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FOREWORD

In exchanges of letters between the Italian Ministry of Economy and Finance and the OECD in 2014, it was agreed that the OECD would prepare a review of the Italian budgeting process. The review would offer a general overview of the Italian system of budgeting. The report focuses on the national government.

The report is divided into three parts. The first part focuses on the budget formulation process. The second discusses the role of parliament in approving the budget. The third part discusses budget implementation issues.

An OECD mission visited Rome in February 2015 in preparation for this report. The mission would like to express its gratitude and appreciation to the Italian authorities for the warm and cordial reception and the frank and open discussion of issues.

In particular, the mission would like to express its thanks to Mr. Daniele Franco, Director-General and Mr. Biagio Mazzotta, Director of the Budget, Ragioneria Generale della Stato, Ministry of Economy and Finance for their support and the generous time they and their colleagues shared with the mission during its stay in Rome. Similarly, the mission would like to thank Mr. Giuseppe Pisauro, Chairman and Ms. Chiara Goretti, Member, Parliamentary Budget Office, as well as members of the Senate Budget Committee Staff and the Senate Budget Service Staff.

The mission would also like to note its special gratitude to Mr. Fabrizio Mocavini, Ms. Aline Pennisi, and Mr. Giovanni Fino, Ministry of Economy and Finance for their continual assistance throughout the drafting of this report.

The views contained in this report are those of the OECD Secretariat and should not be attributed to governments of OECD member countries, or to any organisation or individual consulted for this report.

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BUDGET FORMULATION

1. This chapter is divided into three sections. The first one will describe a number of special characteristics of the Italian budget formulation process. The second will profile the key milestones in the annual budget cycle. The third one concludes with recommendations for reform to the budget formulation process that Italy may wish to consider.

Special Characteristics

2. This section outlines seven special characteristics of the Italian budget formulation process and discusses each in turn:
   - Legal Basis for Appropriations
   - Role of the Ministry of Economy and Finance
   - Performance and Results
   - Spending Reviews
   - Responsibility for Economic Assumptions
   - Medium-term expenditure framework
   - Unpaid Commercial Invoices

Legal Basis for Appropriations

3. There is currently a great distinction in Italy between the “budget,” and the “Stability Law.”

4. No expenditure may be spent directly by the budget; the budget may only finance expenditure to fund programmes authorized in separate enabling legislation. The “budget” is a reflection of the amounts required to fund such existing legislation and serves essentially as a baseline. At present, it is viewed as a largely technical exercise and receives limited attention by either Cabinet or Parliament.

5. All actions to increase or decrease expenditures therefore takes place by creating new, or amending old, enabling legislation. All such legislation is brought together in one omnibus “Stability Law.” This is the focus of negotiations in the budget formulation process and is the focus of Parliament’s attention. The Stability Law enjoys special “fast-track” status in Parliament.

6. In 2017, the separate Stability Law will be merged with the budget. This may have significant ramifications as is described subsequently in this report.

Role of the Ministry of Economy and Finance

7. The Ministry of Economy and Finance is the pre-eminent ministry within the Italian government. It is the result of the merger of the Budget Ministry, the Treasury Ministry and the Finance Ministry. The first two merged in 1997; the third was merged with them in 2001. Despite its name, the Budget Ministry dealt primarily with macroeconomic issues. The Finance Ministry dealt with taxation issues. The Treasury Ministry actually housed the budget office – the Ragioneria Generale della Stato.

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1 There are limited exceptions to this general rule for certain discretionary operational expenditure.
8. The Ragioneria Generale della Stato (RGS) traces its origins to the very founding of a united Italy in 1860 and is one of the high offices of state in Italy.

9. In terms of organization and functions, the RGS differs very significantly from typical budget offices in OECD countries. It has a staff of nearly six-thousand persons – nearly all focused on the expenditure side of the budget.

10. In addition to the core activities normally associated with a budget office, the RGS assumes many of the roles typically located in line ministries in other OECD countries. Notably, the RGS has a unit in each ministry which is responsible for their respective financial affairs.²

11. The offices in each ministry serve two functions. Primarily, they are responsible for verifying the legal compliance and the disbursement of each individual item of expenditure during the implementation of the budget. They are also responsible for the transmission of budget formulation requests to the core Ministry of Economy and Finance. They are, however, not responsible for negotiating with the respective ministry, although of course they offer a unique insight in budget negotiations.

12. There are no formal budget offices within the line ministries responsible for negotiating with the Ministry of Economy of Finance. This is often a diffuse process that may involve the minister’s office, a general affairs office or individual programme offices. There is a remarkably low level of central capacity on budget formulation issues in line ministries. This results in fragmentation with each area of the ministry individually “pitching” its programmes. There is little incentive for ministry-wide internal prioritization, reallocation or evaluation of programmes.

13. This is discussed further in subsequent sections.

Box 1 – “Bollino Blu”

The Ministry of Economy and Finance assesses the budget impact of all proposed laws and amendment, including those arising from members of parliament during the budget approval stage. It estimates the revenue implications and expenditures required to implement every proposal and the resources that will be used to compensate new expenditures or revenue reductions. No proposed law or amendment may proceed without this assessment, known as the “Bollino Blu.”

This assessment is normally carried out by the RGS and is signed by the head of the RGS, a civil servant.

There have, however, been occasions in the past where a political appointee signed this assessment rather than the head of the RGS.

Use of Performance and Results

14. Like other countries, Italy has struggled with the use of performance and results information in the budget system.

15. There have ostensibly been two waves of reforms in this area.

² The RGS also operates 93 Territorial Offices which are responsible for the disbursement of central government funds at lower levels of government. These offices account for a majority of its staff.
16. The first – in 1997 – was essentially a function of efforts to reduce the number of line-items in the Italian budget, which stood at about 7,000 at the time. In return for reducing the number of line-items to about 1,000, a system of Preliminary Notes was introduced. These were ostensibly to produce the detailed information that Parliament would lose with fewer line items. The effective use of the Preliminary Notes did not however materialise – they are largely disregarded.

17. The second wave launched in 2009 with a new budget structure based on missions and programs. The budget was organized into 34 missions and 165 programs. The number of programmes has since increased to 181 in 2015. Each programme should be under the responsibility of a unique administrative unit for management purposes. As a result, budgeting continued on the basis of the existing administrative structures and arrangements. The new missions and programs were simply an “overlay,” with little relevance or impact for budgeting. Further complicating the focus on performance and results is the assignment of unique administrative units may change from year to year making comparisons difficult.

18. Notwithstanding the above, an abundance of performance information is provided. This is however largely administrative information – i.e. number of official reports produced, number of official travel missions undertaken – rather than policy-focused performance and results information. In interviews with users, the information was also described as poorly organized, inconsistent and its reliability questioned. There appears to be little demand for performance information based on its current presentation.

19. Whereas Italy’s experience in the above regard may be shared by a number of OECD countries at some stages, it differs significantly in other respects. The reforms have not promoted any culture of performance and results in the government. It even appeared to be an unknown concept in some instances. A focus on input information completely dominates all stages of the budget process.

20. This may in turn reflect the low capacity of line ministries as described above. Performance information is most usefully generated based on the needs of line ministries and their stakeholders. Given the role of the Ministry of Economy and Finance in the budget process, it is also significant that there is no requirement for indicators and targets to be considered in budget negotiations.

**Spending Reviews**

21. Italy has carried out five spending reviews on an ad hoc basis over the past decade.

22. The spending reviews have focused on identifying opportunities to enhance efficiency in current operation, not on identifying spending priorities or re-allocation.

23. They have all been externally led – either by a specific committee or by individual commissioners, including one by a private sector captain of industry. They have operated at varying distance from the budget process. Working groups are typically created to carry out these spending reviews – including representatives from individual ministries, academia and other experts. At first, a technical committee was established to support the spending review process. Later, this role was given directly to the Research Division of the Ragioneria Generale della Stato.

