

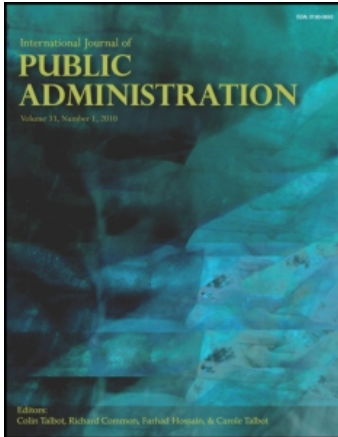
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International Journal of Public Administration

Publication details, including instructions for authors and subscription information:

<http://www.informaworld.com/smpp/title~content=t713597261>

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Online publication date: 23 February 2011

To cite this Article Ranalli, Francesco and Giosi, Alessandro(2011) 'New Perspectives on Budgeting Procedures in Italy', International Journal of Public Administration, 34: 1, 32 – 42

To link to this Article: DOI: 10.1080/01900692.2010.524071

URL: <http://dx.doi.org/10.1080/01900692.2010.524071>

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New Perspectives on Budgeting Procedures in Italy

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This article aims to describe and analyze the Italian budgeting procedure according to the recent administrative reforms introduced in order to keep public expenditure under control and to ensure more efficiency and effectiveness in public action. The budgeting procedure is a relevant topic and several international studies (by the Organization for Economic Cooperation and Development [OECD] and the EU Commission) have identified a strong relationship between budgeting procedure quality, application of performance management tools, and public financial sustainability. This article describes the path that is allowing Italy to fill the gap between its own approach and the European best practice.

Keywords: budgeting procedures, program budgeting, financial management, government accounting, OECD database

INTRODUCTION

Over time, the National Budget has carried out more important functions and, in particular, it highlights the public policy capability to influence the macro-economic variables (European Central Bank, 2004). Moreover, since the advent of New Public Management, planning and control processes have been given an internal relevance to budgeting. Therefore, the budget has become a macro-economic planning instrument and a tool of internal control. This internal evaluation regards public policy performances and operating programs carried out by the administrative structure, useful to the achievement of political objectives. This is what is known at international level as Financial Management (Blondal, 2003b; Kim & Park, 2006; Scheer et al., 2005; Schick, 2007).

In Italy the Budget issue has to consider the strong relationship between the content of the document and the underlying legislation. In fact, the budget content is based on important relations among expenditure laws and the Financial Act and Budget Act (OECD, 2004). Therefore the necessity of coordination among these laws and Acts emerged. To this end, a reform of National Accounting Act was endorsed in the 1980s with the aim of managing macroeconomic trend by fiscal policy (Giosi,

2007). Moreover, from beginning of the 1990s the National Accounting Act was updated to take into account the influences coming from the financial Management initiative. In this context, the reform of budgeting procedure and budget structure has become the tool to address organizational performance.

Nowadays, an evaluation of the Italian budgeting procedure appears important since the annual European Commission document “Public Finance in EMU,” based on a survey of the OECD in 2003 (Curristine, 2005), ranks Italy in the last three places in Europe (European Commission, 2007). Even though the survey of OECD was updated in 2007, the data collected did not take under consideration the evolution of the Italian budgeting procedure implemented in the last three years.

The European Commission has structured an indicator based on seven indexes, which constitute dimensions usually recognized at the international level (Blondal, 2003a). These dimensions are (see Table 1): transparency, multi-annual horizon, centralization of the budget processes, centralization during execution, top-down budgeting techniques, prudent economic assumptions, and performance budgeting. The EU Commission identified three fundamental stages of the budgeting process: planning, legislation, and implementation. Budget transparency, top-down budget techniques, and performance budgeting cover all three stages. Multi-annual horizon and economic assumptions are mainly concerned with the planning stage, while the centralization of the budgeting process covers the two first stages only.

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TABLE 1
Dimension of Budgeting Procedure and EU Commission Relevant Aspects

<i>Index</i>	<i>EU Aspect Under Investigation</i>
Transparency	timeliness of general government account; disclosure of macro economic assumptions; follow up on recommendation from national audit body; time for the auditor and legislator to scrutinize the budget; existence of multi years cost estimates for net spending; comprehensiveness of the budget information included off budget funds
Multiannual planning horizon	existence of national medium term budget targets; the legal basis for the medium term budgetary framework; the identification of deviations between medium term target and annual budget; existence of multi year expenditure estimates and macro economic forecast
Centralization of the budget processes	Power of Prime Minister (or Secretary of the Treasury); limit to Parliament amendment
Centralization during execution	power of the central budget authority to withhold funds during implementation of the budget; existing restrictions in changes in expenditure outside the budgeting procedure; participation of the central budget authority in the evaluation of the budget implementation
Use of top-down budgeting techniques*	information about the link between the medium-term framework and the annual budget process; sequence of voting in Parliament; degree of flexibility of the line ministers/agency manager within their budget area
Prudent economic assumptions	delegation of forecasting to independent institutions; the review of the macro economic assumptions by independent institutions; the existence of budget reserves and the formal rules for their use
Performance budgeting	regular presentation of non financial performance data in the budget document; the responsibility for achieving the performance targets; the monitoring of the performance against targets; use of performance indicators in determining budget allocations

