function:

- The *independence of judges* - the judge, as arbitrator making the decision of a dispute, should be free of pressures and influences in applying the legal rules to the case;
- To ensure the independence the Constitution provides for the *irremovability principle*: whereby judges may be removed from office only in the cases expressly provided for by law and only after the decision of the Judiciary High Council;
- The *natural judge*: no one can be withheld from the judge pre-established by law;
- The *right to defence*: the Constitution recognizes every citizen the right to defence and considers the accused not guilty until the final sentence, beyond last possible review of the judge's decision;
- The obligation *to motivate the reasons for the measures*.

The Italian law establishes 3 levels of courts:

1. First Instance,
2. Appeal,
3. Cassation.

Each of the parts of the process may bring an action to a different court and of higher grade than the one who delivered the first judgment.

Against the judgment of the court of appeal is always possible a further appeal to the Supreme Court of Cassation (see more details in this same paragraph).

As the Italian judicial system is based on Civil law within the framework of late Roman law, and not Common Law, its core principles are entirely codified into a normative system which serves as the primary source of law, this means judicial decisions of the Supreme Court (see further on in the paragraph), as well as those of lower courts, are binding within the frame of reference of each individual case submitted but do not constitute the base for judicial precedent for other future cases. It is worth noting that while in civil law jurisdictions the doctrine of *stare decisis* (precedent) does not apply, however, in practice the decisions of the Supreme Court usually provide a very robust reference point of *jurisprudence constante*.

The **Supreme Court of Cassation**⁸ is the highest court of appeal or court of last resort in Italy. The Court of Cassation also ensures the correct application of law in the inferior and appeal courts and resolves disputes as to which lower court (penal, civil, administrative, military) has jurisdiction to hear a given case.

⁸ In Italian language "Corte Suprema di Cassazione".

The Italian Supreme Court of Cassation is the highest court within the hierarchy of the Italian jurisdiction. Appeal to the Court of Cassation generally come from the appellate court (second instance courts) but defendants or prosecutors may also appeal directly from trial courts (first instance courts). The Supreme Court can reject or confirm a sentence from a lower court, in case of rejection it can send back the proceedings to the lower court in order for the trial and sentencing to be amended or it can annul the previous sentence altogether. A sentence confirmed by the Supreme Court of Cassation is final and definitive and cannot be further appealed, while the Supreme Court cannot overrule the trial court's interpretation of the evidence it can correct a lower court's interpretation or application of the law connected to a specific case. The two essential aims of the Court of Cassation are to ensure that lower courts correctly follow legal procedure and to harmonize the interpretation of laws throughout the judicial system.

In order to prevent any interference of a political or other extra-legal exercise of the judicial function the Constitution provided for a special body that should protect the independence of the Judiciary.

That is the "*Judicial High Council*"⁹, whose members are chosen from among university professors of law and lawyers after 15 years of operation.

The Judicial High Council is responsible of administrative functions related to:

- Assignment and change of seat and functions of the judges;
- The transfer or career advancements of judges and their legal status;
- The imposition of disciplinary sanctions to judges following an specific procedure.

3.1.6 The Court of Auditors ("*Corte dei Conti*")

The Court of Auditors is a constitutional body, autonomous and independent from other State powers, to whom the Constitution entrusts important control functions (Art. 100 of Constitutional Law) and judicial (Art. 103 of Constitution).

The Court of Auditors is defined by the Constitution as "subsidiary body" in the sense that it supports the other constitutional bodies in charge of legislative, controlling, political, executive and administrative functions.

The fact that the functions carried out by the Court of Auditors are somehow aimed at "servicing" other functions, does not affect the nature and powers of the same Court regarded as neutral Organ, independent and autonomous from the Parliament and the Government, and playing its functions not only in the interest of the "supported" organs and the public administration, but also of the community. The Court of Auditors is completely independent both in the Government that the Parliament.

The staff of the Court of Auditors is made up of judges and administrative employees. The magistrates, specialized only for the functions, are: the President, the President substitute, the Attorney General, the Attorney-General substitute, the Presidents of the Chamber, the Directors, the first officers and officers.

In order to ensure the autonomy and independence of the Institute, the law establishes that the President of the Court of Auditors is appointed from among the judges of that same Court

⁹ "*Consiglio Superiore della Magistratura*".

that have actually acted, for at least three years, as Chairman of the Chamber or equivalent functions in national constitutional bodies or in European Union institutions.

The autonomy and independence of the Court of Auditors is guaranteed both by the procedures for appointing the leading functions of the body, and through ad-hoc procedures for the public evidence selection and for the appointment of auditing judges.

The independence of the Institute and its components is ensured, among others, by the immovableness of its members, the Presidential Council set up as self-regulating body, the financial and organizational autonomy of the Court of Auditors.

The Court of Auditors performs:

1. Control functions:
 - Preventive supervision of the legitimacy of acts of the Government;
 - Subsequent control on the financial management of public administrations (assessment of the results against the administrative objectives established by law, comparing costs, modalities and timing of the administrative action);
 - Check on the financial management of the bodies relying on the State budget contribution.
2. Jurisdictional functions in matters of public accounting and in other matters specified by law;
3. Administrative (e.g. measures relating to the economic and legal status of its employees) and consultative functions (opinions to the government and to the ministers concerning legislative instruments and measures; opinions in public accounting at the requests from regions, municipalities, provinces and metropolitan cities).

3.2 Central Agencies

The Italian institutional structure, as recalled in the previous paragraph, is based on principles centred on Parliament role, since the MoP are directly elected, whereas the other bodies (President of the Republic, President of Council, Council of Ministers, Judiciary) are not elected by general elections but through second level elective processes. In sake of a check and balance principles the sound functioning of the system is ensured through mutual election and control roles played by the different bodies, with the central role given to the Parliament.

Further constitutive principle is the independency of the three powers (legislative, executive and judiciary), also assured by self-regulating bodies, in particular guaranteeing the independency of the judiciary from the executive. The Constitution, since it has been put in force after the fascist dictatorship and the II World War, provided an accurate balance in order to prevent one power prevailing on the others, in so doing avoiding the risk of falling again into any form of authoritarian government.

Worth to be highlighted that, over the last 20 years various amendments to Constitution have been proposed in order to gain improvements in the effectiveness and efficiency in law making process and in the operations of the executive power, i.e. enhancing the role of the President of the Council, of the Government and of the power devolved to the Regional governments. In spite of such attempts so far no major changes have been achieved in the

Constitution basic structure and a further Constitutional revision proposal is in the making under the current legislature¹⁰ to pursuing a more efficient functioning of state powers and to correcting distortions experienced in their actual organisation, resulting in inefficient and time consuming complex mechanisms, often duplicating legislative processes.

In the following the current functions of the different bodies are outlined, respectful to the current Constitutional structure.

3.2.1 The President of the Republic, power and functions

- To call elections of the Chambers of Parliament, to set their first meeting and to convene them, in specific cases, in extraordinary session;
- Power to nominate senators for life up to five citizens who have brought prestige to the Country for the highest merits in the society, science, arts, literature and culture;
- To appoint a third of the judges members of the Constitutional Court.
- Power to send messages to the Chambers, thus expressing and informing them about his opinions and points of view;
- To authorize the Government to present bills for Parliament examination;
- Obligation to enact laws, with the power to suspend the promulgation if he/she considers that a law can be of prejudice or cause serious consequences. In this case resend, through a motivated message, the law to the Chambers, calling for a second discussion. In case the Chambers reapprove the law, it must be promulgated;
- To call popular referendums;
- To chair the Supreme Defence Council and has command of the armed forces;
- To confer the Honours of the Republic;
- To declare state of war when deliberated by the Chambers;
- Power to dissolve the Regional Councils, on the basis of Government decision;
- To accredit diplomatic representatives of Italy abroad;
- To receive representatives of foreign countries accredited in Italy;
- To ratify international treaties;
- To preside over the Judiciary High Council;
- Power to grant pardons and commute sentences.