24. Each spending review has had its own distinctive character. Some have focused on “horizontal issues,” such as identifying the lowest cost of producing or procuring an individual item of expenditure government-wide and then establishing that as a benchmark applicable to all government institutions. Similarly, there have been proposals to centralize the procurement function and other common services. Other spending reviews have made more sector-specific recommendations. Overall, the impact of the spending reviews was characterized as “mixed.”
25. Most recently, initiatives to reform the spending review process have been initiated. They focus on integrating them into the annual budget process on an on-going basis rather than the current *ad hoc* basis. Their scope would also expand beyond the focus on efficiency.

26. The move to make the spending review process an on-going activity can be seen as a means to overcome the lack of capacity in line ministries and the weakness in the performance and results regime in the current budget process. There are, however, risks in merging the spending reviews with the annual budget process and where they may lose their distinctiveness.

### Responsibility for Economic Assumptions

27. The Ministry of Economy and Finance prepares internally the economic assumptions applied for the budget. Since 2001, where a significant political distortion of the economic forecast took place, there has been no evidence of bias in the calculations of the economic assumptions used in the budget.

28. Italy has very strong and highly respected institutions that provide independent economic forecasts, most notably the *Banca d’Italia*, the central bank. There are also a number of private sector bodies providing independent forecasts. Any use by the government of economic assumptions that could be considered as outliers from those institutions would immediately draw attention.

29. Most recently, an independent Parliamentary Budget Office has been established. Its creation was *inter alia* to fulfil Italy’s requirement as a member of the Eurozone. A key function of the new Parliamentary Budget Office is that it must “endorse” the economic assumptions applied in the budget. This provides further assurance regarding their reliability. The Parliamentary Budget Office is discussed in detail in the next chapter of this report.

### Medium-Term Expenditure Framework

30. Italy has employed a medium-term expenditure framework (MTEF) with a three-year time horizon for a number of years. This however differed in significant respects from what is typically referred to as an MTEF’s in most OECD countries. There was no explicit attempt to include the out-year expenditure (growth) implications of current policy for certain expenditures. While not a very significant proportion of total expenditure, it would appear to demonstrate a certain attitude towards the MTEF. This is reflected in the fact that the first phase of each year’s annual budget process is devoted to updating the MTEF baseline. This implies that the process for maintain the MTEF is not robust. It could be argued that the annual budget process would have operated essentially in the same manner even if no MTEF had been in place.

31. A fundamental revision to Italy’s MTEF system was made in 2015 when it was decided to include the out-year implications of all current policy. This together with a more robust maintenance of the MTEF throughout the year will bring Italy’s MTEF more in line with those of other OECD countries. This will make the MTEF a sound basis for each year’s annual budget and significantly reduce the effort devoted to negotiating the baseline each year.

### Unpaid Commercial Invoices

32. The issue of unpaid commercial invoices is highlighted only as a specific issue as Italy was once characterized by a large amount of such debt. In April 2014, the *Banca d’Italia* estimated this to amount to over five per cent of GDP – half of which was overdue. This amount was based on a survey of government suppliers and was as such an overestimate. The government devoted significant funds to clear outstanding – and valid – invoices and put in place safeguards to prevent this from reoccurring. This is described in detail in a subsequent chapter.
Annual Budget Formulation Cycle

33. The timeline for the annual budget formulation cycle has varied greatly in recent years with important milestones shifting significantly from one year to another. The character of the budget formulation cycle depends very much on each government. The discussion below will reflect most recent practices, highlighting significant deviations from previous practice as appropriate.

34. The annual budget formulation cycle can be divided into three phases: First, the macro-fiscal policy setting phase. Second, the baseline update phase. Third, the resource allocation phase. The second and third phases do overlap at times. Each of these is described in turn in this section.

Phase I: Macro-Fiscal Policy Setting

35. The annual budget formulation cycle starts with the preparation of the Economic and Financial Document (DEF). This is designed as the bedrock of the budget formulation process. It is a high-level policy document that sets out the macro-economic projections for the following three years as well as an update for the current year. It provides the overall orientation for aggregate fiscal policy for the same period. It incorporates the estimated aggregate amount of fiscal consolidation measures expected to be included in the Stability Law.

36. It should be emphasised that this document presents fiscal information at a very aggregate level and does not provide any specific expenditure ceilings, or discussion thereof, for individual ministries. The Ministry of Economy and Finance will of course have such information internally at this time, subject to updates in the second phase of the budget formulation process and political agreement.

37. The document is produced in early April and is presented to Parliament for deliberation and approval. This is discussed further in the next chapter of this report.

38. It is subsequently presented to the European Commission later in April in the context of Italy’s Eurozone membership requirements. The document also updates Italy’s structural reform programme in that regard.

Phase II: Baselines Updates – “The Budget”

39. The second phase consists of updating the baseline expenditures for carrying out existing legislation. As noted earlier, this is being reformed. First, the medium-term expenditure framework will now account for the out-year expenditure (growth) implications of all current policy. Second, the maintenance of the baseline in general should become more robust and therefore not require significant renegotiations each year. This will substantially reduce the time devoted to this phase of the budget process in future.

40. In early May, the Ministry of Economy and Finance sends out a circular calling for submissions from line ministries to update their baselines. This is a lengthy and technical document offering principles and instructions on inputting information into the central budgeting IT system. Again, it does not contain any expenditure ceilings.

41. The Ministry of Economy and Finance has its own office in each ministry that acts as a central point for ministries to submit their requests. The office will receive inputs from the minister’s office, general affairs office, and specific programme offices. These disparate requests are all entered by the Ministry of Economy and Finance’s office. There is no effort to discipline the requests by the offices, nor is there any other structure in each ministry to do so. The lack of central budgeting capacity in spending ministries is striking.
42. The requests focus on a ministry requesting additional moneys for implementing a certain enabling law, saying that the current level of funding is insufficient. The baseline is generally updated to reflect requests that are a function of volume growth in programmes or other out-year implications of previous decisions.

43. This process is generally finished by the end of July. This refers to recent experiences; it used to only be completed in September, several weeks ahead of the presentation of the budget and stability law to Parliament.

44. This first phase culminates with the Ministry of Economy and Finance finalizing the updated baseline, “the budget,” and presenting it to the Cabinet. This is viewed as a technical exercise with the Cabinet generally approving the document with little or no discussion.

45. Request that relate to new programmes, i.e. new enabling legislation or changes in existing ones, are decided in the next phase of the budget formulation process.


46. There is no official starting time to the third phase – the resource allocation phase. It will normally “emerge” during the latter part of the second phase in July; it climaxes in September just before the presentation of the budget and stability law to parliament.

47. This phase begins with separate meetings between the Ministry of Economy and Finance and each line ministry at a high-level. The meetings review the submissions from each ministry in detail. These can be all-day meetings with a large number of participants, especially from each spending ministry. This reflects the lack of a single budgeting function in line ministries. In a recent innovation, staff from the Prime Minister’s office also attends these meetings.

48. These meetings are generally information-sharing meetings. Line ministries will submit (exaggerated) claims and defend them at these meetings. Following the meetings, there will be frequent informal contacts between line ministries and the Ministry of Economy and Finance. Formal working groups may also be formed to follow-up on specific and sensitive issues.

49. Again, line ministries will not be aware of any total expenditure ceilings at this point. There may however be stipulations for specific fiscal consolidation measures in specific programmes in previous years’ stability laws.

50. Prior to these meetings, much work will already have taken place as of early June. The Ministry of Economy and Finance will have a more accurate internal estimate of expenditure ceilings for each ministry. The Minister of Economy and Finance will have had meetings with the Prime Minister in this regard and to discuss specific political priorities. The two senior ministers work very closely throughout this phase.

51. The Minister of Economy and Finance will also have meeting with his colleagues to discuss the budgets of their respective ministries, the overall fiscal stance of the government and political indications on where to focus expenditure reductions.