*Referring to this index the EU Commission considered the information on the OECD dataset incomplete
Source: Our elaboration on EU Commission analysis

Centralization during execution is concerned with the implementation stage (European Commission, 2007). For each dimension listed above, the EU Commission has defined a specific index thorough selected OECD dataset questions linked with specific aspects considered relevant on the basis of existing literature. Table 2 shows the aspect connected with each index/dimension.

The chosen questions were given scores between 0 (lowest) and 5 (highest). Furthermore, composite indexes have been calculated based on the specific indexes. These composite indexes are: overall quality index, overall centralization index and overall budgetary procedures index as shown in Table 2. These overall indexes were constructed by finding the unweighted average of the individual indexes for the dimension included, but standardized to take account of the differences between the countries. The overall quality indicator encompasses budgetary transparency, multi-annual horizon, prudent economic assumptions and performance budgeting. The overall degree of centralization includes all the aspects related to centralization of budgeting procedure and top down budgeting. The latest index, rather, incorporates all the individual dimensions and represents the most synthetic index. Table 2 shows the result with reference to Italy's position.

Even though this ranking depends on numerous variables (selected aspects, selected questions of OECD dataset, score assigned to each questions) and depends on the reliability of the answers, Italian weaknesses are most evident in

TABLE 2
Italian Placing in the EU Commission Survey on Budgeting Procedures

<i>Index</i>	<i>Italy Place</i>
Transparency	13
Multiannual planning horizon	10
Centralization of the budget processes	17
Centralization during execution	9
Use of top-down budgeting techniques	18
Prudent economic assumptions	8
Performance budgeting	16
Overall quality indexes	11
Overall centralisation index	18
Overall budgetary procedures	16

Source: Our elaboration on EU Commission analysis

the centralization of budgeting procedure, top-down budget technique, and performance budgeting.

In addition to the study of budgeting procedure variables, the analysis of the budget and the system of control and planning are fundamental to better defining what is called Quality of Public Finance (Afonso et al., 2005). The QPF can be viewed as encompassing all arrangements and operations of fiscal policy that support the macroeconomic goals of fiscal policy. Therefore, QPF comprises policies that not only ensure sound budgetary position and long-term sustainability but also those that raise the potential output and facilitate the economy to adjust to shocks. To achieve these outcomes, public resources need to be used

in an efficient and effective way (Barrios & Schaechter, 2008). Even though the QPF studies are most centered on the macro-economic outcomes of the budgetary process, it is evident that a deep knowledge of budgeting procedures could improve the reliability of the impact of fiscal policy.

Thus, the following analysis tries to highlight the progress of Italy in respect to its European partners in order to show that the budget procedure has become a rule (Schick, 2003) that ensures the quality and the sustainability of public finance. In particular, the following analysis underlines specific aspects that could appear relevant to improve cross-analysis among countries. Without discussing either the correctness of the OECD dataset content or the algorithm of the EU Commission analysis, our article will show from a qualitative point of view that Italy has corrected its trend. To this end, in the following sections the evolution of budgeting procedures and budget content are taking into account and the critical aspects are underlined and discussed.

RESEARCH FINDINGS

Integrated Cycle of Financial, Operating, and Strategic Plan

Figure 1 shows the integration of the financial planning process with the strategic and operating cycles currently in force. It points out the different roles that the actors play

during the development of the process phases. It is important to emphasize that the figure represents an integrated system characterized by the presence of both criteria: the top-down for the hierarchical relationship and the bottom-up for the feedbacks. It implies that, even if the processes start from the top to the bottom, the roles and the different phases have mutual relationships, in particular in the starting phase that embraced the first six months of the year.

We can divide the budgeting procedures in two main parts. The first is developing until, more or less, June and regards, in prevalence, the relationship between executive body and administrative structure. The result of this phase will be the financial request by the administrative structure deriving from the implementation of the “strategic and operating plan process.”

The second part of the budgeting procedure is developed during the second part of the year and has a more political content concerning the relationship between government and Parliament. The result of this phase will be the content of the National Budget as a consequence of the Budget Act and Financial Act approved by Parliament concluding the “financial planning process.” Even though we have separated the two phases to best describe them, the process must be considered as a whole and, during the year, there are different moments where political system dialogue with the administrative structure. As shown in Figure 1, the Minister ensures the coordination between political leadership and administrative structure.