3.2.2 The Parliament, functions

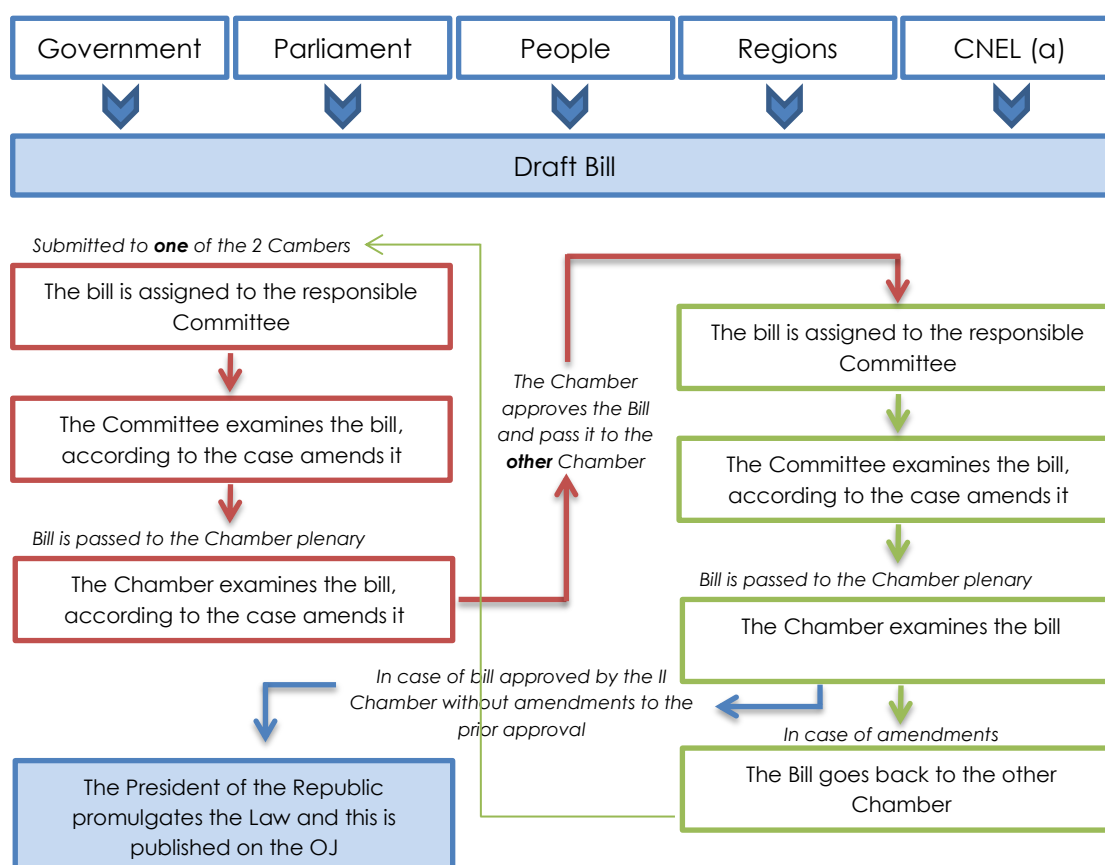
The functions of the two Chambers of the Parliament are:

- *policy making*: mediation between the various political groups represented in the Parliament and determination of the general policy of the country;
- *legislative*: conversion of the political will in legal rules (see Figure 3);

¹⁰ See more details in the next Paragraph 2.5 "Reforms to the structure of Government".

- *control*: control over the government and its subsidiary bodies (motion of trust and confidence in the Government, inquiries and motions to individual ministers and to government, parliamentary inquiries on matters of public interest, examination and approval of the annual budget, etc.);
- *jurisdictional*: in cases of formal impeachment of the President of the Republic;
- *decision-making in cases of particular importance*: the ratification of international treaties, amnesty and pardon, the deliberation of the state of war.

Figure 3: Italy Legislative Process



(a) CNEL – National Council of Economy and Labour (Consiglio Nazionale dell'Economia e del Lavoro). Consultative Body of the Parliament and of the Government on economy and labour policy. A recent bill, under discussion in the Parliament and not yet in force, proposes to abolish the CNEL.

Source: Author own elaboration on official data

The Chambers are complex organisms with articulated internal organisation and functions operating on the basis of *ad-hoc* set of rules governing their activities. These rules are outlined and formulated in general terms by the Constitution. On such principles each Chamber defines and votes its respective detailed Regulation.

Each Chamber elects among its members a Chair and the Bureau composed of the Vice-Chair, the Quaestors and the Secretaries.

Most of parliamentary work is carried on by committees composed by members of the Chambers belonging to the different political groups formed within the assembly, reflecting proportionally their representation.

Depending by the relevant matters four main typologies of Committees are considered:

- Standing committees
- Special committees
- Commissions of inquiry
- Joint committees (pulling members of both Chambers).

3.2.3 The Government and the Council of Ministers, Executive Power and Functions

The main functions of the *President of the Council* are:

- to steer the general policy of the Government: draw up the Government programme, and calls the Parliament on its confidence;
- to promote and coordinate the activities of Ministers;
- to countersign the most important acts of the President of the Republic;
- to countersign all acts having the force of law;
- to submit to the Chambers the bills of government initiative (see Figure 3).

The President of the Council may select *Ministers* among the citizens not necessarily being MoP. Each one of the Ministers is in charge of one of the branches which the administrative activity of the State consists in: Foreign Affairs, Justice, Defence, Education, etc.

The *Council of Ministers* is the body formed by the President of Council and the Ministers.

The President calls, headmasters the meetings of the Council and steers their discussions.

The main responsibilities of the Council are:

- To define the policy and the administrative line of the government and elaborate the relevant programme;
- Deliberate on the bills that the government intends to send to Parliament, on decree-laws, legislative decrees and regulations to be issued, on international matters, on acts concerning the relationship between the State and the Catholic Church and other religions, on settlement of any disagreements between ministers.

The Government, by way of exception, in the cases and limits established by the Constitution can replace the Parliament in its legislative capacity.

The acts by which the Government legislates are:

- *legislative decrees or delegate decrees*: are acts having the force of law issued by the Government on the basis of a specific and detailed enabling Parliament provision;
- *decree-laws or by-laws*: in case of need and urgency, the Government may adopt under its responsibility, interim measures with the force of law. They shall enter into force on the same day, but must be converted into law by the Parliament within 60 days;

- *regulations*: are secondary regulatory acts, which does not have the force of law, they cannot change or be inconsistent with an ordinary law¹¹.

The current Italian government is led by Mr Matteo Renzi. As of February 2014, the government has 17 Ministers, of whom four are without portfolio.

The President of the Council leads particular departments directly under the Presidency (or Presidium) of the Council of Ministers. Unlike the office of State Undersecretary to the Presidency, who fulfils duties in the Prime Minister's remit, Ministers without Portfolio enjoy the full status of ministers but do not lead an independent ministry. Constitutional Reforms and Parliamentary Relations, Regional Affairs, Simplification of Public Administration are currently led by ministers without portfolio. **Current Italian Government Structure** (since 22 February

2014)

President of the Council (Prime Minister, Matteo Renzi)

Secretaries of State to the Prime Minister with the following delegated powers:

- Secretary of the Council of Ministers
- Territorial Cohesion Policy and Sport
- Information and Communication of the Government
- Publishing Industry
- Planning and preparation and organization of the Commemoration of the Centenary of the I World War and the celebrations of the 70th anniversary of the Resistance and Liberation War
- European policies
- Coordination, with the Minister of Foreign Affairs, of the activities related to the Semester of Italian Presidency of the EU Council (July-December 2014)
- Delegated authority for the Security of the Republic

Ministers without portfolio

- Minister for Constitutional Reforms and Parliamentary Relations
- Minister for Regional Affairs
- Minister for Simplification of Public Administration

Ministers with portfolio

- Minister of the Interior
- Minister of Foreign Affairs
- Minister of Defence
- Minister of Justice
- Minister of Economy and Finance
- Minister of Economic Development
- Minister of Infrastructures and Transports
- Minister of Agriculture, Food and Forestry Policies

¹¹ Among the regulations the Italian legislation considers:

- *implementing regulations*: provisions for the implementation of a law;
- *supplementary regulations*: aimed at detailing the discipline of a law;
- *independent regulations*: authorized by the law to regulate matters not otherwise regulated;
- *regulations of deregulation*: that are issued by the Government on specific mandate of Parliament assigned through a law. The government is authorised to regulate a matter and, upon entry into force of the Regulation, all previous laws on the subject will be repealed. This is one deregulation mechanism, in order to streamline the legislation on specific issues.

- Minister of Education, Universities and Research
- Minister of Labour and Social Policy (including Youth policy, National civil service, Integration, Policies for Family)
- Minister of the Environment, Protection of Land and Sea
- Minister of Heritage and Cultural Activities and Tourism
- Minister of Health

Source: Own elaboration from Italian Government Web Site - http://www.governo.it/Governo/Ministeri/ministri_gov.html

Finally worth to recall the Italian order of precedence as it is fixed by the Law. Hierarchy of officials in the Italian Republic used to direct protocol is:

1. President of the Republic
2. President of the Senate of the Republic
3. President of the Chamber of Deputies
4. President of the Council of Ministers
5. President of the Constitutional Court

3.3 Links Between and/or Amongst Central Government and Local Government

The Country is structured into 4 main administrative levels:

- State,
- Regions,
- Provinces,
- Municipalities¹².

As at 31 December 2013 the municipalities were 8,090 and 110 the provinces (including among them also the Valle d'Aosta region that integrates the role and functions of the province); the regions are 20, including five special autonomy statute regions.

For statistical purposes, as seen in the first chapter of the present document, the regions are grouped into 4 geographical units: Northwest, Northeast, Central and South (the latter includes Southern regions, Sicily and Sardinia Islands).

¹² In this structure the metropolitan cities (in force since 1 January 2015) are not considered. With the reform of Title V of the Constitution (Constitutional Law no. 3 of 2001), art. 114 provides, in the first paragraph, that "the Republic is composed of municipalities, provinces, metropolitan cities, regions and the State". Later, with the Law no. 56 of 7 April 2014 it was determined that from 1 January 2015, the metropolitan cities of Turin, Milan, Venice, Genoa, Bologna, Florence, Bari, Naples and Rome Capital they will take place of the homonymous provinces.