52. Following a lull in budgetary work during the holiday month of August, the budget formulation process quickly gathers critical momentum in the month of September. The Prime Minister becomes most active at this stage. A revised macroeconomic forecast is available in mid-September, which leads to a formal endorsement by Cabinet and Parliament of an updated *Economic and Financial Document (DEF)*. This is also submitted to the European Commission.
53. The updated DEF document forms the basis for the final decisions for the budget and stability law. Decisions that may have been informally agreed between the Prime Minister and the Minister of Economy and Finance are now formalized, or budget options discussed between the two are now finalized. These may include changes in specific programmes and general savings targets for each ministry. The Minister of Economy and Finance will communicate those decisions to the respective minister. There are no Cabinet meetings to discuss these issues; they are all bilateral in nature.

54. The respective staffs will work on completing the technical details to finalize the Stability Law. General savings targets may be stated as across-the-board cuts but ministries may nominate specific programmes to reduce. The proportion of such specific reductions has increased significantly in recent years.

55. The budget and Stability Law are then presented jointly to Parliament by 15 October. As of 2017, the Stability Law will be incorporated into the budget.

Conclusions

56. Italy is in the process of making significant reforms to its budget formulation process – as it is indeed implementing for a great number of its institutions. The merging of the budget and the Stability Law and the enhancement of the medium-term expenditure framework highlight this and provides a basis for further reform of the budget formulation process.

57. The most striking difference between Italy and most other OECD countries is the lack of budgeting capacity in line ministries and the late timelines for decision-making, including the informality and lack of binding deadlines throughout each phase of the budget formulation process.

58. Italy may wish to consider establishing a central budget function in each of its ministries. This would serve to co-ordinate and streamline the work of line ministries; create capacity; and promote priority-setting and internal re-allocations. It would foster a greater focus on performance and results and be the basis for effective top-down budgeting. This would recast the budget process and enhance strategic capacity to contribute to future spending reviews.

59. It should be emphasized that such bodies would not replace the Ministry of Economy and Finance offices – focused on budget execution – in each ministry. The budget office function should be part of the respective ministry which would have total ownership over its operations. The fact that Italy has relatively few, large ministries is especially promising for the success of such bodies.

60. The enhancement of the medium-term expenditure framework process, both in its completeness and robustness, should enable Italy to have in place a sound baseline at the beginning of each year’s budget formulation process thus avoiding the lengthy negotiations which currently characterize it.

61. Italy may wish to consider establishing expenditure ceilings for each ministry at the beginning of the budget formulation process. Optimally, this could form part of the Economic and Financial Documentation (DEF) issued in April, or with the Budget Circular issued in May. This would be introduced with more binding timelines throughout the budget formulation process.

62. The introduction of a central budget function in line ministries and complete expenditure ceilings for each ministry at an early stage would be fundamental steps in the further modernization of Italy’s budget process.
The Italian Parliament

63. The Italian Parliament is a bicameral legislature comprised of a Chamber of Deputies (630 members) and Senate (315 members and a small number of “life senators”) with co-equal powers. The President of the Republic is elected for a seven-year term in a joint session of Parliament by secret ballot, with a majority of two-thirds of the assembly.

64. Members are elected for a five-year term based on party-list representation. Traditionally there are a series of thresholds to encourage parties to form coalitions; however coalitions have often proved unstable and unable to survive a full five-year term.

65. A reform process is underway which has significant implications for the composition of the legislature. As part of this process, changes to the electoral system were approved by parliament in early May 2015 which guarantee a majority of seats to the party that wins the most votes in an election (340 out of 630 seats to any party that wins more than 40 per cent of the national vote). These changes are expected to take effect in July 2016. A second reform would significantly change the current Senate, replacing it with a body with lesser powers and one that is potentially non-elected. This second reform would strengthen the Chamber of Deputies role in relation to the Senate in the budget process.

66. Traditionally the Italian Parliament has enjoyed significant budgetary powers and freedom to act. As the result of various reforms undertaken in the late 80s/early 90s, late 90s, and more recently, there has been a gradual empowerment of the executive, and in particular the central budget agency, vis-à-vis the parliament. Nevertheless, parliamentary passage of the budget has remained difficult with government better able to defend its aggregate fiscal targets than the composition of its fiscal packages (Stolfi Goretti, Rizzuto, 2010).

67. Supra-national constraints and the economic crisis have also impacted the work of the Parliament. A note by the Clerk of the senate budget committee, observes that "following the economic crisis Parliament's decision-making power and representative autonomy have been squeezed between the decisions of the national Government and those of international organisations."¹

³ One institutional reform of interest is the suppression of the ‘secret vote’ for parliamentarians which allowed legislators to vote freely across party lines without sanction form party leaders. This contributed to often embarrassing defeats of government proposals, including financial legislation, and even to government collapse (Pelizzo and Forrestiere in Stapenhurst et. al, 2008).

⁴ See http://www.parlamento.it/documenti/repository/affariinternazionali/ecprd2012/4_Piccardi_EN.pdf
Box 2 – The Role of Upper Chambers in the Budget Process in OECD Member Countries

Just over half of OECD member countries have bicameral legislatures; however the role of the two chambers in the budget process varies significantly by country. In Australia, Chile, Italy, Switzerland and the US, the two chambers have equal budgetary powers. In some countries both chambers play a role but the lower house has the prerogative in the budget process and can overrule the upper house (Canada, France, Germany, Japan, Poland, Spain), while in others the upper chamber has no role, or only a very limited review role (Austria, Belgium, Czech Republic, Ireland and the United Kingdom). Other arrangements exist, for example, in Mexico where revenue is approved by both chambers but expenditure is approved only by the lower chamber. In the Netherlands only the lower chamber can amend the budget while the upper chamber can only agree or disagree.

Source: OECD budget practices and procedures database 2012

Legislative Approval Cycle

68. The role of the Parliament in the budget process is set out in broad terms in Article 81 of the Constitution and complemented by more detailed legislation (some of which has yet to be implemented) and the parliament’s internal rules of procedure. Recent legislation changed the structure and the timing of presentation and adoption of the budget documents. The budget session is now restricted to a period of about two and a half months (October 15 - December 31). Among other recent changes to the fiscal framework, the Italian Parliament ratified the Fiscal Compact in 2012 and passed legislation detailing the balanced budget provision and establishing the Parliamentary Budget Office (Ufficio parlamentare di bilancio).

5 The fundamental legislative basis for the parliamentary role in the budget process is provided by Article 81 of the Constitution, as reformed in 2012, according to which:

a) The State shall balance revenue and expenditure in its budget, taking account of the adverse and favourable phases of the economic cycle.

b) No recourse shall be made to borrowing except for the purpose of taking account of the effects of the economic cycle or, subject to authorisation by the two Houses approved by an absolute majority vote of their Members, in exceptional circumstances.

c) Any law involving new or increased expenditure shall provide for the resources to cover such expenditure.

d) Each year the Houses shall pass a law approving the budget and the accounts submitted by the Government.

e) Provisional implementation of the budget shall not be allowed except by specific legislation and only for periods not exceeding four months in total.

f) The content of the budget law, the fundamental rules and the criteria adopted to ensure balance between revenue and expenditure and the sustainability of general government debt shall be established with legislation approved by an absolute majority of the Members of each House in compliance with the principles established with a constitutional law.”

The provision under point f) above has been fulfilled by approving Law 243/2012.


7 Law no. 243/2012 issued in December.

8 As provided for in the April 2012 constitutional amendment.
The legislative approval process begins with the submission of Economic and Financial Document (DEF) which contains the stability programme, public finance and trend analysis, and information on the national reform. It is submitted to the parliament no later than 10 April for debate and approval by resolution by both houses ahead of its submission to the European Commission at the end of April. The budget committees of both houses hold hearings with stakeholders, including among others trade unions, chambers of commerce, and the Chair of the new Parliamentary Budget Office on the PBO analysis of the macroeconomic forecasts, trends in public finance, and adherence to the budgetary rules. This already short timing has sometimes been aggravated by delays in submission, particularly during the crisis period, limiting parliamentary debate to a matter of days. Parliamentary amendments to the budget and stability laws are constrained by the limits voted in the DEF.