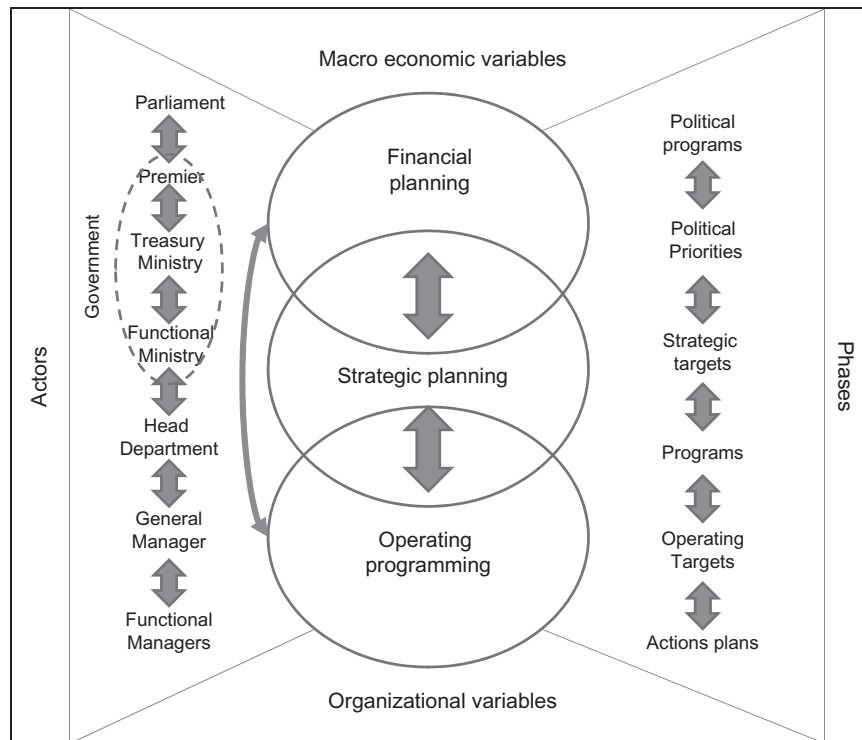


FIGURE 1 Integrated planning processes in Italian context.

However, in the past, these processes had some holes and didn't seem systemic. This was due to the fact that the budget was defined according to a bottom-up criterion. In practice, this criterion showed financial requests coming from the administrative structure which remained unsatisfactory. During 2007 and 2008, the top-down criterion was adopted, making the whole system more systematic.

The Interrelations Between Political Institutions and Organizational Structure

As shown in Figure 2 and Figure 3, the strategic planning process starts in February with the elaboration of the Premier's Directive, through which the political priorities are set out for the next year in line with the electoral program. Then, functional Ministers start the planning processes according to their competence and responsibility in the field of ministry.

In particular, each Minister provides or revises the priorities, establishes the long-term objectives, and defines the programs in detail. So, on one hand, he or she starts the operating phase for each Ministry with the involvement of the organizational structure. On the other hand, the priorities defined by each Minister should find correspondence with the Document of Economic and Financial Planning (DPEF). Indeed, the DPEF is a document in which are defined not only the political objectives, but also the standards and criteria, that will lead the construction of programmatic multi-year budgets, annual budgets, and financial Acts. In particular, the DPEF shows: the trend of economic and social variables; the sector in which public policy wants to focus;

and the forecasting criteria ensuring the financial sustainability in the mid term. At the same time, the three-year Financial Act, introduced for the first time in 2008, aims to regulate the expenditure law in force and to introduce the ceiling expenses. This allow to DPEF to have financial effect.

The Financial Act is necessary because the article 81 of the Italian Chart states that no new expenses can be introduced by the Budget Act. So, an additional law providing financial coverage is required.

There are other considerations. First of all, the DPEF is a formal and substantial government act which is ratified by Parliament through resolution. The Parliament approval allows sharing of the government targets, set out in the DPEF, with political majority. In second way, it must be considered that in February the Stability and Growth Pact (SGP) sent for the preventive control procedure to the EU Commission. The Government is responsible for the SGP in front of EU Commission and the Union Council. Even if the Stability and Growth Pact is not officially approved by the Parliament, it is an economic planning document that, according to the European System of Account (ESA95), has a strong political impact at both the national and international levels. Thus, it affects the DPEF.

At the end of the first financial planning phase (around June), the General Accounting Office (GAO) sets a memorandum. As a consequence, each Head of Ministry's department defines its budget proposal based on the GAO memorandum. The financial Act has defined the expenses ceiling and the criteria for the financial forecast.