Each of the administrative levels in recent past counted on independently and directly elected governing bodies. A recent reform¹³, in force since 8 April 2014, has introduced a major reform of the Provinces. Pending a broader reform of part of the Italian Constitution which is under elaboration, the Provinces become "territorial bodies of wide area", with the President of the Province elected by the mayors and councillors of the municipalities of the same province, and no more directly through popular elections, with the result that only two administrative territorial levels remain directly elected: Regions and Municipalities.

The bodies of the Region are:

- the regional council (the legislative);
- the president of the regional board (the President of the Region);
- the regional government board (the Executive, appointed by the President).

The Region is represented by the President of the Region who is directly elected, in the same election of the regional council members.

Further important factor to be considered, related to the Regions status, they are grouped into two categories, already considered:

- Ordinary regions (15)
- Special autonomy regions (5)

The justification of the special status given to some regions is mainly due to the presence of linguistic minorities or historical background. In most of the cases their special status was recognised already in the Constitution whereas the ordinary regions were established in year 1970.

Three are the most relevant factors stemming for such a autonomy status compared to the ordinary regions, when considered in relation to the State:

1. Autonomous legislative power;
2. Autonomy of tax imposition (they can keep a high percentage of the taxes collected on their territory, ranging in variable degree between 60% to 100%)
3. Direct legislative and regulatory power towards their respective municipalities, including direct funding of local budgets.

The relations and linkages between the State and the Region changed substantially after a Constitutional reform introduced in year 2001.

The Regions are the main territorial administrative level directly interacting with the national level. On the basis of the Constitutional reform of 2001¹⁴, the general legislative power became equally shared between the State and the Regions (previously was just a power of the State against ordinary regions), and the split of legislative responsibility was then set according to the matters.

The reform statutes that the legislative power, depending by the matter, can be:

- exclusive of the State;
- concurrent between state and regions;

¹³ The Law no. 56 of 7 April 2014 "Provisions on metropolitan cities, the provinces, the unions and mergers of municipalities".

¹⁴ Constitutional Law no. 3 of 2001, often referred as "Reform of Title V of the Constitution"

- residual of the Regions.

Legislative and Regulatory Powers between State and Regions

Exclusive of the State:

- foreign policy and international relations of the State; State relations with the European Union; right of asylum and legal status of citizens of countries outside the European Union;
- immigration;
- relations between the Republic and religious denominations;
- defence and armed forces; security; weapons, ammunition and explosives;
- the currency, savings protection and financial markets; protection of competition; currency system; tax and accounting system of the State; harmonization of public accounts; equalization of financial resources;
- state bodies and relevant electoral laws; state referendum; election of the European Parliament;
- legal and administrative organization of the State and of national public agencies;
- public order and security, with the exception of local administrative police;
- citizenship, civil status and register;
- jurisdiction and procedural law; civil order and criminal; administrative justice;
- determination of the basic level of benefits relating to civil and social rights that must be guaranteed throughout the national territory;
- general provisions on education;
- social security;
- electoral legislation, governing bodies and fundamental functions of municipalities, provinces and metropolitan cities;
- customs, protection of national borders and international prophylaxis;
- weights, measures and determination of the time; statistical and computerized coordination of data of state, regional and local levels; intellectual property;
- protection of the environment, the ecosystem and cultural heritage.

Concurrent between state and regions:

- international relations with the European Union of the Regions;
- foreign trade;
- workers protection and safety;
- education, subject to own autonomy of educational institutions and with the exception of education and vocational training;
- professions;
- scientific and technological research and support to productive sectors innovation;
- public health care and health protection;
- food and nutrition;
- sports law;
- civil protection;
- territorial government;
- civil ports and airports;
- transmission grids and navigation;
- regulation of communications;
- production, transport and distribution of energy;
- complementary and supplementary pensions;
- coordination of public finance and the tax system;

- enhancement of cultural and environmental promotion and organization of cultural activities;
- savings banks, rural banks, credit companies a regional nature; bodies of land and agricultural credit to regional character.

In matters of concurrent legislation the legislative power passed to the regions, except for the determination of the fundamental principles, reserved to the State legislation.

Finally the Law establishes the residual powers of the Regions on all other subjects.

Eventually a crucial point concerning the implementation of the 2001 reform must be stressed: on the one hand the legislative power became shared between state and regions, on the other the “fiscal federalism” was introduced, meaning an increasing share kept by the Regions in taxes withdrawn at local level.

However the latter, the financial autonomy, never turned to be operational, so the Regions still depend mainly on transfers from the central State. The regions collect some regional based taxes, but for their budget they still must rely substantially on the central government transfers.

Concerning the budget of municipalities this is a further element that determines a persisting difference between an autonomous vis-a-vis an ordinary Region: the former has primary legislative power in matters of local authorities and capacity to fund budgets of local resources of its budget, the latter hasn't.

3.3.1 State–Regions Relations

The relations between the national government and the regions are normally conducted according to two main modalities:

1. Through direct bilateral meetings between the representative of the national Government (either the President of the Council or relevant Ministers) and the representatives of each Region, normally the President of the Region, according to the matter to be discussed;
2. Collegially, through the State-Region Conference.

As far as the second ins concerned, the “*Permanent Conference for relations between the State and the Regions*” (established in year 1983, in short State-Region Conference) operates to foster cooperation between the action of the State and of the Regions, constituting the “privileged seat” of political negotiations between the central government and the system of regional governments.

The State-Regions Conference:

- is, in the present phase of the implementation process of Constitutional reform, the site of meeting and negotiation between the different positions of the relevant institutions;
- is the site where the government acquires the Regions opinion and advice on the most important administrative and regulatory acts of regional interest;
- aims to realize the concerted cooperation between central and regional administrations and enables the Regions to participate in the choices of the Government in matters of common interest;
- meets in a special European affairs session to deal with all aspects of EU policy that are also of regional interest.

3.4 Civil Service

Total number of civil servants in Italy in year 2013 was 3,232,954 units. The number of public offices is approx. 9,600 administrations.

Compared to the 2011 data, a slight continuous reduction of total civil service employees, as persisting trend also from the previous years, has been recorded.

Table 5: Italy Full Time Permanent Civil Servants

Year	2011	2012	2013
Total Units	3,283,787	3,238,967	3,232,954
Total Labour cost (Euro billion)	165.18	160.32	158.21
Gross average salary (Euro)	34,910	34,606	34,505

Source: Italian Ministry of Economy and Finance (2014)

Distribution of staff in the main Public Administration (hereinafter PA) sectors (year 2013)

State Sector:

School	32.1%
Police	9.8%
Ministries	5.0%
Military forces	5.7%

Public non-State sector:

National Health Service	20.7%
Regions and local governments	17.9%

Female personnel employment count about 55,8% (2013) of the total public sector. Although the reduction continues over the time in absolute terms, the percentage of women is steadily increasing in all sectors. The increase in the percentage of women is due to the greater number of recruitments than men (about 5,000 more) as well as to the smallest number of terminations (about 17,000 less).

Distribution of public employees by region and geographical area in the year 2013:

North	34.95%
Centre	29.79%
South and Islands	35.03%
Abroad	0.23%

The percentage of people employed in civil service, compared to the total employment in Italy, is around 15%.

3.4.1 Civil Service Personal Performance Measurement

Over the last few years, Italy has undertaken a comprehensive process of administrative modernization with a view to enhancing public service provision, touching upon the main aspects concerning PA transparency and citizen participation in public decision-making, through measures aimed at promoting accountability and organizational performance.

Among the main actions to support promotion of economic development and growth, the Italian Government attaches special importance to systemic simplification measures, as well

as promotion of use of new information and communication technologies that will result in a radical change in the relationship between PAs and citizens and business.

Two are the main laws that have been issued to that purpose:

- The Legislative Decree no. 150/2009 (Known as “*Brunetta* Decree”, after the Minister in charge at that time);
- The Legislative Decree no. 33/2013 (Known as “*Trasparenza* Decree”, Transparency).

The no. 150/2009, inspired by new public management theory and principles has paved the way for a comprehensive revision of a lot of aspects related to the Italian civil service model. The Decree fits in a broader public administration reform process that took its first steps at the beginning of the last decade of the past century. In particular, the Legislative Decree no. 29/1993 moved its first steps towards the separation between politics and management and the privatisation of working relationships within the public sector.

The objectives of the reform introduced by the Decree are on one hand to improve the delivery of services according to citizens’ needs and expectations and on the other hand to improve efficiency and productivity within the public sector.

The main innovations introduced in civil servant performance measurement are:

1. performance management;
2. performance appraisal;
3. reinforcement of the selection mechanisms for economic and career incentives;
4. strengthening of managers’ role;
5. reform of collective bargaining provisions aligning them with those regulating the private sector;
6. reform of the disciplinary proceedings.

The Decree applies directly to all central public administrations and to their executive agencies, for other levels of government (regional and local levels), due to the constitutionally guaranteed autonomy, the reform applies only in terms of principles.