Although the general government targets are set in the DEF, broad guidelines or information on how the government plans to achieve those targets are not presented until autumn when policy decisions are made. In mid-September the government submits an updated DEF in the parliament which provides revised macroeconomic and public finance forecasts, updated planning targets that integrate comments from the EU Council. The budget committees hold some hearings but the updated DEF is examined in a matter of days. This is followed by the presentation of the budget documentation in mid-October, which comprises two components: a stability law (formerly called the “finance law”) that presents qualitative and quantitative measures necessary to achieve the objectives set out in the updated DEF (e.g. maximum level of debt to be financed, changes in the tax rates) and a central government budget bill that delineates planned expenditures by policy areas, referred to as “missions”. If these two laws are not approved in time, an emergency budget takes effect until agreement is reached. According to the Constitution, this period cannot exceed four months. Before the 1988 reforms it was common for Parliament to miss the December 31 deadline. Since then, the deadline has been respected.

The budget bill is described as a “photocopy” or “accounting instrument”. As such, little time is spent debating the budget bill in parliament; indeed it may only take a matter of hours. Recent reforms

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9 Before 2009, the previous version of the DEF was presented to parliament by June 30 for debate and approval by the end of July. Law 196 initially shifted the deadline for its presentation to 15 September and for its approval to mid-October but this was amended to reflect new EU requirements.

10 Parliament introduced dedicated budget sessions in the early 1980s.

11 The origins of the Stability Law lie in the 1978 reforms (Law 468) which introduced the Finance Law, a set of proposals aiming to correct public finance trends presented by government on an annual basis. In theory, this new tool enhanced the powers of the Cabinet on budgetary matters – as according to the constitution no new taxes or expenditures could be established by the formal budget law – while at the same time allowing for better parliamentary control as it established financial targets and brought together all significant financial changes to existing legislation. In reality, the finance law’s first decade was disappointing and had a negative impact on the public finances as legislators found ways to stuff this piece of omnibus legislation with new spending measures. In 1988 a second reform sought to bring this under control by limiting the substantive content of the Finance Law to cover changes in existing legislation. Government proposals for new revenues and expenditure had to be included in other linked provisions (ordinary legislation and decrees) discussed simultaneously with the finance bill. This reform also had limited impact until the 1992 crisis and European incentives forced a cycle of ‘virtuous’ policies. Largely in response to the new framework of multi-level and multi-lateral control imposed by the European Monetary Union and the Stability and Growth Pact, a third reform in 1999 (Law 208) sought to reinforce the finance law as a technical instrument of control over macro-economic policies. Its contents were expanded again to include all provisions that could reform existing expenditure to improve the budget balance. Costly measures had to be ‘finalised for economic development’. Unfortunately this reform once again allowed legislators the opportunity to play with an omnibus-distributive piece of legislation. This alongside other issues meant that the reform continued to fall short of its goals in the following decade (De Giorgi and Verzichelli, 2008).

12 More specifically, maximum level of change to debt to be financed through access to the financial markets.
mean votes on the budget bill are taken at the programme level. The main focus of debate is the stability law where actual change is driven. In 2017 the MEF plans to integrate the budget and stability laws into one document.\textsuperscript{13} While the practical details are still unclear, the MEF has begun technical consultations with relevant institutions (e.g. Parliament, the Parliamentary Budget Office, the Court of Auditors) on how to merge these documents.

72. The budgetary documents are reconciled through consecutive readings by the two houses. The budgetary session consists of three readings. A first reading is typically completed in mid-November and a second reading in late December. A third (typically quick) reading is then held if the second chamber has amended the text already passed by the first chamber.

73. The budgetary annex on objectives and results receives very little debate, apart from when individual parliamentarians display particular interests. The proposed reform of the Senate provides an opportunity to deepen this debate. The initial reform proposal gave the Senate responsibility for reviewing public policy evaluations. The Chamber has since amended this proposal to include a role for the Chamber in reviewing public policy evaluations as well.

<table>
<thead>
<tr>
<th>Table 1. Parliamentary budget approval timetable</th>
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<tbody>
<tr>
<td>\textbf{10 April}</td>
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<tr>
<td>\textbf{September}</td>
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<tr>
<td>\textbf{15 October}</td>
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<tr>
<td>\textbf{31 December}</td>
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74. Parliament plays only a very minimal role in overseeing budget execution once the budget year has started. During the year they may approve supplementary spending, and there is an annual adjustment of the budget law in June. The government publishes its end-of-year financial statement and the Court of Accounts publishes its audit of the end-of-year financial statement in June and parliament finishes examining them in July. The budget committees take the lead in these debates. The Court of Accounts’ audit has the potential to enhance the parliamentary discussion on performance but has tended to focus more on legality and compliance.

\textit{Amendments and the impact of the legislature}

75. While the budgetary proposals originate from the government, either house of the parliament can approve amendments to the final bill. The amendments proposed by the parliament have to comply with the target balances set forth in the updated DEF: thus, if they entail a higher expenditure, the amendments must be offset. These principles, which were initially regulated by the budget law reform of 1988 and then enshrined in the parliamentary Rules of Procedure, have been strengthened by the recent introduction of EU regulations governing budgetary process, timelines and content, as well as the current fiscal challenges faced by EU member states requiring fiscal retrenchment.\textsuperscript{14} It should be noted that the balanced budget provision or the adjustment path to reach this provision in accordance with the Fiscal Compact can be breached with an absolute majority in cases of exceptional circumstances. This has already happened twice in practice with little political consequences given popular support for finding “flexibility” within the constraints imposed by domestic and EU fiscal rules. These votes however have not so far implied the

\textsuperscript{13} As required by Act No. 243 of 2012.

\textsuperscript{14} This was reflected in Constitutional Law No. 1/2012 and in the relevant implementing Act No. 243/2012.
breach of the EU rules as the domestic rules are stricter than the EU rules and Italy’s targets are consistently approved by the EU.

76. Proposed amendments to the budget bill are few and are mainly focused on operational expenditures. Proposed amendments to the stability law number in the thousands although most are not viable and only a small number are approved. For example, for the most recent session, the Senate proposed around 3800 amendments, about 50 per cent of which were not admissible. In the end, only about 5 per cent were accepted. The MEF plays a role in validating amendments, in particular it must validate government amendments, amendments proposed by rapporteurs and some others that are most likely to be approved (see Box 1 on the ‘Bollino Blu’ or ‘Blue Stamp’ procedure). They also express opinions on all other amendments in terms of the financial impact. While some officials described this as a time consuming process given the number of nonviable amendments presented, it ensures that the budgetary targets are more likely to be respected. As part of this vetting process, the MEF is often expected to find offsetting items for admissible amendments. The speakers and chairs of the budget committees also have a role as “gatekeepers”; the standing orders give them the power to exclude inadmissible items but they have had varying levels of effectiveness in this regard.

77. A fairly large number of amendments are proposed by government (to accommodate political pressures from fragmented majorities) and the parliamentary majority. The opposition also proposes a large number of amendments. While it is unlikely that an amendment strongly opposed by government would pass due to their parliamentary majority, a certain amount of political “horse-trading” and negotiation with coalition partners and opposition parties is common during the amendment phase to limit obstructionism. As such, representatives from the opposition have traditionally had some opportunities to impact decision-making on the budget, although in terms of actual amounts the changes to spending are very small. The leverage enjoyed by the opposition in these negotiations will no doubt be reduced given the recent reforms to the electoral system. Some amendments may be introduced on behalf of the line ministries whose proposals were not accepted during cabinet negotiations. Individual legislators may also introduce amendments benefitting specific constituencies although the financial impact of such amendments is usually small (Stolfi, Goretti, Rizzuto, 2010).

