



Local Government in Italy

Responses to Urban-Rural Challenges

edited by

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The H2020-MSCA-RISE-2018 project aims to provide solutions for local governments that address the fundamental challenges resulting from urbanisation. To address these complex issues, 18 partners from 17 countries and six continents share their expertise and knowledge in the realms of public law, political science, and public administration. LoGov identifies, evaluates, compares, and shares innovative practices that cope with the impact of changing urban-rural relations in major local government areas (WP 1-5).

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Local Financial Arrangements



3.4. Financial Assistance to Municipalities with Structural Deficits

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Relevance of the Practice

Italy is characterized not only by a deep cleavage in socio-economic terms between the north, center and south of the country, but also between local governments. Even if a certain gap sometimes exists also between municipalities within these three macro-regions, it is beyond doubt that the number of local governments whose populations can be defined as vulnerable in social and material terms is particularly high in the southern regions of Campania, Sicily and Calabria.⁸⁴ A comparison of municipalities with more than 50,000 inhabitants shows a similar picture, as all towns and cities in the quartile with the highest vulnerability are located in Italy's south.⁸⁵ Such vulnerability goes beyond mere poverty and has come to be seen in recent years as a state in which 'the autonomy and capacity of self-determination of individuals are permanently endangered' due to their marginalization concerning the main systems of social integration and distribution of resources.⁸⁶ Thus, it is also seen as ultimately running contrary to building resilience of (local) populations.⁸⁷

This situation in southern Italy is both a reason for and result of the fact that migratory patterns do not only concern the rural-urban dimension but also substantial movement especially of the young and educated from the south, including its urban areas, to the north of the country.⁸⁸ The main challenge that this 'brain drain' entails for southern municipalities, both rural and urban, is a lack of personal resources and administrative capacity.⁸⁹ The structural weakness of many of these municipalities, which have run high deficits for years and have little or no leeway for investment, has recently led the national government to transfer payments in those cases in which this financially precarious situation follows from 'the socio-economic characteristics of the community and territory and not from organizational pathologies'.⁹⁰ The establishment of such a fund occurred in August 2020 and therefore also has to be seen in the

⁸⁴ National Institute for Statistics, 'Le misure della vulnerabilità: Un'applicazione a diversi ambiti territoriali' (2020) 36.

⁸⁵ *ibid* 70f.

⁸⁶ Costanzo Ranci, *Le nuove disuguaglianze sociali in Italia* (Il Mulino 2002).

⁸⁷ See United Nations, 'Human Development Report: Sustaining Human Progress: Reducing Vulnerabilities and Building Resilience' (2014).

⁸⁸ Interview with Giorgio Brosio, Professor, Department of Economics and Statistics, University of Turin (17 May 2021).

⁸⁹ Interview with Giulio Citroni, Associate Professor, Department of Political and Social Sciences, University of Calabria (17 June 2021).

⁹⁰ Article 53(1) of Law Decree no 104/2020.



light of an effort to ensure the continued provision of basic public services also by local governments with structural deficits.

Description of the Practice

In 2020, Italy's Constitutional Court had to deal with the delicate issue of the time frame and modalities of the deficit recovery of local governments within their multiannual financial rebalancing procedures. The judges held a provision of a Law Decree of 2019⁹¹ to be unconstitutional because it allowed municipalities in financial distress, like Reggio Calabria and others, to use resources earmarked for the payment of past debts for current expenditure, thus widening the deficit gap.⁹² Some observers have criticized both the court for the decision's alleged lack of a clear line of argument and the legislator for taking the ruling as a starting point, facilitated by the arguable unclarity, for rather unrelated regulatory measures.⁹³

Anyway, the fact is that Article 53(1) of Law Decree no 104/2020 stipulated, with explicit reference to the implementation of this court decision, the establishment of a fund to facilitate the financial recovery of local governments with structural deficits which are attributable to their socio-economic characteristics (and not to organizational pathologies). This fund's financial resources are transferred without conditions for what the money is to be spent and they are non-refundable. Beyond having a financial rebalancing plan, the criteria for being eligible for such assistance are not only the strictly financial indicator of low fiscal capacity but also social and material vulnerability in the above-mentioned sense, relying on a composite index calculated by the National Institute for Statistics (*Istituto nazionale di statistica* – ISTAT).

This index of social and material vulnerability (IVSM) was developed by ISTAT within a project focusing on census-based data at municipal level ('8milaCensus')⁹⁴ and brings together seven indicators regarding such vulnerability: the number of one-parent families, of families composed of six or more individuals, of potentially care-dependent families composed exclusively of people over 65 years of age with at least one over 80, people with little living space, individuals with low formal education, people aged 15 to 29 not integrated into the education system or labor market and families without income from employment or from unemployment insurance from former employment. While especially the latter three indicators show a clear north-south divide, several also reveal significant differences between rural and urban municipalities.

⁹¹ Article 38(2) of Law Decree no 34/2019.

⁹² Constitutional Court, Judgement no 115/2020.

⁹³ Clemente Forte and Marco Pieroni, 'La sentenza n. 115 del 2020 della Corte costituzionale: Una pronuncia di non agevole lettura' (2020) 4 *Forum di Quaderni Costituzionali* 248, 277 and 263.

⁹⁴ For more information, see <<http://ottomilacensus.istat.it/>>.