The Decree gives special emphasis on performance management. Central public administrations are due to develop the so-called performance cycle, in accordance to the economic and financial planning. Regarding the performance cycle the decree identifies eight areas of organizational performance:

- A. the implementation of the policies and the final satisfaction of collective needs;
- B. the implementation of plans and programs, in accordance with phases and timing, quantity and quality standards defined and the expected level of consumption of resources;
- C. the level of customer satisfaction;
- D. the modernization of the organization and the improvement of professional skills and competencies of civil servants and the ability to carry out plans and programs;
- E. the qualitative and quantitative development of relations with citizens, stakeholders, users of delivered services, including the development of forms of participation and collaboration;
- F. the efficient use of resources;

- G. the quality and quantity of goods and services provided;
- H. the achievement of the objectives of promoting equal opportunities.

In order to ensure an effective adoption of the performance in accordance with the Decree N. 33/2013, each public administration (national, regional and local ones) must elaborate and deliver a three year **Performance Plan**, which is the instrument that defines and sets the mechanisms of the relevant cycle of performance management, planning objectives and key actions for measuring and evaluating organizational and individual performance within the Administration.

According to the law, through a process of sharing and wide involvement of relevant actors, policy objectives, aligned with the institutional mission and government policies, are to be defined. In such a framework all the PA structures, as well as external stakeholders, must attend the elaboration of guidelines and action lines for next future.

3.5 Reforms to the Structure of Government

Among main reforms undertaken in the structure of the Government in Italy, can be considered:

- 1970-72 First election of the Regional Councils for the ordinary regions, implementation of Constitution provisions concerning the establishment of Regions, drafting and approval of regional statutes. Devolution of a first set of administrative functions to the Regions (municipal districts and local police; mineral waters, quarries and peatlands; educational assistance, museums and libraries; health care and hospital; transport; tourism and hospitality industry; fairs and markets; urban planning, roads and expropriation; public charity; artisan and vocational education; agriculture, hunting and fishing).
- 1975-77 Further devolution of functions to the Regions (legal and administrative organization; social services; economic development; structure and land use).
- 1997-99 Administrative Simplification, reorganization of public administration, "privatization" of public employment, reform of internal controls and "culture of evaluation" (so-called "*Bassanini Law*").
- 2001 Reform of Title V of the Constitution concerning Regions, Provinces, Municipalities (Constitutional Law no. 3 of 2001). The reform recognizes local governments as operating administrative bodies existing prior to the formation of the Republic. The municipalities, metropolitan cities, provinces and regions are entities representing the population of a given territory and responsible to take charge of their needs. The government action takes place at a lower level and as much as possible next to the people (subsidiarity principle), except the substitutive power the next higher level of government in the event of failure or default of the lower level of government. The provisions of this reform are still under the process of implementation.
- 2014-15 New constitutional reform bill approved by the Senate first reading (8 August 2014), first of 4 steps for the final adoption; its legislative process is planned to be finalised in 2015. Main distinctive elements of the reform: change of the Senate role and composition (no more elective senators but regional representative members, changing the Senate into the chamber of regional autonomies) overcoming the current Constitution so-called "perfect bicameralism", the provinces are finally abolished by the Constitution, the concurrent legislative power between state and regions is eliminated with a definite repartition of the respective matters.

3.6 Key Issues, Lessons Learnt, Trends

Economic downturn, that continues to affect the Italian economy and society, is undoubtedly the major issue since years. It emphasised structural problems that were already quite evident in the past decades: weak industrial system, even though with some remarkable exceptions, with scarce attitude to invest in innovation; inefficient PA; high and widening North-South development divide; increasing unemployment, in particular within younger generations; organised crime and widespread corruption, these are the main critical factors.

The high instability in the national government structure induced a systemic uncertainty toward the future perspectives. As a consequence the political action tends to addressing primarily very short term actions and initiatives instead of acquiring and undertaking a longer term and structural change oriented initiatives and policies, in order to cope with the basic issues which are affecting Italian economy and society.

However, given the deepest crisis ever hit the Italian society since the II World War, in last years a convergence of willingness, energies and commitment began to gain momentum, involving the best resources from the entrepreneurs, the institutions to the political decision makers. A recovery policy and agenda can be seen taking shape, even though possibly not yet with the needed strength, trying to pull best capacities in order to sort out the current conditions.

Main lines of such tendencies can be observed in the rationalization and modernisation of the PA, strengthening the administrative capacity, reforming and modernising the bureaucracy through a structural change of the State structure at all levels, national, regional and local.

However a noticeable example of the turnaround process which has been undertaken in the Italian public administration – at all levels - and of the corresponding resistance of the system to change is the introduction of the performance measurement (see the relevant paragraph¹⁵), both institutional and individual one, and its real functioning. The consolidated bureaucratic culture is such that the performance oriented measurement system of civil servants and of PA managers struggles to be effectively implemented. The tendency to keep going the old fashioned way of ensuring everybody or nobody the productivity and performance rewards in a given administration is still the most usual attitude. Instead of really recognising and weighting the individual merit and commitment, such an indiscriminate way of acting is still very common if not prevailing in the public administration, since the indicators and respective measurement procedures are not effectively and independently selected, adopted and implemented. The political transaction costs are main reason for such a resistance to change.

In spite of such weaknesses new approaches are pursued in order to achieve an improvement in the overall system efficiency, relying on the fresh energy the overall Italian system is endowed, being one of the major industrial economies of the world. Human and social capital, the competitive, innovative and export oriented part of industry, science and technology capacities, administrative competence that in part of the Country is rather high are the assets on which to base such recovery.

What is the tough lesson learned is the urgent and not deferrable need to overcome main weaknesses that Italian society is facing, in the broader context on the European crisis. We refer to:

¹⁵ See Paragraph 2.4.1 "Civil service personal performance measurement".

- Persisting in the reforming effort, avoiding the continuous stop-and-go and erratic direction that in the past often affected the attitude of the Italian PA and of the political decision making approach;
- Counting on a turn in the pointless European insisted attitude towards austerity, financial stability and quite sterile North-South confrontation among European member states, instead of undertaking a more consistent and cohesive continental action;
- Clarifying the specific roles of national and local stakeholders and respective institutional responsibilities of Italian bodies, calling for an improved capacity to strengthen the capacity to establish and maintain a systemic effort and to pursue a coordinated action among all levels of the PA;
- Challenging in a more decisive way the endemic weaknesses of Italian culture, which is in good deal causing the persisting and still increasing North-South divide: nepotism, corruption, tax evasion, organised crime just to mention some issues;
- Establishing conducive framework conditions enabling unleash the high potential the national economy, that still is the second most important European manufacturing power, learning eventually how to exploit and to capitalise the huge resources available (widespread scientific, technical and commercial know-how, entrepreneurial attitude, natural environment, cultural heritage, etc.)

A trend towards change is most likely already under way, even though definitively not yet prevailing. Frankly speaking the risk of default has not been totally overcome so far, but this is not just issue for Italy, instead is of European scale, as well known.

4 The Process of Strategic Planning and Management

4.1 History of the Strategic Planning in the Country

Strategic planning can be defined as “a disciplined effort to produce fundamental decisions and actions that shape and guide what an organization (or other entity) is, what it does, and why it does it”. It allows organizations to anticipate and deal with dynamic and rapidly changing environments, and **account for the allocation of resources**. In doing so, strategic planning plays a crucial role in explaining how public organizations put policies into practice and define clear objectives while ensuring appropriate and sound budgeting

Internationally, the relevance of strategic planning in the public sector has significantly increased, in the light of a more complex context, with scarcity of funds, and a larger number of interconnections among central and local actors. Starting from the end of the nineties the EU has undertaken a strategic orientation to promote the planning of long-range policies at the European and national level. In particular, the EU issued the Lisbon strategy and Europe 2020, aimed at supporting ambitious objectives of development and promoting equal opportunities for all territories. To support the achievement of these objectives, the Cohesion and Regional Policy was formulated. It resulted in the issuing of the Cohesion Policy and Cities - the Urban Contribution to Growth and Jobs in the Regions [Com(2006) 385 final], addressed to Regional and local governments, and suggesting a list of items to be considered into the planning of their policies.

In Italy, the debate around "strategic planning" has been since the beginning strongly rooted in the modernisation and reform process of the public administration, an issue considered crucial for boosting economic performances of the country and make the whole national system more dynamic and competitive, especially in these last years of persisting financial crisis as described in the previous paragraph 2.6.

Strategic planning aims at shifting the role of public administration from a "plain controller" for the respect of formal requirements and procedures to a facilitator for efficient and effective use of public resources, increasing transparency and responsibilities (accountability) of all the actors involved. The debate about the means to achieve these aims has put a lot of emphasis on the upgrading and enhancement of organizational structure of the staff of the PA that is nowadays deemed as crucial. There is a need for shifting the scope of action to a result-driven approach, fostering the importance of fulfilling goals and meeting objectives (results) and the taking over of responsibility. At the same time, the need to change the "behavioural logic" of bureaucracy towards a logic of consistency between objectives and results is perceived as essential.