78. One interesting aspect of the amendment process has been the use of “maxi-amendments” (the practice of proposing an amendment that puts all of the provisions from the original text – and often modifications to the number and content of the amendments approved by parliament – into one single article, thus avoiding further amendment and speeding up adoption) and confidence votes on the budget and finance laws by governments to overcome blockages due to fragmented majorities and to minimize the possibility of unwanted parliamentary amendments. Both centre-right and centre-left governments have resorted to these tactics which limit the overall fiscal transparency and readability of the fiscal choices emerging from the budget process (De Giorgi and Verzichelli, 2008 and Stolfi Goretti, and Rizzuto, 2010).

79. Notwithstanding the formal powers of the legislature to amend the budget, the final vote is considered a matter of “confidence” in the government.

The role of Committees

80. The Budget Treasury and Planning Committee of the Chamber of Deputies and the Committee on Economic Planning and the Budget in the Senate have primary responsibility for consideration of the budget and stability laws. They are also responsible for financial and economic legislation throughout the

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15 Interview with staff of the Senate Budget Committee and the Senate Budget Service.
16 Resulting for example in a law with only one article but thousands of paragraphs.
year. The budget committees are typically chaired by the largest party in the coalition in power and party groups are represented proportionally.

81. The budget committees coordinate input from the sectoral committees which also examine aspects of the budget bill pertinent to their area of responsibility. Sectoral committees provide opinions and may propose amendments to change allocations within the same “mission”. Sectoral committees have around 10 days to consider the parts of the budgetary legislation that are relevant to them and to approve a report and appoint a rapporteur who may take part in the sittings of the budget committees. The budget committees may also hear minority reports from the sectoral committees. The sectoral committees’ proposals are considered and accepted or rejected by the budget committees which may also propose amendments. Sectoral committees also provide opinions on the stability law but their input is typically much weaker.

82. The final text approved by the budget committees is then examined in the plenary where further amendments may be proposed. Amendments rejected by the budget committees may be resubmitted subject to certain provisions. Minority reports may also be presented.

83. The budget committees hold hearings as part of the budget process, beginning with hearings with the financial ministers, and consult a variety of institutions and experts, including the new Parliamentary Budget Office. They have the power to summon papers, records, and persons from the executive branch. While committee reports are always published, committee meetings are not typically open to the public.

<table>
<thead>
<tr>
<th>Box 3 – The Budget of the Parliament</th>
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<tbody>
<tr>
<td>Constitutional bodies in Italy have full budgetary autonomy - that is they have the power to determine their own budget and spending plans. The legislature prepares its budget which is included in the main budget documents without any changes. The procedure in each chamber is nearly identical.</td>
</tr>
<tr>
<td>The internal procedures for preparing the budget are as follows. The Quaestors prepare the draft budget along with information on the final balance from the previous year for examination and approval by the Bureau. The Bureau transmits the draft budget to the Chair of the Budget Committee who leads the Chairs of the various standing committees in examining it. The Chair of the Budget Committee then reports to the plenary where the draft budget is again debated and put to a vote.</td>
</tr>
<tr>
<td>This last session is made public through direct broadcast and publication of the proceedings online.</td>
</tr>
<tr>
<td>The Ministry of Economy and Finance transfers the requested resources in four tranches during the year.</td>
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</table>

**Analytical capacity**

84. In 1989 the Italian Parliament established two in-house units that offer specialized, non-partisan technical support to legislators. The State Budget Department in the Chamber of Deputies and the Senate Budget Service were created as part of a larger package of parliamentary reforms to improve fiscal stewardship. While both are available to assist individual legislators and parliamentary committees, their efforts primarily focus on supporting the work of the principal budget committees in both chambers. Both are established pursuant to internal parliamentary protocols and their activities and functions are almost identical.

85. The State Budget Department exclusively supports the Chamber of Deputies with its assessment of legislative fiscal considerations, in particular the annual budget and stability laws. The department has a staffing complement of approximately 15 lawyers and economists. It produces several types of reports,
including analysis of the Executive’s budget proposals, cost estimates of other legislation and proposed policies, as well as broader economic analysis. All reports are available on the Chamber of deputies’ website.

86. The Senate Budget Service exclusively supports the Senate in its assessment of the fiscal impacts of proposed legislation. The Service has had approximately 9 full-time staff with specializations in law and economics, although this may change with the planned reforms to the Senate. It produces four types of reports: analysis of the Executive’s budget proposals; verification of the Executive’s cost estimates of proposed policies and legislation; economic analysis and other “policy briefs” that provide short descriptions of complicated budget proposals and concepts. All reports are made available to the public on the Senate’s website.

87. Both the State Budget Department and the Senate Budget Service play a role in examining the government’s technical reports on bills, draft legislative decrees, and amendments:

- Government must submit a technical report and a summary table outlining the financial effects of bills, draft legislative decrees, and amendments introduced by the Government. The technical report should indicate both the revenues and costs for each measure, the data and methods used to assess these amounts, their sources, and any other element that may be useful for technical verification by Parliament.

- The relevant parliamentary Committees are empowered to ask Government for a technical report on any bills, draft legislative decrees, and amendments being examined. The report shall be forwarded within the term indicated by the Committee, or within 30 days. Any delays must be explained.

- Government must prepare a ten-year (minimum) analytical table of the financial forecasts for social security provisions and the civil service. Regarding the education budget, technical reports should indicate demographic and immigration hypotheses used for forecasting the school population.

88. The new public finance and accounting law (Law no. 196/2009) has improved the information base and comprehensiveness of cost estimates or “technical reports”. According to the new law:

- Government must also update the technical report and the summary table of the financial effects when a bill has been approved by one of the Houses of Parliament and is being sent to the other House;

- Technical reports attached to financially neutral measures should include data and elements demonstrating this as well as information on the resources already envisaged in the budgetary documents for these measures.

89. Verification by the State Budget Department and the Senate Budget Service follows three main stages: analysis of the provisions; verification of methodology; and verification of data. If clarifications from government are required, requests go through the budget committees, rather than by direct contact between the budget offices and government officials.

90. It should be noted that according to Law no. 243/2012, the new Parliamentary Budget Office will also play a cost assessment role, but only for legislation with a significant economic impact.

91. The reports prepared by the respective budget offices are drafted in a clear and concise form, so as to simplify the work of the budget committees and parliamentarians.
The budgets of both units are part of the overall appropriations of the Chamber of Deputies and Senate. Nominal resources are available to retain external expertise required to prepare analytical reports.

It is as yet unclear how these two services will evolve following the reform to the Senate.

**The Parliamentary Budget Office (Ufficio parlamentare di bilancio, UpB)**

The establishment of the PBO fulfils new European requirements for an independent body to analyse and monitor public finance developments and evaluation of compliance with fiscal rules. It also represents a significant boost in the analytical capacity available to parliament and the public more broadly for financial scrutiny. While European requirements provided the final incentive, its creation comes on the heels of a decade of debate around the quality of public finance information during which several proposals were advanced to reform the institutions providing technical support to decision-makers, particularly the parliament, including proposals for the creation of new independent bodies to assess and verify fiscal developments.

The PBO is an independent institution attached to the parliament. It enjoys full autonomy and independence in its judgments and assessments'. This independence is secured in large part through provisions around the appointment process and the discretion of the PBO’s board in managing all aspects of their operations.

The parliament plays a role in the appointment process for the PBO governing board, considers the PBO’s work plan, budget and financial reports, and provides the appropriation for the PBO. The board of the PBO is responsible for providing the Presidents of the Senate and Chamber of Deputies with an annual preliminary budget for the organization and an annual financial report; however, the parliament cannot alter the content of these reports. Ongoing accountability is also exercised through parliamentary review of the PBO’s reports and testimony by the Chair before committees. The Budget Committees held their first hearings with the PBO in the autumn of 2014; several hearings have taken place in both 2014 and 2015.

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17 The legislative underpinnings of the PBO can be found in article 5.1(f) of Constitutional Law No. 1 of 20 April 2012 (with the relevant articles coming into force in January 2014), which required a qualified majority and multiple readings in both houses of the parliament. The PBO’s organisational structure and functions are defined in articles 16 to 19 of Law No. 243/2012.