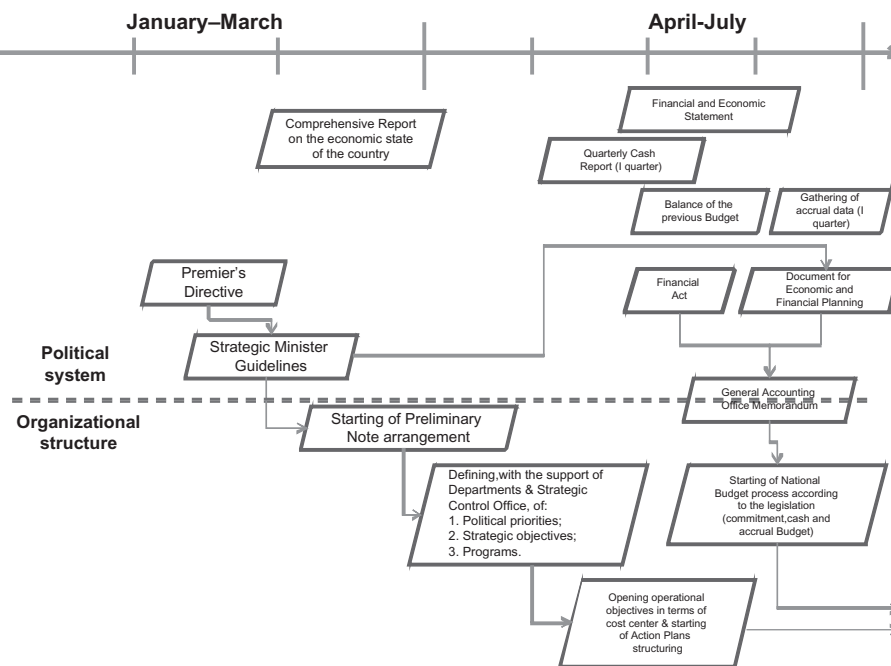


FIGURE 2 Italian Budgeting Procedure (first part).

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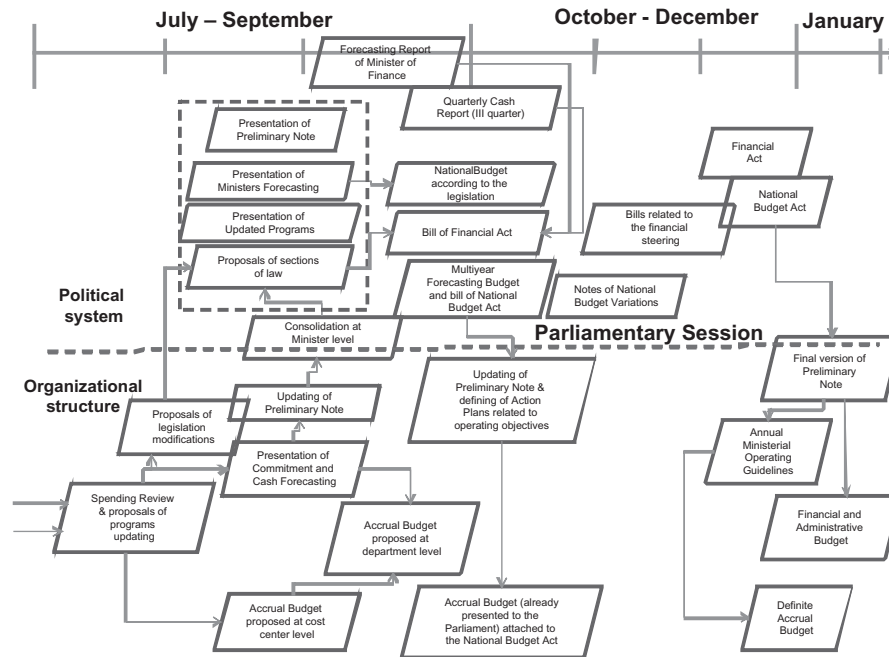


FIGURE 3 Italian Budgeting Procedure (second part).

With reference to strategic and operating planning, in April formulation of starts, a key document for the Italian budgeting procedure:

At the beginning the Preliminary Note receives ministerial guidelines and then follows the financial planning process that goes on during the year until the approval of the Budget Act by Parliament. The fundamental aim of the Preliminary Note is to link the objectives scheduled in operating programs delegated to the administrative structure with the resources. Thus, it is composed both of a qualitative and a quantitative aspects. With regards to the qualitative aspect, the Preliminary Note highlights the strategic objectives defined by the minister, according to top management of the organizational structure, who will be responsible for the results. In order to achieve this goal, the strategic objectives will be linked to specific operating programs and evaluated according to several output/outcome indicators. To achieve these targets, the management requires resources, whose financial coverage should be discussed during the budget deliberations.

The Preliminary Note will be always updated during the budgeting procedure. It is influenced by the quantification criteria, which are set out by the GAO after the approval the expense ceiling. On the other hand, when a minister considers that the achievement of a new program is important for his or her political priorities, the Preliminary Note may lead to a request to change the law in force. In such a phase, the control of public expenditure is ensured by limiting the financial request of new programs (which should have a strong political influence) and also by enabling the check

and monitoring phase on the current expenditure programs already financed.