Strategic planning shall support this evolution, by reinforcing the link between the planning / programming phase (strategic control) to monitoring and evaluation (monitoring the implementation of general programmes) through the development of a system of appropriate indicators for each identified objective.

Planning is conceived not only as a “*top – down*” process, for internal use, which is closely related to the phase of the control. On the contrary, the determination of the goals to be achieved should be – if not “*bottom-up*” based – at least *negotiated* and developed as an “*ex ante*” exercise of review of the results expected from the programme. Hence, during the implementation any deviation is the opportunity for a shared review of the consistency and compatibility of the plans over time and to improve the definition of the goals themselves.

However, despite more than six years after the first legal act¹⁶ the reform is still perceived as incomplete as it failed going beyond regulatory level missing the modification of the cultural layer. Law as a standalone provision is - it does not matter how sophisticated and cutting-edge it can be - unable to induce change of behaviours in public servants; behaviours are determined primarily by cultural transformations.

Analysing the most effective way to bring in cultural changes, a wide literature considers fundamental the full knowledge and understanding (from the accounting, organizational, technological side) of the phenomenon and its context, the public administration in this case. A support in this understanding comes by knowledge and expertise from academia and business, industry, liberal professions and the training of civil servants.

At the same time it remains indisputable that public organizations can not only meet the criteria of profitability, but they must add to them elements of sociability that are proper to the public function.

The spread of the modernization process and in particular the issues of strategic planning is the result of multifaceted process.

A first factor is given by EU and its institutions that have pressured all Italian governments throughout the last ten years, to a constant confrontation, both with economic, administrative management of the global market, and with opinion polls of citizens/voters, highlighting on one hand the historical limitations of the public sector but supporting at the same time some significant steps forward in the path of innovation towards improvement.

The so-called "logic of the market" has played an additional relevant role. The market is constituted by the community; final user of the service provided and it constitutes the "demand" to be met in terms of collective needs. In this sense we can speak of a high form of competition, which produces the same final effect: to create a sort of "conflict" between the administrations to better meet the "citizen – client" (progressively much more demanding), stimulating sensitiveness to its necessities. In Italy, the exercise was firstly developed at the level of local authorities; these authorities are, in fact, in direct contact with end-users and therefore are easily observable and therefore directly judged.

Local authorities have a measurable product in terms of quality, efficiency, timeliness, while at the central level the comparison relates to the policies, decisions and organizational solutions for each administration.

So, there are some administrations whose action has its origin at the time the election (for example, local authorities, local health agencies, universities); others that play an instrumental role with respect to specific "missions" (such as ministries).

In this context, the reform of the electoral system has helped to stimulate discussion at local level: the ability to choose a mayor, for example, makes the comparison valuable not only within political agendas, but rather on the actions and results that will be realized. So, failure or mismanagement are important data available to the voter, given that the re-election will depend on the performance achieved during his mandate.

Therefore, the challenge does not arise at the time of the election but when decision-makers start to work, bearing in mind that the citizen constantly makes comparative evaluations

¹⁶ Dating back to 1999, the implementing act of Legislative Decree 286/99 laying down detailed rules concerning the reorganization and strengthening of mechanisms and tools for monitoring and evaluation of the costs, performance and results of operations carried out by the public authorities.

between administrations that offer the same service and the outcome of its assessment will decide whether to “reward” political actors or “punish” them.

So, at the peripheral level, the electoral reform has approached more and more the political citizen. This because - here - policy-making has developed its ability to respond to local problems. On the contrary, at the central level, the process is slower and the concept of accountability is less considered. This is often translated into a sense of immunity of the administration.

The goal is to achieve more in terms of outcome (analysis of impact on the user) and in terms of output (analysis of activity), while the typical bureaucrat is interested only in the internal result. So, the reform of the electoral system can be considered as the last act supporting the transformation of citizens into “customers” of services provided by the public administration rather than plain final users.

4.2 Lead Bodies and Co-ordinating Bodies

Strategic planning has registered a significant development since the eighties. As a consequence of the application of this approach, it has been implemented by several organizations, such as: public agencies, departments and their sub-articulations; States, regions, local authorities and their sub-articulations; not for profit organizations providing public services; public and private partnerships, networks and alliances.

Referring to local governments, strategic planning could represent a fundamental mean to enforce public value, in consideration of their proximity to people needs. So, its implementation can increase accountability, quality of decision-making, long-term performance and inclusion of territorial stakeholders.

Concerning the Italian context, local governments are very important actors in terms of social and economic development and both at local and national level, clearly defined strategies can substitute a short-term perspective which often affects policy-making. The national legislation does not foresee a mandatory long-term strategy but at the end of the '90s several local government institutions adopted strategic planning practices.

In Italy, the most important tool of the whole process is constituted by the **Strategic Plan** that defines Local Authority's mission, objectives and resources to be taken into account.

The first strategic plan was issued by the municipality of Turin in 2000 and it is still considered a kind of national “benchmark” in this field. After this successful case, other Local Authorities have adopted the same process, which are similar to each other concerning structure and contents. It has to be noticed that Turin has also published the second generation plan.

As a general reflection, it can be affirmed that in the Italian Strategic planning experience, the key role as promoting institution has been played by local public bodies, in particular by municipalities (the most committed from the financial and organisational point of view), followed by Provinces, Chambers of Commerce, and industrial associations. Private sector and Third sector represent crucial actors as well.

Regions have often contributed during the elaboration of Strategic Plan, providing a kind of overall vision and a reference framework. Despite this, in most cases the role of regions has been quite reduced and formal.

The *first phase* of the Strategic Plan lifecycle is represented by the aggregation of public and private actors sharing a common interest and wish to set up the plan at political level.

In the Italian praxis a specific “Development Forum” has represented a kind of collective body, which acts as commissioner/promoter of the Strategic Plan (in Turin, Florence and Perugia). Here the major of the municipality is usually the activity leader, involving all relevant private, social, and Third Sector stakeholders.

Some other times (Roma, Genoa, Trento and Venice) the preparation process of the plan has been implemented always in a cross-sector perspective but the decisional phase has fallen under the responsibility of the Council of the municipality that promoted the initiative, involving public and private sector (through thematic workshops or working groups).

During the *second phase* of a Strategic Plan (preparation), in the Italian case all bodies committed to deploy and define the document can be divided into two categories: Internal or external structures of the promoter body.

As a general rule, the informal or institutional actor in charge of preparing the plan can effectively operate only if it boasts a mandate that is clearly perceived, understood and appreciated by the local community. So, this phase has to be legitimated by the same actors which have delegated the definition of the plan itself. If public opinion recognizes the actor in charge, then the strategic plan acquires a growing importance in terms of collective perception of local development potential.

One aspect to be deeper analysed is linked to the costs of preparation and management of a Strategic Plan. So, the following elements do constitute indicative guidelines:

- cost distribution between all public and private actors of a given space, concerning preparation and management of the strategic plan should be defined in advance, shared and balanced;
- cost distribution should be defined in relation to the characteristics of each actor. So, it is not only a matter of finance but also of common goals to be joined. In this sense sharing the use of services, personnel, tools, sites improve the efficiency in addition to allocated economic resources;
- the identification of a single financial body should be avoided, therefore supporting the identification of other different resources (personnel, sites) as inputs for strategic plan preparation and management. It is essential to create an agreement among all promoting actors, so that they can jointly allocate and share the resources aimed to realize the initiative, particularly throughout the implementation phase.

The implementation bodies can be identified as: “Associations”/”Urban Centres” or Agencies/Committees.

In case of **Associations/Urban Centres**, organizational structures are strongly formalized: they do possess legal status and personality, they have allocated staff and an headquarters for day to day management. Urban centre promotes the history of a town, its architectural, monumental and infrastructural heritage, the current status of urban development, its weaknesses and potentialities. Additionally, it plays the role of a kind of think tank, facilitating meetings among different social or economic stakeholders which in view of agreements for development of future projects.

In the second case, **Agencies or Committees** are more informal offices/structures set up by the local body, autonomously or jointly with other actors which promoted the strategic plan. Anyhow, in this third phase (implementation) the role of the other public and private actors, earlier involved within the “Development Forum” (Promoter Body, see above), has been quite reduced. This because the Local Body generally preserves its function of main responsible and reference structure of the entire process.

The **Strategic Planning Cycle** can be also more structured, as follows:

- 1) Identification planning units and definition of mandates and missions;
- 2) Planning structures;
- 3) Timing and targeting;
- 4) Projects and operations' specification;
- 5) Financing and accounting operating costs and programming budget;
- 6) Monitoring system and audits.