18 Article 16.2.

19 The Chair and members of the governing board are selected by the Presidents of the Senate and Chamber of Deputies from a shortlist of ten candidates compiled by their respective committees with responsibility for public finance. This rather novel procedure presented some difficulties in practice, including a rather drawn out first appointment process. Nominees require the endorsement of two-thirds of committee members and are selected based on their “recognised independence and proven expertise and experience in the field of economics and public finances at a national and international level” (article 16.2). The members of the board are appointed for six-year non-renewable terms, which is independent of the five-year electoral cycle. This, and the fact that their appointment is non-renewable, helps to protect against political pressures. Once appointed, board members are prohibited from engaging in virtually all other professional endeavours. Given these restrictions, positions on the board are considered to be a full-time and remunerated commensurate.

20 Administrative services (e.g. rent and utilities) are also provided by the Chamber of Deputies and Senate in addition to the PBO’s €6 million budget.

21 Article 18.2.


Mandate: Analysis and monitoring of public finance developments and evaluation of compliance with the budget rules.

Budget (2014): EUR 6 million per annum (EUR 3 million provided by both the Chamber and the Senate)

Leadership and staff: The PBO has a collegial governance structure, or governing board, with three members, one of whom holds the position of Chair. The PBO plans to recruit 30 staff for first three years, after which the number of staff may be raised to 40. As of early 2015 current staffing was limited to a “start-up” group of around six economists and five administrative staff. Posts for an additional 11 economists were being advertised as part of the PBO’s ongoing recruitment.

97. The mandate of the PBO is clearly defined under article 18.1, which stipulates that the office shall perform analyses, audits and assessments of:

a) macroeconomic and public finance forecasts;

b) the macroeconomic impact of major legislative measures;

c) public finance developments, including by subsector, and compliance with budget rules;

d) the long-term sustainability of public finances;

e) the activation and use of the corrective mechanism and deviations from targets arising from exceptional events; and

f) other matters of economics and public finances pertinent to the analyses, audits and assessments referred to (above).

98. The mandate is fairly broad in that it includes an open-ended statutory authority to undertake ancillary work on a discretionary basis. An example of work already undertaken on its own initiative is the 2015 study on derivatives which received significant attention in the parliament and in the media. Several aspects leave room for some interpretation by the PBO. For example, in assessing and endorsing macroeconomic and public finance forecasts, the PBO has the freedom to pursue various options including making its own alternative forecasts. For the start-up period, it has chosen to use three independent forecasts as benchmarks, as well as Istat’s model, although development of the public finance part of this model is ongoing. In future, the PBO plans to develop its own macroeconomic forecasting model.

99. The constitution stipulates that the balanced budget and debt sustainability principles apply to the general government, which includes regional and local government entities as well as other government-controlled, arm’s-length organizations. Overall, this extended mandate ensures that the PBO is able to

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22 The first governing board was appointed on 30 April 2014. The first Chair (or President) is an academic with experience working with the Ministry of Economy and Finance and international organizations such as the International Monetary Fund. The other two members of the governing board (or “Advisors”) include a second distinguished academic with experience working with Ministry of Economy and Finance and conducting research at the United States Congressional Budget Office, and a key budgetary advisor to the Senate with experience working with the Ministry of Economy and Finance and the OECD.

23 Articles 81.6 and 97.1
perform a comprehensive assessment of the Italian fiscal context. At the same time, its broad remit may lead to a common problem faced by many PBOs: priority-setting in a context of limited resources.

100. In keeping with the common principles developed by the European Commission for the implementation of the fiscal compact, the PBO also verifies the activation and use of the corrective mechanism to counter significant deviations from the targets set in financial and budgetary planning documents. The law requires the PBO to provide its own assessments of deviations from budget objectives in the case of exceptional events (e.g. severe economic downturns, natural disasters, implementation of major structural reforms). Temporary deviations from the adjustment path are allowed in exceptional circumstances but must be approved by parliament.

101. While the timing for the production and release of the named reports is not specified in legislation, many are directly linked to the budget process, and more particularly the parliamentary debate. For example, the requirement to perform an assessment of “compliance with budget rules” is ostensibly linked to the budget laws presented by the government, which must adhere to EU rules. Italian legislation also provides that the PBO will adopt an annual “programme of activities” or work plan that will be presented to each of the Budget Committees by the PBO Chair and published on the PBO’s website.24

102. The PBO will not provide normative advice or policy recommendations.

103. The PBO right to access information pertinent to its mandate is provided for in its statute25 which requires all branches of general government, public bodies and publicly owned entities to communicate data and information and to co-operate in any way that the office deems helpful to the fulfilment of its duties. This includes granting the PBO access to any of their databases relating to the economy and public finances. Access to data and information is subject to general restrictions relating to confidentiality and privacy imposed by ordinary law.26

104. The two Budget Committees that the PBO serves are also guaranteed access to relevant information through article 6 of Law No. 196 of 2009 on public finances and accounting. PBO access to information has been fairly smooth, though it is still early days.

105. Consistent with the OECD Council Recommendation on Principles for Independent Fiscal Institutions, the law provides that PBO analyses and reports be published.27 This extends to the underlying methodologies for these reports, including the structure and assumptions of fiscal forecasting and costing models. The PBO has also undertaken to publish a wide range of information online, for example on its regulations, administrative procedures, staff and budgets.28

24 Law No. 243/2012, article 18.4.
25 Article 18.6
26 The PBO has developed two MoUs to further facilitate access and is working on an agreement with the Ministry of Economy and Finance for more direct access. These are the:
   - Memorandum of Understanding between the Office of the Parliamentary Budget and the Ministry of Economy and Finance, 15 September 2014, which covers information necessary for the endorsement of the macroeconomic forecasts and evaluation of the public finances.
   - Framework Agreement between the Office of the Parliamentary Budget and Istat, 7 August 2014, which is a cooperation agreement on macroeconomic forecasting models and microsimulation of the effects of tax policies.
27 Article 18.4.
28 http://www.upbilancio.it/ The website is being translated into English.
The PBO is building its relationship with the media, although media coverage has been rather limited in the early days, except in specific cases. It is also planning to engage relevant civil society organizations and to create tools such as accessible infographics to facilitate public engagement.

Conclusions

Both houses of the Italian Parliament, as well as legislators as individuals, have traditionally enjoyed significant budgetary powers and freedom to act. Over the past few decades the budgetary system in Italy has been through a series of reforms and the role of parliament is no exception. Although such reforms have not always been successful in curbing dysfunctional behaviours on the part of both the executive and the parliament (as demonstrated by the maxi-amendment practice and the many non-viable amendments proposed), there has been a gradual empowerment of the executive, and in particular the central budget agency, vis-à-vis the parliament. At the same time, the analytical capacity of the parliament has been strengthened, particularly with the establishment of the new parliamentary budget office.

Another wave of reforms is ongoing which, combined with new supra-national constraints, would serve to confirm this trend. Although it is too early to draw firm conclusions, changes to the electoral system will likely shift the Italian system to a more stable majority model with less political fragmentation and the potential for stronger party discipline. The leverage of the opposition in the amendment process will likely be diminished. The reform of the Senate will concentrate parliament’s budgetary role in the Chamber. While this will likely facilitate passage of the executive’s budgetary proposals more intact, it means less overall scrutiny.

The merger of the budget and stability laws implies some changes to their format – the budget and stability laws are currently organised on a different basis. If done well, this could facilitate a more comprehensive parliamentary debate although there are potential risks as well if, for example, in future parliament seeks to modify the baseline estimates to offset new expenditure. Of course government already has the power do this. This is why it is particularly important that the estimates be as credible and transparent as possible.

Both houses, but the Senate in particular, have an opportunity to carve out a new role in terms of monitoring performance and policy impact assessment, an aspect of parliamentary scrutiny that is sorely missing at the moment.