In the latter regard the IVSM applies the classification of territory developed within a national strategy against the demographic decline of certain areas.⁹⁵ This classification defines areas as a function of their distance from urban centers, constituted either by a single municipality (*polo*) or more of them (*polo intercomunale*), which offer essential public services of healthcare, education and transportation. Municipalities within 20 minutes from such centers are urban fringes (*cintura*) and those beyond that ‘internal areas’ (*aree interne*) which are again subdivided into the three categories of intermediary, peripheral and ultra-peripheral municipalities (*comuni intermedi, periferici e ultraperiferici*). As for the IVSM and the financial assistance, which are supposed to be based on it, the number of one-parent families is clearly more common in urban centers. By contrast, other indicators such as the number of individuals with low formal education, of potentially care-dependent families and families without income from employment or unemployment insurance concerns local governments of the ‘internal areas’ to a greater degree.⁹⁶

With the IVSM and low fiscal capacity being mentioned in the Law Decree of August 2020 as the criteria for distributing the financial means, 20 local governments benefitted from the EUR 200 million foreseen for 2020-2022, most of which went to the Municipality of Reggio Calabria, a city of almost 200,000 inhabitants. When in 2021 additional EUR 100 million were set aside for this special fund, another roughly 20 local governments received assistance. Looking at this measure from an urban-rural perspective, it is interesting to see that among these 20 beneficiaries there are smaller municipalities but with the Municipality of Naples also a huge metropolis.⁹⁷ In what form and to what extent these financial transfers to aid local governments with structural deficits will continue in the future remains to be seen.

Assessment of the Practice

It is obvious that any assessment of a practice that is so new (started only in August 2020) cannot be much more than preliminary. But what is certainly remarkable about this initiative is the fact that it recognized for the first time that some local governments are structurally different from others regarding certain criteria of social and material vulnerability, as well as fiscal capacity and that they are caught in a vicious circle of continuously high deficits and low public services.⁹⁸

On the other hand, it is evident that the fund was an ad hoc emergency measure for financial stability, also in the context of Covid-19. This is demonstrated by the fact that merely roughly

⁹⁵ Agency for Territorial Cohesion, ‘Strategia per contrastare la caduta demografica e rilanciare lo sviluppo e i servizi di queste aree attraverso fondi ordinari della Legge di Stabilità e i fondi comunitari’, within the National Reform Plan (Piano Nazionale di Riforma – PNR) <<https://www.agenziacoessione.gov.it/>>.

⁹⁶ National Institute for Statistics, ‘Le misure della vulnerabilità’, above, 9-31.

⁹⁷ Interview with Maria Teresa Nardo, Associate Professor, Department of Political and Social Sciences, University of Calabria (17 May 2021).

⁹⁸ *ibid.*



40 municipalities have so far benefitted and that some doubts have been cast on whether the calculations of the indexes by the Ministry of Economy to identify the eligible recipients of financial assistance have followed the principle of equal treatment of all local governments.⁹⁹ Thus, it is certainly legitimate to describe the practice, as the Court of Auditors did, as one concerning only a limited number of municipalities with the aim to prevent the foreseeable slowdown of financial recovery plans and to keep their deficits under control.¹⁰⁰ In this regard, the question has also been raised from a legal point of view whether the initiative, seen as emergency-based and unsystematic, is in line with Article 119 of the Constitution, which allows no other forms of financial equalization than those expressly mentioned in this provision and stipulates for the latter that they must always follow the principles of generality and equal treatment.¹⁰¹

As for the effectiveness of the practice, several other considerations appear to be relevant. Some economists are generally skeptical regarding (excessive) financial transfers to local governments of the 'internal areas' because analyses of these municipalities would suggest that corruption and mismanagement are more problematic in those where funds are more readily available.¹⁰² On the other hand, this assessment may also be linked to the fact that in the other municipalities there are just no (or little) funds to (mis)manage which by nature reduces the potential for corruption, but, importantly, also any chances for liberating these local governments from the above-mentioned vicious circle of structural deficits.

For that to happen it is crucial to bear in mind that financial assistance may only be part of a solution because a lack of money is only part of the problem. Additional funds have a limited impact if weaknesses regarding administrative capacities and the organization of public services persist.¹⁰³ It is not a coincidence, therefore, that a number of experts sees insufficient training of politicians and administrative staff of municipalities as one of the most urgent problems that Italian local government faces today.¹⁰⁴ It has been pointed out that such training has been neglected in particular since the global crisis of 2007-08. Whether that will change, however, precisely in times in which the Covid-19 pandemic entails another financial and economic crisis remains to be seen.

⁹⁹ *ibid.*

¹⁰⁰ Court of Auditors, Deliberation no 14/SSRRCO/AUD/20 of 4 September 2020, 'Memoria della Corte dei conti sul decreto-legge n. 104 recante "Misure urgenti per il sostegno e il rilancio dell'economia"' para 23.

¹⁰¹ Forte and Pieroni, 'La sentenza n. 115 del 2020 della Corte costituzionale', above, 263.

¹⁰² Statement by Federico Boffa, Professor, Faculty of Economics and Managements, Free University of Bolzano/Bozen (LoGov Country Workshop, Local Financial Arrangements, 14 April 2021).

¹⁰³ Interview with Maria Teresa Nardo, above.

¹⁰⁴ Interview with Emanuele Padovani, Associate Professor, Department of Management, University of Bologna (7 May 2021); Interview with Walter Tortorella, Head of Department of Studies of Territorial Economics, IFEL Foundation (21 May 2021); Interview with Andrea Lippi, Professor, Department of Political and Social Sciences, University of Florence (10 June 2021); Interview with Giulio Citroni, above.



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