Four main areas can be illustrated in the framework of the Strategic Planning:

- 1) *"know how": learning how to proceed with the creation of a plan and with the entire planning process;*
- 2) *"pure knowledge": in support of the central Area 1; it is useful to set data, information, functional analyses to implement the entire phase;*
- 3) *"Complementary": linked to central Area 1. The elements collected are analysed in depth and Area 1 themes are monitored. Here, quantitative analyses and evaluations of the elements assessed in Area 1 are implemented;*
- 4) *"Technical support" to the analysis of central Area 1 and Area 3 goals.*

The logical process of programme core follows some defined steps:

- The *Single Action* which is "measured" by *Action Evaluation*, analysing its outcome upon the *Intermediate goal*, through the use of *ad hoc achievement indicators*.
- The *Intermediate goal (Programme)* is measured by *Effect Evaluation*, analysing its outcome upon *General goal* (part of the intermediate goal) to which the action aims. This can be done through *ad hoc efficacy indicators*.
- The *General Goal (Strategy)* is often expressed by a quality standard and it is measured through *Impact Evaluation* (concise general indicators).
- *Aims or Final Goal* represent the last point

Table 6: Levels of Programme Structure in GPRA Performance Plans

PROGRAMME STRUCTURE LEVELS				
Reference Structuring	GPRA Plans Structuring			
	EPA	FEMA	DOE	DOT
First Level Purpose	Strategic Goals	Strategic Goals	Objectives	Strategic Goals
Second Level Strategic Objectives	Objectives	Five Years operational Objectives	Performance Goals	Outcomes
Third Level Action Programmes	Key Programmes	Performance Goals	Performance Goals	Performance Measures
Fourth Level Actions	Measures	no	no	Performance Goals

A grid to organize programme planning could be composed by:

- Strategic goals;
- Objective Indicator;
- Ways and means;
- Performance Indicators;
- Target Indicators.

4.3 Key Issues, Lessons Learnt, Trends

Strategic planning has become more and more relevant in Italy, although not mandatory in the public sector. 84 Strategic Plans (SP) have been adopted since 2000.

It has to be remarked that a large part of SPs have been issued by Local Authorities (notably municipalities) located in Southern Italy and in the islands. This also because of the availability of financial resources under EU Objective 1 (Structural funds and Cohesion funds of 2000-2006 period). Concerning the contents of Strategic planning in Italy a better compliance with the EU Communication policies¹⁷ still has to be achieved. In particular, the most preferred policy by Local Authorities – among all items provided by the EU - has been “Attractive cities”, in consideration of the richness of the Italian heritage preservation and its enhancement needs. On the other hand “Disparities within cities” has been the least relevant policy, despite huge socio-economic differences in the whole Country.

Duration of Italian SPs is quite variable: cases vary from 1 to 16 years, in compliance with long range planning average suggested by the literature.

Referring to the typology of information, Italian Strategic Planning (2000-2009) highlights a kind of declarative nature. This can be a fundamental issue because – from the decision-making side - it is essential to define monetary values and precise objectives, overcoming temporary criticism and possible lack of consensus coming from citizenship.

The EU Cohesion Policy has supported the adoption of Strategic Planning within Local Governments in Italy. In fact, it is recognized that attractiveness of cities enhance the creation of jobs and growth. Local Authorities are invited to adopt a long-range perspective via SPs because *“obligations imposed at local, regional, national or European level can be more effectively implemented at the local level when integrated into a local strategic management framework”* [Com (2005) 718 final].

Anyhow, a better effort has to be made in order to fully match EU orientations. In this sense, a national guideline to be provided to Local Authorities, would be a helpful tool to promote a long-term effective plans.

Moreover, Communication is definitely a priority in the framework of a Strategic Plan: an updated website with virtual forum, a targeted newsletter, thematic brochures and leaflets help to build diffused consensus and share the vision of the project.

¹⁷ See EC [Com (2006) 385 final].

In conclusion, it seems to be useful to remark some “best practices” coming out from the Italian strategic planning praxis whose model could be potentially adapted to other different contexts:

- 1) Full involvement of local stakeholders (considered as public and private actors) in participatory process: the joint preparation and negotiated approval of the plan enhance ownership and ease potential conflicts between the groups of different stakeholders (wide spread actors’ inputs and feedback is strongly recommended in the implementation phase as well);
- 2) The creation of networks of cities develops the creation of a critical mass, unlocking territorial potentials capable to face and tackle better economic transformation on large-scale and at European level;
- 3) The enhancement of a territorial identity focused on peculiar qualities of the place (lifestyle, culture, social cohesion, etc.) is strengthening cohesion;
- 4) Creation of targeted generational/social policies (addressed to youth, elderly people, immigrants) to allow cross cutting approach;
- 5) Enhancement of advanced development clusters (creation of broader enterprise incubators or high quality pilot projects)

Some additional background and context elements can additionally contribute to successful strategic planning:

- 1) Geographical location and proximity to already existing infrastructures;
- 2) Structured network of infrastructures and services;
- 3) Diversified economic context;
- 4) Efficiency of the administrative structure of the promoter entity;
- 5) Cohesion of local communities with consolidated public-private cooperation;
- 6) Cooperation between different actors in the same area and different institutional bodies in the same context.

Some risks to be avoided can be mentioned as well:

- 1) Objectives addressed to internal organization/structure;
- 2) Theoretical objectives definition, referred to secondary activities. Under-evaluation of the impact of implemented activities;
- 3) Lack of consultations and participatory approach;
- 4) objectives identified as purely reward-oriented and not based on strategic planning;
- 5) Lack of communication/cooperation between State (Ministries) and regional/local administrations;
- 6) Objectives formulated tailored exclusively to the political agenda;
- 7) Performance cycle and budget outcome indicators planning following different timelines.

5 The Process of Budgeting in the Country's Public Sector

5.1 History of the Process in the Country

In the last three decades the Italian legislation concerning public finance and accountancy has been changed almost every ten years to face the challenges of the new institutional framework and public finance trends as well as the new European budget requirements in the light of a more complex context, as mentioned in Section 3.1, with scarcity of funds, and a larger number of interconnections among local actors.

With Law n. 468/1978 both Financial Law and Cash Basis Accounting were introduced together with Accrual Basis Accounting, the Triennial Budget, and Cash Reports. Furthermore Law n. 362/1988 introduced the Financial Economic Programming Document (DPEF) and the provisions linked with the financial law. Law n. 94/1997 restructured the annual budget, distinguishing between the so-called political budget, divided into Basic Provisional Units of Resource (UPB) which are subject to Parliament approval, and the so called administrative or management budget, which is then divided into expenditure categories.

Law n. 208/1999, widened the content of the Financial Law, set up a reserve fund for standing expenses and made compulsory the writing of a technical report about the schemes of legislative decrees.

Finally, Law n. 196/2009, was introduced to make the existing regulations on Public Finance in line with the institutional changes and the state of public finances; it abrogated all past regulations and systematized the whole discipline modifying every aspect of Public Finance regulation. This law modified the coordination between different levels of government, the definition of the objectives of public finance, the harmonization of accounting systems, the planning of the objectives of public finance, the documents regarding public accounting, the financial coverage of the expenditures, the Cash Management of public entities, and the planning of cash flows and control systems.

5.1.1 The 2009 Reform

The Law n. 196/2009 on public finance and accountancy delegates the Government in the implementation of the law by legislative decrees, such as the transition to cash only budget system, the harmonization of accounting systems, the consolidation of a budget system structured in missions, programmes and actions, the strengthening of accounting systems and the creation of a Consolidation Act regarding public accountancy and treasury. The reform is conceived as an implementation tool as well for strengthening the strategic planning capacity and enhancing the efficiency and effectiveness of the whole public administration.

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

- a) Realisation of a unitary policy on public finance and an accounting harmonization in line with the so called Fiscal Devolution (Law n. 42/2009). The reform reaffirm the principle that the objectives of Public Finance are shared at all levels of Government and among all entities that make up PA: all data concerning different administrations (Public

- Accountancy) must be gathered and published using the same methodology and the same accounting criteria, schemes as well as presentation and approval deadlines.
- b) Planning cycle and tools are modified through triennial financial planning which includes details on the State budget and outlines of trends and planning steps of the economic accounts, of the cash account and of the borrowing requirement for all Public Administration offices.
 - c) Provision of a new budget structure based on Missions and Programmes, codifying the division into larger functional aggregations (the State's main missions) and a limited number of programmes characterized by better defined and quantifiable objectives, which need to be approved by Parliament and which all correspond to a centre of responsibility.
 - d) Strengthening of spending review analysing and assessing expenditure mechanisms with the task of monitoring the measures which were taken during the budget planning session.

The assessment of the results achieved, compared to the programmatic targets stated in the Document of Economics and Finance (DEF) and the monitoring of the efficiency of the measures aimed at reaching such targets, are based on a reinforced cooperation between the Ministry of Economy and the Administrations involved.

The reform of the 2009 was due to several motivations, among which the most relevant are the agreements signed during the creation of the European Monetary and EU, which imposed precision in implementing budget policies, following the directives of the Stability and Growth Pact adopted within the EU.

A second issue was the consequence of the changes made at Title V of the Italian Constitution¹⁸ which redefined institutional relations between central and peripheral entities, giving new functions to regional and local levels of government which granted a wide sphere of autonomy. The new multi-level system highlighted the need to guarantee an indispensable coordination between the objectives of the financial policies of central Governments and territorial entities through the rules established by the Stability and Growth Pact. In Italy this requirement was met by the Internal Stability Pact (Law n. 448/1998).

The Public Finance Decision and the Stability Law were intended to, respectively, defining the content and sanctions of the Internal Stability Pact and identifying its implementation rules.