An enormous opportunity to enhance parliament’s budget scrutiny also exists in the form of the new analytical capacity provided to parliament by the Parliamentary Budget Office. The arrangements for the PBO reflect the vast majority of the good practices outlined in the OECD’s Principles for Independent Fiscal Institutions.

Implementation of reforms in the Italian context is often slow. While there may be broad agreement on the reform goals, the practical details are often left for later with the risks that entails. Implementation of the reforms affecting the parliament will require a shift in the parliamentary culture. This is not a simple matter of changes to legislation or the rules of procedure. Past attempts at reform have demonstrated that a different mode of executive-legislative relationships is not automatically guaranteed to emerge because of rules changes.
The budget execution of the Italian government is to a large extent centralised and conducted by the Ministry of Economy and Finance’s Ragioneria Generale della Stato – RGS. As noted earlier in this report, the RGS has offices in each line ministry who are responsible for *ex ante* control of all contracts, commitments and other expenditures by central government entities.

This chapter is divided into sections describing expenditure control, public procurement, electronic invoicing, payment management and the initiative to reduce commercial debts.

**Expenditure Control**

The budget approved by the Parliament consists of 181 programmes in 2015, where each programme covers several expenditure laws and discretionary operational expenditures. In order to be able to control the budget each programme is assigned to a specific line ministry and an administrative unit in order to determine who has the authority to spend each part of the budget.

Once the budget is approved by Parliament the spending authority is delegated to every cost centre defined in the budget. Communication is directly between the cost centre and the RGS office attached to that ministry.

Based on the administrative authority that has been given and the specifications in the budget, the administration within each cost centre can spend the budget according to the relevant expenditure law. The RGS offices will control that the budget execution is in-line with the appropriations in the budget. The control covers on one hand the actual payments and on the other hand orders, contracts and other commitments of the government.

The purpose of the control is to ensure that the resources are spent respecting the purpose of the expenditure law and all accounting procedures and to work as a safeguard against overspending and commitments that will exceed the amounts covered by the budget. Furthermore the control helps to fight the misuse of government funds.

RGS has developed the operational system in use to execute the budget (SICOGE). The system is used in the budget execution process in line ministries. However territorial offices of ministries still operate outside the SICOGE system. The SICOGE system is the central tool for the RGS offices when controlling the budget execution. The SICOGE system has been provided with activity measures and other conditions used to calculate the costs on every programme (budget chapter). Furthermore, there is included information on the relevant expenditure laws, the cost centre disbursing the funds and economic classifications (i.e. transfer payments, capital expenditures and operational expenditures and personnel costs).

The budget specifications included in the SICOGE system can be specified in further detail on the particulars of the programmes and budget items and entered into the SICOGE system by the administration of the relevant cost centre.

The extra specification of the budget that can be put into the SICOGE system, after the Parliament’s approval of the budget, enables a closer expenditure control on a more detailed level than what has been presented to Parliament. The detailed expenditure control where contracts, commitments and transfers are measured against the specified budget enables a control of the budget execution to secure
against overspending. Contracts cannot be signed and payments cannot be made if they are not in-line with the budget.

122. At the same time the information on the budget execution used to control the budget can be used to identify savings, which for discretionary expenditure can be reallocated to other purposes by the line ministry during the fiscal year. Savings on mandatory expenditure laws can only be reallocated to another purpose through a new expenditure law.

123. The information on savings is provided by the RGS office within each line ministry. The RGS monitors the budget commitments and payments. If the assessment of the overall budget shows that the objectives of the stability law will not be met, the stability law provide automatic safeguard clauses to change specific taxes.

Public Procurement

124. The procurement of goods and services by the Italian central government have until recently been a task for the individual cost centre. Along with the 2000 Budget law, a reform was introduced with the aim of optimising public purchases of goods and services. This gave the Ministry of Economy and Finance a policy making and coordinating role. This role covers all central government purchases, regardless of whether they are above or below the EU thresholds.

125. The purchase of goods and services above the threshold is regulated by EU directives on public procurement, which is implemented in Italian law by a Legislative decree no. 163 of 12 April 2006 covering all public contracts of works, services and suppliers. The regulation set out procedures for the purchase of goods and services both above and below the EU thresholds as part of the national legislation.

126. The role of the RGS office attached to each line ministry is to control that contracts on purchases of goods and services, public works, et cetera are in-line with the procurement laws at the same time as they control that expenditure is in-line with the budget.

127. When a public administration conducts a tender or enters into a contract based on a framework agreement or any other kind of contract it is put in the SICOGE system. After approval that it is in-line with the expenditure budget, the order can be placed.

128. In order to strengthen public procurement and use the purchasing power of the government as a whole, the Ministry of Economy and Finance established Consip – a government owned company with the sole purpose to give assistance and support public administrations with the procurement of goods and services. Consip also operates the programme for the rationalisation of public administrations purchases on behalf of the Ministry of Economy and Finance.

129. Consip supplies Central and regional governments with mandatory Framework Contracts and Framework Agreements for selected goods and services. Through the tenders by Consip, suppliers are obliged to deliver specific goods and services at lower prices because Consip can use the total amount of purchase by public administrations as a bargaining power.

130. Besides tendering out Framework Contracts and Framework Agreements, Consip also works to help individual government administrations complete their tenders on specific needs.

131. In 2007, an electronic marketplace (MEPA) was introduced. The electronic marketplace is especially used for smaller purchases below the EU threshold but at the same time making it easier for public administrations to use Framework Agreements supplied by Consip.
132. In 2013, Consip undertook calls for tender for a value of € 4481 million. In 2014, Consip tenders are expected to have a volume of around € 9000 million. As tenders can have a multi-year lifespan the volume tendered out each year can vary due to different volume on the individual tender and an expected increase in the number of tenders.

133. The value ordered through Consip amounts to € 4,257 million in 2013. Expenditure covered by Consip activity totals € 36,127 million. This indicates that Consip is used only for a small part of total procurement. Thereby, there is a potential for expanding the efficiency in the public procurement to obtain value for money in public procurement transactions.

134. Public administrations are allowed to use other suppliers than those supplied by Consip if prices are lower than the benchmark prices. This will be controlled by the RGS office when approving the contract.

**Electronic Invoicing**

135. Digitalisation of government finance functions have been an important agenda in the improvement of financial management in Italy for the last decade. With the introduction of the SICOGE system in 2002, the Ministry of Economy and Finance established a tool for effective communication with line ministries in order to manage the budget and the financial accounting procedures. The SICOGE system also proved to be a backbone in the digital infrastructure.

136. In 2007, the Italian government followed the route of a number of other OECD countries to introduce electronic invoicing. The aim was to rationalise the administrative processes receiving, approving and paying invoices. At the same time, it was expected to help improve the monitoring of government expenditures and lead to faster payments. The issue of commercial debts will be discussed in the next section.

137. The reform makes the use of electronic invoicing mandatory for suppliers to the public sector in Italy. During the following years, the Ministry of Economy and Finance has worked with specification of processes and IT-systems in order to implement and support the treatment of electronic invoices. In 2008, it was decided to establish one single exchange system for electronic invoices to the public sector.

138. From 2009, the Ministry of Economy and Finance has met the representatives from large suppliers and organisations, and stakeholders in general, to prepare the technical specifications. This includes defining the standard, which has been furthermore compared with the EU PEPPOL project.

139. During the following years, the IT-systems were developed to support the handling of electronic invoices.

140. At the same time, work was undertaken in order to minimize administrative costs for small and medium size companies to send electronic invoices. This includes the use of the electronic marketplace (MEPA) and an on-line invoicing platform that can be used by the companies at no charge.
1. The supplier sends invoice through the Exchange System (a transit point managed by the Revenue Agency).
2. After technical controls, the invoice is transferred to the receiving public entity.
3. The entity has 15 days to accept or refuse the invoice. After this time period, the invoice is automatically considered accepted.
4. After acceptance, the invoice can be entered into accounting records in order to issue the payment.
5. After acceptance and accounting the invoice is controlled by the RGS accounting office attached to the line ministry (only for central government).
6. The payment can be carried out.