Moreover, in this phase the management has to make the *spending review* before expressing any financial requests in terms of cash and commitment budget. GAO defines spending review as “a possible reallocation of resources between different programs managed by the same organizational unit or between different activities of the programs.” This review is an instrument to make the budget more flexible, and to release financial resources linked to programs never realized. As a consequence, the incremental criteria of expenditure have been once and for all abandoned.

The “spending review and programs updating” phase seems to be important from the point of view of the inputs it receives, and from the considerations of the outputs it generates.

With reference to the inputs, it is the link between the financial planning process and strategic and operating planning processes. This phase is developed by the Head of Department which carries out divisional managerial functions. Moreover, the Head Department develops such activity with the collaboration of general managers. General managers are active in the operating planning cycle defining the action plan according to the operating targets assigned to them by the Head of Department.

With the reference to the output flow, the spending review and programs updating phase creates both proposals to update the legislation in force and budget proposals with unchanged legislation. These proposals are expressed in terms of commitment, cash, and accrual. The accrual budget

is a document with a cognitive purpose. It supports the commitment and cash budget, but it is not formally approved by the Parliament. However, the accrual budget allows the political bodies to obtain information regarding cost programs. This information will be conveyed during the political discussion regarding the appropriation of for programs of the different organizational structure. In fact, each minister will introduce to the Minister of the Treasury the consolidated budget of the whole ministry resulting from the synthesis of the budgets proposed by the Heads of Department. In the Italian system, the accrual budget is proposed at Department level that is the first level of organizational responsibility. It results from a consolidation of Cost Pools, defined at the level of General Direction, that is the second level of organizational responsibility. However, the accrual budget system (used since 2000 in a experimental way) is a work in progress (still not finished).

This is because the accrual budget is influenced by the appropriations defined in the commitment and cash budget. The accrual moment coincides with the consumption of resources. Therefore, it takes place in an intermediate moment between the juridical one, reported by commitment accounting, and cash outflow, reported by cash accounting. To the extent to which there is not a double-entry book-keeping model, the accrual is defined through an indirect method. This implies a reclassification of the commitment or cash data applied both in the budget and in the report phase. The main issue is the temporal reallocation of the juridical or cash aspect, in the exact moment in which the economic event happens. This implies a *direct record* in the accrual budget of the appropriations, according to specific case, of the commitment or, alternatively, of the cash budget.

The different budget proposals lead to an updating of the Preliminary Note for two reasons. First of all, it is necessary to take into account the program changes deriving from the operating and programming process. Also, the Preliminary Note is updated to take account of the budget appropriation expressed in terms of commitment, cash, and accrual.

A new phase of budgeting process starts in October and involves exclusively the political system (Parliamentary Session). So, the organizational structure is not more involved until the approval of Budget Act.

The political debate, held first in the Government and then in the Parliament, will bring progressive updating in the Preliminary Note through a hierarchical process (top-down).

The Development of the Institutional Relationship Between Government and Parliament and the Effect on Organizational Structure

In September each minister presents to the government his or her own consolidated budget and a new discussion phase is started with the mediation of the Minister of the

Treasury. This phase focuses on several proposals: commitment and cash budget, programs updating, and changes in the expenditure legislation in force, as well as the proposal for the Preliminary Note attached to the National Budget. The output of this phase opens the parliamentary session, at the end of September, with the presentation of the National Budget in terms of current legislation, Financial Act bill, multi-years forecasting budget, and the Budget Act bill.

It is necessary to consider that in the meantime, several documents are being edited. They can change the economic background and have great influence on the proposals presented in Parliament. In particular, the Minister of the Treasury presents a Forecasting Report to the Parliament through which he or she illustrates the government policy in relation to the most recent economic trends and the quarterly cash report. This quarterly report defines the debt management and the presence of possible unexpected tax returns.

The debate session can be quite complex and lengthy, and it is usually concluded at the end of December. The discussion focuses on two main objectives. The first regards the appropriations of the Budget presented in terms of current legislation, the second one is the different parts of the Financial Act bill that accompanied Budget Act bill, aiming at modifying and updating the expenditure legislation in force.

As stated in the National Accounting Act, the Financial Act bill is presented in September as is the instrument through which the Budget, in terms of current legislation, is converted into the three-years forecasting Budget. Until 1999 the Financial Act aim was just the regulation of outgoing financial flows, coming from expenditure laws in force, to achieve a public expenditure reallocation. To introduce new expenditures it would be necessary to approve a further law. Since 2000 the scope of the Financial Act has been enlarged and it can now introduce all the normative dispositions that permit the Government to pursue its objectives.

The amendment power given to the Parliament in the past years caused several institutional frictions with the Government. Parliamentary amendments can seriously upset the forecasting plan presented by the government and there is often the risk of invalidating the whole process carried out by the public administration. This dependence of the government on the Parliament seems to be more pronounced when the Prime Minister's leadership is weak and the parliamentary majority has a narrow margin and is heterogeneous. For these reasons, as mentioned above, during 2008 a three-year Financial Act had been enacted through a government decree in June. This is a special proceedings through which the government issues an act with a legislative character that, successively, is ratified by the Parliament. This method is aimed at the prevention of the discussion in the Parliament as it does not permit the request of amendments. In such a way the political discussion will be more focused on the

most relevant aspects. But, in terms of budgeting procedure, the strongest advantage of this system is that the Financial Act has been approved before starting the operative planning phase from the ministers.