5.2 Budgetary Cycle and Structure

The estimated budget, is the main accounting document for the allocation, management and monitoring of the financial resources of the State.

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

The budget is a proper law and must be approved by the Parliament within the 31st December of the previous financial year to which it relates, in order to enter into force at the beginning of the reporting year.

¹⁸ See also Paragraphs 1.2.3 and 1.2.5 for further details on such constitutional reform.

The budget is prepared in accordance with the law of public finance and accounting (Law 31 December 2009, n. 196, as amended by Law 7 April 2011, n. 39) on an annual and multi-annual base, taking into account the existing State revenue and expenditure legislation and the economic framework outlined in DEF (according to Article 10 of Law 196 of 2009, and updated during the year in accordance with the provisions of Article 10 bis).

The budget lists all financial resources that are expected to be acquired (revenue) and paid (expenses) by all Central Administrations during the next three years, and authorises their expenditures only for the first year.

With the new regulation the planning cycle starts with the approval of the Joint Report on Public Economy and Finance (RUEF) by the 15th of April of each year. The report, edited by the Minister of Economy and Finance and presented in both Chambers, updates the macro-economic and public finance provisions for the current year according to the final balance and the manoeuvre approved in the previous year. Not later than July 15th the Government is to send the guidelines for the distribution of budget objectives to the Permanent Committee for the Coordination of Public Finance and to the Chambers. In this way the Government informs all public bodies of its programmatic objectives set year by year as well as the related penalties in case they break the limits of the internal Stability Pact.

After the judgement of the Committee - which is due by 10th of September - the Government draws the blueprint of the Public Finance Decision (DFP) which is then presented to the Parliament by 15th of September for its possible amendment and approval.

The budget that consists of an estimation of the overall revenues and expenditures for each ministry includes:

- The revenues that are divided in Title, (which may have recurring and non-recurring revenue) types, categories and chapters and expenditures that, according to the art. 21, paragraph 2, are based on Missions and Programs.
- The Missions describe main functions and strategic objectives of public expenditure were aimed at.
- The Programmes - which represent the elementary unit voted by the Parliament - consist of the statement of the objectives and goals to be reached. In other words, programmes are the budget classification units through which missions are carried out.

The Programmes represent a homogeneous aggregation of activities carried out within each Ministry, to reach well defined objectives. Such programmes have to be approved by Parliament. Each programme is also classified according to the C.O.F.O.G. (Classification of the functions of government). The implementation of each programme is assured by a single administrative unit, which is the first-level organizational inside the Ministries, a Department or General Direction (article 3, paragraph 2, legislative decree n. 300/1999).

Each estimated expenditure includes the preliminary notes that outline the criteria adopted to express the targets formulated in terms of levels of services and interventions, resources to be allotted for their implementation as well as effectiveness and efficiency indicators to be used to evaluate the outcomes. For each expenditure, each Administration Programme draft a sheet which summarised the allocation over the three years as well as rules and laws that can provide the needed resources.

5.3 The Budget Performance

The performance based planning is a way for translating a policy agenda and its priorities into a result-oriented process. With the aim to improve the definition of sector public policies, and to monitor the efficiency of administrative activities, Law n. 94/1997 introduced, in the budget structure specific target functions, and increased the “political” commitment, Parliament's approval process of the state budget was shifted from the single spending category to basic estimated units.

Each unit corresponded to an administrative centre of responsibility reporting directly to the related political level. This means that the allocation of each resource to the organizational unit that uses it, allows to correlate the use of the resources to the objectives assigned.

This change follows, and accelerates the rationalization process of public expenditure and the development of new systems and methods for measuring and evaluating PA performances.

At central government level, only recently, the introduction of so-called "Preliminary Notes" attached to the estimates of the state budget, developed a structured system of results and performances measurement.

The **concept of performance** in the Italian government has been progressively advanced and developed in the years.

The *first phase*, until the beginning of the nineties, was characterized by an evaluation activity focused only on the legal and formal aspects. This approach was mainly focused on the ex-ante evaluation of the procedures and the ex-post verification of the formal respect of such constraints; the evaluation was made purely in terms of compliance of administrative acts.

Since the nineties this approach was no longer enough to manage public expenditure in continuous expansion in all areas of public life. As a result, in the *second phase*, the system introduced the concept of performances more linked to the efficiency in the production of services and goods. In this framework, at the end of the nineties the systems of internal controls of PAs were completely redesigned and the analytic accounting system was introduced.

The *last phase* starts at the beginning of the new millennium: the concept of performance moved in measure the ability of governments to respond effectively to the needs of a wide range of social and economic actors. This process is requiring a greater responsibility of central administrations in the management of resources and in reporting to citizens and Parliament on targeted priorities, the methods by which they will be pursued and the results that will be achieved.

With the Finance Law of the 2007, the Minister of Economy and Finance (MEF), was formally in charge of the systematic review of spending programs of the central administration, to identify critical issues, possible reallocations of resources as well as strategies for the improvement of the results achieved in terms of quality and cost-effectiveness of the administrative action. In this process MEF was assisted by the General Accounting (RGS – Ragioneria Generale dello Stato).

The revision of the 2009 budget shifts the representation of expenditure from the spender - who is in charge of the expenditure -, to its purpose (for what it is spent). The reclassified budget, tested in 2008, in 2009 was, for the first time articulated in 34 missions, which represent the typical functions of government, and in 165 programs (typically associated with a single department). Programs are associated at the Centres of Administrative

Responsibility (CRA – Centri di Responsabilità Amministrativa) that are directly in charge of the implementation of each programme.

The financial law of 2008 strengthen the control systems in PAs to facilitate and reinforce the expenditure process review; moreover, the law set the basis for the introduction of verifiable objectives and performance indicators, to be used for the final evaluation of the results achieved.

Finally, the process involves also the Government that has to submit to the Parliament a specific ministerial "reports on performance" with detailed information on the activities to be carried out, results to be achievements and possible problems and remedies.

The introduction of this expenditure analysis, tries to move from the logic of "containment" to the concept of "improving the allocation" of the resources. In this framework, policy-maker and Government, should have available all needed information to select those public interventions to be supported and those inefficient to be cut. In other words, the aim of this system is to overcome

1. the logic of "horizontal" or "linear" cuts of expenditures;
2. the setting up of unreasonable limits at the expenditure level;
3. the system based only on historical expenditures.

5.3.1 Legislation on Performance Budgeting

In the Italian system the use of performance indicators, - i.e. the quantification of the objectives of the public and their valuation at the end of the year - is provided in the "**Preliminary notes**" reviewed with the law 94/1997. The preliminary notes are currently the only document in which, in an organic and structured way, are defined the performances of each central administration. They are therefore the tools used by each Ministry to programme interventions and resources necessary to carry out the activities in line with the programme of the government and its political priorities.

In the "preliminary notes" each administration indicates, the criteria adopted for the preparation of the budget, the objectives to be achieved both in terms of services and interventions, the indicators for measuring the performances and any recruitment/removal staff planning.

The Legislative Decree n. 286 of 1999, defined the process by which the Government's priorities must be transformed into Central Administration priorities. More specifically, the General Directive of the President of the Council of Ministers (PCM) defines the priorities of the Government and sets out guidelines for the preparation of Directives to be drafted by each Minister.

From 2004 and 2007 several PCM Directives have progressively clarified and specified the relevant element of the performance budgeting system.

In 2002 a specific directive clarified the objects of measurement introducing the concept of "strategic" objectives linked to the political priorities, and the "operational" objectives linked to the administrative activities relating to the annual cycle of the budget. Moreover, the notion of "improvement" objectives (obiettivi di miglioramento), measuring the effectiveness and efficiency of the administration, and the concept of monitoring for re-planning activity were introduced.

The planning process was better defined with 2004 and 2007 with the introduction of three separate phases:

- 1) Descendant Phase consisting in an act of the Minister, communicating the political priorities to CRAs;
- 2) Ascendant Phase where each CRA develops and proposes administration's strategic objectives for implementing the political priorities;
- 3) a second Descendant Phase consisting in the consolidation of the proposals of the CRAs with a Directive of the Minister.

These phases were introduced to reinforce the connection between strategic and financial planning that starts with an input of the Minister and ends with the Annual Directive of each Ministry.

In this process the MEF has the crucial role of prioritise budget priorities, set deadlines for each phase and monitor its implementation.

In addition, the Internal Control Offices (SECIN) were set up in each ministry as independent departments in charge of the evaluation of the coherence between the political priorities identified by the Government and the strategic guidelines established by each Administration. On a quarterly base SECINs draft an intermediate monitoring report and once per year, they draft for the ministry the "performance report" to inform all stakeholders of the results achieved with the allocated resources and occurred expenditures.

Finally, the Circular 21/2008 re-emphasized the importance of "Preliminary notes" as a central tool of programming also in view of the reform of 2009 and their computerisation to make it easier their compilation, reduce the risks of mistake and make the indicators data immediately available.