141. Implementation of electronic invoices started in 2014 for ministries, revenue agencies and welfare institutions. By 2015, the obligation for suppliers to send electronic invoices also includes other central government administrations and the local government entities. As part of the implementation, new users within government administrations have been introduced to the SICOGE system.

142. The implementation towards suppliers includes information on how to send electronic invoices. This has been done in cooperation with respective trade organisations. On the market, small local suppliers can find facilitation instruments in order to support sending invoices. The success of the implementation on local and territorial level remains to be seen. Invoices from international suppliers are not covered at the moment.

Payment Management

143. The Italian treasury payment management function is undertaken by the Banca d’Italia on behalf of the Ministry of Economy and Finance. The arrangement has been in place since 1894.

144. The Ministry of Economy and Finance maintains a treasury account with the Banca d’Italia, and this treasury account is used to execute central government payments and receive tax collections. Banca d’Italia also supplies the RGS and RGS offices with bank statements of inflows and outflows.

145. The treasury services performed by Banca d’Italia covers the central government and territorial governments whereas local authorities execute their own payments through a commercial bank, but at the end of the day deposit their net-funds with the single treasury account at Banca d’Italia.

146. This way the single treasury account is divided between separate accounting balances of around 19,000 government entities. The fact that all government entities have an accounting balance with Banca d’Italia as part of the single treasury account makes it easy to transfer funds between different government entities, and the function has been used to make funds available for local authorities during the initiative to reduce commercial debt, as explained in further detail in the next section.

147. Each year, around 70 million payments are executed from the treasury account. Over 95% of the transactions are made through the on-line payment services. The introduction of electronic invoicing is expected to further digitalise payments – not only within central government but also in local government once the implementation is finalised.

The balance on the treasury account

148. Under the Treaty of the European Union and the financial regulations from the European Central Bank (ECB), the central bank is not allowed to finance the Treasury in any way. This requires that the
treasury account always shows a positive balance. In order to secure that, the Ministry of Economy and Finance and the Banca d’Italia have agreed to target the balance of the account at a daily minimum of €800 million and the balance on the treasury account is remunerated at a market rate under certain ECB regulations.

149. The balance on the treasury account is closely monitored by the Treasury function of the Banca d’Italia. This requires close cooperation between the Banca d’Italia and the Ministry of Economy and Finance with regard to economic forecasts and projections on the daily inflows and outflows. As a result of these projections, an expected daily balance on the treasury account is published by the Banca d’Italia. From 2015, the forecasting period is changed from 30 days ahead to 60 days ahead.

150. If the balance of the treasury account is expected to run below €800 million government bonds are issued to make up for the difference.

The payment information system

151. To gather better and timelier information on public finances, the RGS, Banca d’Italia and the commercial banks have worked together on establishing an information system covering government payment transactions from all levels of government.

152. The payment information system is managed by Banca d’Italia.

153. Parliament is presented with quarterly cash-based statements consolidated for all of government. The SIOPE system is the main source for gathering the necessary information.

154. To ensure that the collected data is complete, the SIOPE website has been made available to the government entities supplying data, giving them the option of using the data to monitor their cash management and to make payment projections.

155. At present the SIOPE system records practically all payment transactions of the general government sector and since mid-2014 data has been made publicly available on the SIOPE website.

The Initiative to Reduce Commercial Debt

156. Trade credits are commonly used in commercial transactions between businesses as well as in the government purchase of goods and services. However, trade credits do not count as government debt under the European Monetary Union debt criteria. Since 2000, the European Union has put focus on late payment in commercial transactions. This focus was strengthened by the Late Payment Directive in 2011 setting the standard that trade credits for government entities can at the maximum be 30 days (60 days for some transactions within the health sector) and giving the contractor compensation if the government does not pay on time.

157. In Italy, overdue commercial debts had been an entrenched problem, especially within territorial and local government. In April 2014, the Banca d’Italia estimated the outstanding commercial debt of the general government to an amount of €75 billion, equal to 5% of GDP – half of this overdue.

158. There are many possible reasons for government to have overdue commercial debt, including budget constraints, lack of cash, inefficiency in the administrative treatment of invoices, and to some extend reluctance by some public entities to acknowledge their debts.

159. In order to bring Italy in compliance with the EU Late Payment Directive, the Ministry of Economy and Finance set up a programme to pay outstanding commercial debts. The programme was
started in 2013 and provides financial funds to territorial and local governments to pay the outstanding overdue commercial debts. The funds have been provided through the sub-accounts within the single account treasury system.

**Box 6 – Payment of Overdue Commercial Debt**

The Italian government set aside around € 56 billion to pay overdue outstanding commercial debt during 2013 and 2014.

Of the total amount, € 40 billion have been set aside as a fund with € 17 billion in 2013 and € 23 billion in 2014, divided on

- local entities – € 3 billion for 2013 and € 7 billion for 2014;
- regions and autonomous districts – € 6 billion for 2013 and € 7 billion for 2014; and
- national healthcare system – € 7 billion for 2013 and € 10 billion for 2014.

The division by individual government entities was decided by the Ministry of Economy and Finance based on the needs reported by government entities.

160. In April 2015, the Banca d’Italia estimated that overdue commercial debt has been reduced by € 21.6 billion during 2013 and further € 15 billion during 2014. It does not provide a new estimate of outstanding commercial debts. However, the numbers indicate that the amount of overdue outstanding debt has been reduced substantially.

161. In order to establish compliance with the EU Late Payment Directive in the future, all government entities have been obliged to publish information on the average number of days of payments (measured as a weighted average). The information has since mid-2013 been published by the respective administration.

162. In addition, it is the expectation of the Ministry of Economy and Finance that the introduction of electronic invoicing will help to reduce commercial debts in the future. This expectation is based on the fact that the treatment of electronic invoices will be more effective and that it will be much easier to monitor if invoices are paid on time. Thereby, it will be possible for the RGS offices and the treasury functions of other parts of the public sector to act if an invoice is about to become overdue.

**Conclusions**

163. Budget execution in the central government in Italy is delegated to a large number of cost centres who are under heavy centralized constraints and control.

164. The current system leaves little room for in-year manoeuvre for an entity which economizes on resource use, as savings for only a very small category of expenditures can be reallocated without a new law being enacted by Parliament. This leaves little incentive for central government administrations to focus on increasing efficiency.

165. Another constraint is the procurement regulations, including mandatory Framework Contracts and the electronic market place for smaller purchases. Although the Framework Contracts are mandatory, there is an option for public administrations to use another supplier if they can obtain a lower price on the purchase than the benchmark price set by the Ministry of Economy and Finance. Data shows that Consip Framework Contracts have potential savings on 20-25% compared with market prices. At the same time, the data shows that only around 15% of the value covered by Framework Contracts is actually ordered on the mandatory contracts supplied by Consip. Either Consip contracts do not deliver the savings that could
be obtained on the market, or the control procedure to secure that the mandatory Framework Contracts are used could be improved.

166. The expenditure control done by the RGS offices attached to every line ministry do *ex ante* control of commitments, contracts and other expenditure to secure that resources are spent on the purpose defined by the expenditure law. Furthermore, the offices control that invoices are in-line with the approved expenditures and are accounted in line with the appropriate expenditure law. However, the control does not cover the efficiency of the spending.

167. The introduction of electronic invoices is a major move in the digitalization of the accounting procedures. The experiences from the implementation, especially within the territorial and local governments, still need to be analysed as well as any problems with the introduction of electronic invoices to small local suppliers. In the longer run, the information gathered through the electronic invoices introduces valuable information that can be used in order to improve the procurement system. Furthermore, the monitoring of electronic invoices is a way to secure against new problems with overdue commercial debts. In this regard, the Ministry of Economy and Finance may need to improve further the information systems in order to better monitor the treatment of electronic invoices at the territorial and local level.