In this way, the three-year Financial Act (issued in June) becomes part of the legislation in force before the starting of budgeting process. This ensures, at the end of the process, a coherence between the budget based on current legislation and the forecasting budget that will be implemented by organizational structure. *Therefore the effectiveness of the internal planning is maintained.*

However, the National Accounting Act has not been modified to take in account of the “summer” Financial Act. Therefore, the Parliamentary session, between October and December, will discuss another Financial Act that is limited to the definition of the management of the net balance through the recourse to financial markets. Obviously, further changes may be introduced to the expenditure laws.

The short empirical evidence shows that such changes have not been so relevant with respect to the framework provided by the summer Financial Act.

Once the parliamentary session is concluded, with the approval of the Financial Act and of the National Budget Act, there is a feedback flow from the political system to the administrative structures. In particular, the approval of the Budget from the Parliament makes the final version of the Preliminary Notes available for each ministry. Thus, in January the completion of the planning cycle with the issuing of the Minister’s Annual Directive for administration action.

The Directive is the instrument by which the minister, within ten days after the National Budget Act is issued:

1. allocates human resources, equipment, and finance (in terms of commitment and cash) to Head Departments and general managers who hold the responsibility; center;
2. defines the objectives, priorities, and programs to be carried out and the related guidelines.

If the parliamentary discussion does not bring remarkable modifications to the proposals coming from the administrative structure, the content of the directive is coherent with what had been defined during the year. The Annual Directive represents a detailed explanation of objectives and operational programs (action plans) of the contents of the Preliminary Note. If the Preliminary Note is blocked at the first level of responsibility, the Annual Directive goes down in the depth of the responsibility system of the organizational structure. Traditionally, the Preliminary Note has been linked to the cycle of financial planning within the national budget designed according to the structural profile for responsibility centers and is characterized by a purely financial content.

The Annual Directives, instead, are the result of the strategic and operating plan process and have been involved in the defining process of the Accrual Budget that, since 2004, recognizes and classifies the expenses both for organizational structure and destination (programs). So that, until 2008 the financial planning and strategic and operational planning worked separately, also due to the different structure and content of the documents. Now, they appear more integrated. In fact, the role of the Preliminary Note has been reevaluated as programming document and its content has been linked to the Annual Directive. In addition, the forecast unit based on the programs has been introduced in the financial planning. It replaces the forecast unit based on organizational structure. This innovation that is discussed in brief below has been introduced in the National Budget Structure since 2007, just one year before the introduction of the innovations in the budget procedure and appears instrumental to the latter. As a matter of fact, the spending review has become the fundamental phase of the whole process.

The Budget System and the Changes in the Budget Structure: The Relevance of the Programs

As discussed above, with the National Budget Act, the Parliament approves the multi-year budget that highlights the evolution of the budget equilibrium and the annual budget, expressed both in term of commitment and cash, aimed at controlling public expenditure through the appropriation. Obviously, the structure of these budgets is the same. However, because these budgets classify the expenditure at macro level, the latter is also subjected to the formal approval by the Parliament. This macro level was until the budget of 2007 the responsibility center while since the budget in 2008 it has become the program. Usually, the Annual Budget is known as the Political Budget. Moreover, the Accrual Budget is attached with the aim to evaluate the effectiveness and efficiency of the administrative action.

Moreover, the Government attaches to the Political Budget the so-called Administrative Budget. The Administrative Budget represents the detail of the Political Budget and its aim is the budget management and the related accountability by the administrative structure. The unit of the Administrative Budget is the item that is connected with resources employed by the responsibility center during the implementation of the programs. Therefore, the Administrative Budget is strictly linked to the Minister’s Annual Directive. In fact, with these documents the minister allows managers to manage resources indicated in the administrative Budget. Therefore, the Italian budgeting system is very complex and consists of several documents: the Multi-year Budget, the Political Budget and the Administrative Budget. They are the components of what we can call Financial Budget because they provide

expenditure and revenue in terms of commitment and cash accounting. In addition, the Accrual Budget is attached.

As the authors have emphasized, until 2007 the Financial Budget and Accrual Budget were linked to different processes that lacked in terms of coherence and correspondence. In fact, the Financial Budget was derived from financial planning developed by the political system whereas the Accrual Budget was derived from strategic and operating planning developed by the administrative structure. These two processes have been running in parallel and this appeared as the shortcoming of the procedure. This is given to the fact that the law introduced in 1997, that reformed the Financial Budget, has not had its effect yet. Thanks to the organizational reform started in the 1990s, that directly connected the responsibilities with the managers, the budget system has been adjusted in order to support such innovations. In particular, the difference between the political and administrative budgets has been introduced. While the latter outlines the resources, the former is structured in accounting aggregates defined as Basic Forecasting Units. They are linked to administrative responsibilities centers (Caperchione-Mussari, 2002). Thus, it becomes a document that points out the direct connection between responsibilities and top management.

