

Local authority public finance

The survey on revenue and expenditures of autonomous regions and provinces

Istat conducts a survey on final accounts of special statute regional governments (*Rilevazione dei conti consuntivi delle Regioni a Statuto speciale*) and a survey on final accounts of autonomous regions and provinces (*Rilevazione dei conti consuntivi dei Comuni e delle Province*), collecting information directly from the authorities in question.

For the survey, since a single format valid for all regions has not yet been developed, Istat uses the official accounting records submitted directly by the authorities themselves.

Since fiscal year 1986, also to allow for national information on balance flows to be processed, autonomous regions and provinces have accepted a request formulated in a memorandum by the Ministry of Economy – Treasury Department (no. 18 dated March 1986, file no. 32337) to revise the classification system for their balance sheets, introducing a format (Regional information system – *Sir*) previously developed by an Expert Committee composed of members from the Ministry, the regional Authorities and Istat and approved by the Inter-Regional Commission (now known as the Conference of State and Regions) in a meeting on 19th October 1983.

The codes used in the system have been applied by the authorities themselves to the individual balance entries which make up the primary unit of financial analysis, using a priority method to attribute entries containing a range of different types of expenditures.

However, amendments of the law and changes in the functions of authorities over time, up until the most recent constitutional innovations, have led to the old *Sir* classification losing its capacity to provide a reliable representation of financial activities of these institutions. The institutions have therefore gradually introduced more suitable classification systems for their balance requirements. The *Sir* classification has only remained in use for statistical purposes and has in most cases resulted in a gradual loss in data accuracy.

In more recent fiscal years some regions have completely abandoned the *Sir* classification or have used it exclusively for the strictly economic part of accounting.

This involved codifying and reclassifying the accounts by Istat in order to make the information coherent and comparable across the various regions.

The time series presented here are therefore the result of data recalculation after being taken directly from the accounting documents (final balance sheets) certifying the financial record of the results during the fiscal year by indicating ascertained and collected revenue, planned and paid expenditures divided by budget item, bracket and entry, in addition to the management of arrears, applying a specific code to each budget item (primary unit) allowing for financial flows to be highlighted using different methods.

The field of observation for the two surveys includes all ordinary and special statute regional governments and the Provinces of Trento and Bolzano/*Bozen*, which were granted independence by article 1 of Law no.142 dated 08th June 1990 and which are now considered on the same level as the regions.

The financial and fiscal autonomy of ordinary statute regional governments is linked to the legislative process which reformed their funding system.

Among other things, Law no. 281 dated 16th May 1970 assigned ordinary statute regional

governments the revenue from certain types of taxes , mainly composed of transfers from the State and therefore accounting for only a small part of their overall revenue until the first half of the 1990s.

In fact, tangible reforms to reinforce regional tax imposition autonomy have been only introduced since the second half of the 1990s, with the creation of genuine regional taxation together with a stake in the national fiscal revenue. From that moment on, the regional funding system has been profoundly transformed by the legislative system, passing from a system entirely dependent on the State to one in which the regions have acquired considerable financial independence.

Moreover, Law no. 662 dated 23rd December 1996 and the subsequent Legislative Decree no. 446 dated 15th December 1997 introduced two important sources of tax revenue for local authorities: the *Imposta regionale sulle attività produttive – Irap* (regional tax on productive activities) and the *Addizionale regionale all’imposta sul reddito delle persone fisiche – Irpef* (personal income tax regional supplement).

If, on the one hand, these reforms only partially changed the composition of regional revenue in terms of independent revenue and transfers, on the other hand the attribution of these two taxes provided greater certainty and the possibility of planning regional tax revenue.

Legislative Decree no. 56 dated 18th February 2000 implemented fiscal federalism provisions for the regions, including both the suppression of fiscal transfers in favour of a share in national revenue and a rise in the Irap regional supplement.

Fiscal federalism regulations also established a “Regional equalization fund”, the participation of regions in assessing taxation and, lastly, the abolition of local authorities’ entitlement to shares of Irap revenue.

The main sources of fiscal revenue for ordinary statute regional governments are therefore both supplements to state taxation and shares in state revenue, which may also be entirely assigned to regions; furthermore, tax rates may also be set, within pre-established limits, by the regions themselves.

The main source of funding for special statute regional governments, however, which have held greater legislative and administrative duties ever since their foundation, is formed by shares in fiscal revenue. The independence and the financial system of both special statute regional governments and the autonomous provinces of Trento and Bolzano/*Bozen* have very similar features to those of ordinary statute regional governments: they can in fact establish their own taxes within the limits of tax imposition autonomy clearly set out in the relevant legislation.

In the accepted meaning of the term, local authorities’ entitlement to shares in national fiscal revenue established in special statute regional government statutes are included along with taxes imposed and governed by the regions themselves.

With reference to the main taxes attributed to ordinary statute regional governments, autonomous provinces and special statute regional governments are also entitled to revenue from Irap and to the Irpef regional supplement.

Constitutional Law no. 3 dated 18th October 2001 completely reformed Item V, part 2 of the Italian Constitution, regarding the financial autonomy of regions, provinces and municipalities.

This recent institutional text applies a new and different division of regulative duties between State, regions and local authorities, in response to the principles of subsidiarity, federalism and partnership, modifying - among other things - Article 119 regarding the financial autonomy of regions and local authorities.

The new text of Article 119 of the Italian Constitution grants the same status to municipalities, provinces, metropolitan areas and regions in relation to financial autonomy of revenue and expenditures, defining the funding sources for territorial institutions, i.e. taxes and own revenue, shares in national fiscal revenue and the institution of the equalization fund.

Warnings for time series comparisons

- The trend of data and indicators analysed in the tables is affected by changes in the accounting law over the years.
- Data for fiscal year 2008 are provisional.