5.3.2 Public Investment Monitoring and Evaluation Structure

The Italian system for monitoring and evaluating the public investments, at national, regional and local level, evolved over the time towards a stronger unitary system, under the perspective of counting on one single system for most, if not all, public investments in Italy, in spite of the source of funding (European or national ones).

The EU structural funds undoubtedly played a major role in stimulating such a trend in Italy.

Main steps of the process of adopting and establishing an effective evaluation system of development public investments, from both the legislative and technical perspective, are outlined in the present paragraph.

In the early '80s of past century through the Law 181/1982, the process was initiated by establishing the **National Public Investment Evaluation Unit** (UVAL), which role and functions in its initial setting were defined by the Law 878/1986, substantially updated in 1998 through the establishment of the Department of Development and Cohesion Policy, within the MEF. UVAL main role aimed to strengthen the action of the public administration, particularly in the context of development policies and the European and national cohesion. In such a role UVAL contributed to improving the quality and effectiveness of public investment, the achievement of the objectives of regional policy.

Law 144/1999¹⁹, further contributed to set up a sound system by providing for the establishment of **evaluation and verification units** for public investments (in short NUVV) in each national and regional public administration and of the "monitoring system of public investments" (MIP), with the task of providing timely information on policy development, with particular reference to programmes co-funded by the European Structural Funds, based on the monitoring role conducted by the NUVVs.

In 2003 the "Network of the evaluation and verification units of the central and regional administrations" (NUVV Network) was established, along with the setting up and activation of the individual NUVVs, according to Law no. 144/1999, as basis for a coordinated evaluation system for public investments throughout Italy (involving both regional and central ministries).

Further step was the establishment of the "National Evaluation System of the Unitary Regional Policy" (SNV) as system aimed at coordinating supporting activities, observatory and methodological approach for improving the evaluation activities. The SNV was intended to be the instrument for building and strengthening the evaluation capacity in the public administration in order to enable the government coping with the challenges of development policy implementation, benefitting of the accumulation of knowledge on the effects of public action.

A "National Committee for the coordination and monitoring of the unitary development policy" was therefore set up acting as support for the strategic implementation, forming the unified reference body for the task of coordinating, supporting and monitoring the overall structural and investment action. In performing these functions it was addressing the relevant challenges, in order to ensure the best conditions for the implementation of the national development strategy, taking into account the governance and monitoring approach defined by the various authorities responsible for the management of both EC and national funds.

The national government Department for development and economic cohesion (DPS), in charge of the structural and cohesion policy and investments and coordinating both UVAL and the NUVV network, took the role of coordination of the Committee, being responsible for the integration of the assessment in decision-making processes.

In order to fulfil this function, DPS was supported at the operational level by UVAL.

The national and regional development policy and public structural investments in Italy were and still are financed by resources both from the European budget (Structural Funds) and national (by means of national co-funding of the Structural Funds and through the National Fund for Cohesion and Development).

The national government and the regions, by adopting the NSRF 2007-2013 (National Strategic Reference Framework), agreed on the decision of unifying the programming of EU and national regional policy under one single framework.

As a consequence objectives, rules and priorities of regional development policy were then defined under a unified approach, including the organization of the evaluation plans through the regional and national NUVVs.

¹⁹ "In order to improve the quality and efficiency to the process of programming of development policies, the central and regional administrations, [...] establish and make operational [...] their evaluation and verification units of public investments that, in connection with each other and with the Evaluation and Verification Unit of public investments of the Ministry of the treasury, Budget and Economic Programming, provide technical support in the programming, evaluation, implementation and verification of plans, programmes and intervention policies promoted and implemented by each administration".

The NSRF was the first strategic document stating formally the *unity of evaluation process*: "object of the evaluation will be programs, projects and operations funded from EC, national and regional sources. Therefore the evaluation must enable assessing the combined effects of various actions, also relating to various programs, on the same territory and of the actual services rendered by public action taken as a whole".

In sake of such a principle, the NSRF imposed administrations to evaluate ongoing and ex post the effects of development policies at national and regional level, respectively. Such an evaluation pursues different but strictly related purposes:

- *Cognitive purposes*, enabling to capture data and information on the effects and results of the policies;
- *Decision making support*, providing decision makers with information necessary to address their choices;
- *Transparency*, allowing to keep accountability of achievements and lessons learned from the implementation phase by the institutions providing funding, in particular the European Commission and the Italian government, but also by the institutional partners (e.g. bodies in charge of protection on environmental issues or equal opportunities), the social partners, other stakeholders and citizens.

Yet to be eventually highlighted that public development investment programming monitoring and evaluation system of Italy undertook a further recent evolution, leading to the current institutional setting of the central governing structure of the Italian economic development and cohesion, which is the result of a recent legislative act (Law 125/2013). Such a Law transformed the DPS - as established in 1998 under the MEF and later passed to the Ministry of Economic Development - into the **Agency for territorial cohesion** supervised by the Cabinet of the President of the Council of Ministers.

The regulating mechanisms and organisation of newly established Agency are currently in the phase of definition.

What is relevant for the unitary monitoring and evaluation system is that the functions of UVAL and NUVV network, aimed at strengthening the action of the public administration particularly in the context of development policies and the European and national cohesion, are confirmed under the new Agency.

In particular the technical support provided by the UVAL is currently oriented to all the stages ex ante, ongoing and ex-post of the process of programming-evaluation-implementation of plans, projects, programs, policy intervention, and provides guidance on:

- compliance with the economic policy guidelines;
- economic and financial feasibility;
- compatibility and convenience assessment between the different solutions;
- economic and social impact in relevant geographical areas.

In such a structure UVAL role is complemented by the one of the Public Investment Verification Unit (UVER), since the two bodies, UVAL and UVER, under the recently established Agency, represent the **Public Investments Technical Evaluation and Verification Unit** of the new organisation.

In such a framework UVER plays its institutional role as part of the audit of public investment system, declined on different lines of activity, organised in four key areas closely coordinated:

- Verification of programmes and projects;
- Verification of national programmes and projects;
- Analysis and monitoring of public investment;
- Performance monitoring of investment projects.

The new Unit will support the unitary regional development directorates, both at national and regional level, in the implementation of 2014-2020 programming cycle, considering under a single coordinated perspective both European and national structural investment funds.

According to the strategy of the Italian government the structure will represent the fulfilment of the unified and coordinated governance of the funds, which process was initiated in the early years of the past decade.

The final expected goal is to enhance the overall performance of the public investments of Italy for regional development thanks to a better coordination of national policy and public spending process and a stronger and unitary coordinated monitoring and evaluation system.

5.4 Key Issues, Lessons Learnt, Trends

The analysis of the Italian performance base planning legislation highlights a remarkable proliferation and overlapping of laws, often as result of efforts aimed to clarify and improve the strategic planning process that the reform of 2009 only partially solved.

This overlap has often multiplied the formal requirements to be attempted by administrations, ambiguous definition and content of indicators with the tentative to integrate budget planning and strategic planning. The real risk of this overlapping and moving framework is that PAs perceive all monitoring system as a mere formality, rather than as a necessary tool for programming.

Despite the significant progress made in recent years, the objects measured within the "Preliminary Notes" should still be improved in order to provide better representations of *outcomes* and the *impacts* of public policies on the society. Training of human resources in PAs and a clear political mandate in using the collected information are two of the needed future steps.

In particular, it is essential to clarify whether information has to be used to inform the Parliament about the performances of public policies or is only focused to measure the performances of the PAs and the related administrative activity. Moreover, the clarification of what has to be measured is the prerequisite for both the improvement of collecting data systems and the identification of useful indicators.

Actually, the PAs have a limited use of the information collected through the "Preliminary notes", with the risk of limiting the effectiveness of the measurement performance system.

Also the ex-post analysis of the trade-off between the results obtained by the indicators and their values indicated in the preliminary notes it is still poor. Also the "Performance Report" does not make this comparison and the performance information contained in the "Preliminary Notes" have not been used either to benchmark Administrations, or as a tool to improve the allocation of resources.


The Italian decentralisation system does not facilitate a real allocation of the resources based on the evaluation of the performances and complicates the acquisition of data, their collection, monitoring, evaluation and direct control of the results.

In conclusion, the process started within the Italian Public Administration, represents a relevant change of direction for the construction of an adequate and effective strategic planning activity based on the verification of the performance, supported by a sound and unitary Public Investments Technical Evaluation and Verification structure.

A necessary condition for its success is a radical change in the PAs behaviour.

The difficulties of the PA in planning, emphasize the need of redefine more clearly roles, tasks and responsibilities of all actors involved in the process, to contribute constructively to the improvement of the measurement system; e.g. the transformation of the SECIN in internal audit offices, giving them the necessary autonomy and independence.

Finally, to improve the use of the performance based systems to reprogramming and reoriented the allocation of resources, it would be suitable that PA identify relevant programmes with more advanced methodologies of analysis and evaluation of their efficiency and effectiveness.

The top of the page features a horizontal banner. The left portion of the banner shows the European Union flag, with its characteristic blue field and twelve yellow stars arranged in a circle. The right portion of the banner shows a light blue map of Europe, with the twelve stars of the EU flag positioned over the corresponding member states. Below this banner is a solid yellow horizontal bar.

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