Therefore, the 1997 update of the Accounting Act reformed the structure of the Budget. In particular, the expenses have been divided into target functions, basic forecast units and items. Its aim is the identification of public sector policies through the division of the expenditure by the functional analysis. Meanwhile, it permits the assessment of the administrative activity product through the services it supplies to the citizens. The economic classification of the expenditure still remains in the budget structure, since the forecasting units are divided and classified in two classes: consumption and investments.

The Budget system defined at the end of the 1990s has to be considered complete with respect to the basic elements. It allows the regulation of institutional relations among the different bodies and the projection of the public policies effects on the economy. Furthermore, it permits the regulation of the planning and programming process.

Nevertheless, its realization met several difficulties coming from organizational, political and procedural problems such as:

1. Political Budget, as it is, does not point out public policies. Indeed, the expenditure continued to be approved by Parliament, with respect to the organizing structure accountable for programs and projects. The different programs, even though provided by law as the base of the planning, were often unknown and undefined ex-ante. The functional classification by "target functions," that should underline the expenditure with respect to its destination and macro policy, was just something attached to the budget without any political

meaning. Furthermore, the target functions are defined with respect to the Classification of the Function of Government (COFOG). The COFOG is the principle that makes the Financial Budget useful for the comparison of the public administration activities at European and OECD levels. Thus, the functional classification of the public expenditure, even if politically meaningless, does not represent what public administration is willing to do, but simply a reclassification criteria of accounts.

2. The criterion of incremental historic expenditure has not been abandoned, because the organizing structures are not considered in order to define the budget in term of current legislation and to revise and innovate programs and projects. So, the budget is still a mainly political moment influenced by contingencies that enrich the Financial Act content and make the Budget Act and the appropriation budget highly different with respect to what was initially stated by the government. As mentioned previously, this led to some frictions between Parliament and the government, with the reason mainly due to the weakness of the strategic-political planning process and the operative programming;
3. Cash and commitment forecast begin to be supported by accrual forecasting in the Accrual Budget. The two documents present a different structure and they are linked to some processes that until 2007 had still not been connected. While the Financial Budget structure is based upon the organization the accrual budget has presented, since 2004, a structure organized by institutional missions, with details for operating programs in line with the COFOG classification.

In the last three years, the budget has been renewed drastically not only in the procedural profile, but also under the structural one. In addition, the changes in the structure of the budget appear instrumental to the changes in procedures. In particular, both the accrual budget and the political budget adopted a new classification structure based upon missions (not institutional) and programs that should point out and classify the expenditure by its destination. This should ease also the approval of the Parliament. Thus, the legislative body has the task to approve the appropriations not with respect to the organizing structure responsible for management but with respect to targets and programs settled by the Government in line with the electoral program approved by citizens.

The classification in Mission-Programs, adopted for both the forecasts, has been defined in a similar way but not derived from the COFOG classification. The missions, e.g., "the strategic objects pursued by the public expenditure," and the programs, e.g., "homogeneous groups of activities carried out in every ministry in order to pursue clearly defined objects in the institutional aims area, defined for the

particular ministry,” are defined with respect to the Italian context. They show, as far as possible, the goals to be pursued with respect to the consequences the public action can have on the citizens. Obviously, some programs are a support to the final ones and so, they are evaluated in terms of input, products or services supplied, than in terms of output and not outcomes.

The classification by programs seems to be dynamic during the time. Moreover, it offers to the public administrations the opportunity for rethinking their organizations in line with the new programs and for revising their structures in coherence with the activities carried out. Programs have been defined with respect to the activities that have been really realized in order to reach their goals. Such activities are the elementary parts of the processes and functions that absorb resources. This system is a good starting point in order to think, in the near future, in terms of activity-based costing.

In conclusion, from 2008 there have been a lot of innovations in Italian budgeting procedure conducting toward an integration among financial, strategic and operating planning. In prevalence, these innovations focus on the program as key element of the structure of both the Financial and the Accrual Budget; the use of top-down budgeting techniques through the adoption of ceiling expenses; and the spending review as a key phase of the operating planning.

DISCUSSION

The research carried out could be helpful in order to identify key variables with respect to which we can make comparisons in the OECD area, exploiting the available data of the International Budget Procedures Database that, even if updated in 2007, shows an Italian situation that appears partially evolved.

In the introduction we have underlined that the European Commission has identified the major weaknesses of the Italian Budgeting procedure in relation to the multi-annual planning horizon, the centralization of the budgeting procedure and the use of top-down budgeting techniques and performance management. These dimensions can be discussed through the qualitative findings conducted whereas we are not able to discuss about budgeting procedure transparency.

Even if the EU Commission gave evidence also of the Italian lack on budgeting procedure transparency, we are not able to discuss this problem. In fact, from qualitative analysis carried out we can't argue directly about the aspects encompassed in the transparency dimension and taken into consideration by the EU Commission. It would request an analysis of the answer of the OECD data set based on our research findings.

As to multi-annual horizon dimension, we can assert that the introduction of the multi-year Financial Act in June,

the link between the SGP and the DPEF, the approval by Parliament of a multi-year forecast from which derived the annual budget that will be implemented during the year give evidence that Italy has growth up its condition. Moreover, it must be underlined that the budgeting procedure does not involve just the political system, but also the administrative structures that provide resource allocation on a multi-year framework as well.

As to centralization of the budget process dimension, we must consider that the procedure of Government executive decree used since 2008 with the “summer” Financial Act aims at accelerating and focusing the parliamentary discussion and limiting the Parliament amendment power. This fact, together with the role played by Minister of Treasury through the General Accounting Office, shows that Italy has enhanced its position about the dimension of centralization with respect to the result coming from the 2007 EU Commissions survey. Indeed, it appears necessary to underline that the use of Government executive decree has created friction between institutional bodies. As a matter of fact, the Government limits the Parliamentary function assigned by the Chart.

In regards to the use of top down-techniques and performance management dimension, Italy is placed in the last positions in the European ranking. However, we have highlighted that during the period covered by analysis a lot of changes occurred. In particular, the use of ceiling expenses from the one hand, and the adoption of the program as key element of the budgeting structure from the other hand, ensure more flexibility to the budget and focus the Parliamentary voting procedure on the expenditure destination. Moreover, the involvement of the administrative structure during the procedure until the starting of the parliamentary session (in October) and the relevance of the spending review phase ensure a greater orientation of the budgeting towards accountability and performance. In addition, these factors allow the public administration to link the operating programming to the financial and strategic planning. This also involves a reevaluation of the role played by Accrual Budget, Preliminary Note and Minister's Annual Directive that, now, are linked to the Financial Budget and support it. All these complex changes show that Italy has recently enhanced its position with respect to top-down budgeting techniques and performance management dimension.

But, rather than emphasize only the positive aspects of the reforms in this section we would like to underline and summarize some critical aspects that emerge from the evolution of budgetary procedures. First of all, the accrual principles are not completely applied. Moreover, they are applied without using the double entry method that requires a reconciliation with financial operations. In this context, the accrual forecasts do not appear instrumental to financial ones, and in the current system they are binding on the former. This happens both in the forecast phase and in the report. In fact, the

“cost” in the accrual budget depends on the resources allocated in the commitment budget. Moreover, in the Income Statement there is a dependency of the accrual reporting form on the cash one. In conclusion, there is a tendency to align the commitment, cash, and accrual aspect, in particular for the current expenditure.

The second aspect that we need to underline is the terminological and conceptual confusion among the terms of the objectives, programs, activities, and indicators as already evidenced by the Premier’s Directive in February 2009. Very often the concept of the objective coincides with the term indicator and the program is in itself a target. This confusion can undermine the entire system, showing a lack in the strategic planning process that could invalidate the financial planning process and the evaluation of the public policy results.

Moreover, the evolution of the budgetary processes requires an updating of the reporting phase. At present, the Statement has an exclusive political knowledge function. In this regard, the Premier’s Directive in February 2009 places particular emphasis on the need to support the Financial Statement from the Preliminary Notes Report and Performance Report to *better* assess the status of implementation of the programs, the achievement of objectives, the assessment of costs and the effectiveness of public action. The evaluation phase seems to be instrumental to start a new planning cycle with the presentation of the new DPEF and to better define new public policy targets. In addition, we must consider that the entire discussion concerns the central administration. It is necessary to improve coordination between the center and periphery, not just in Ministries, but also involving regional and local authorities. In fact, many public policy goals are achieved through the provision of public service by the regional and local governments. This entails a strong coordination with respect to fiscal policy and financial planning, especially since the introduction of fiscal federalism. The delay in the transfer of funds from the central State to the local governments leads to postpone the provision of public service and the implementation of the programs.

Finally, as we already underlined, the review of budgeting procedure and the integration of strategic planning with the financial process has limited the Parliament influence. This fact is not properly in line with the provision of Italian Chart which, in turn, calls for a revision of the institutional system, especially with respect to the allocation of financial power between Government and Parliament.

CONCLUSION

The aim of this article was to analyze the improvement of Italy in the budgeting procedure quality during last three years. In fact, the budgeting procedure quality is a fundamental aspect to ensure the long-term sustainability of public

financial sources. In this context, Italy is characterized by a ratio between public debt and GDP that is one the highest in the world, by low demographic growth and by an economic slowdown in the last ten years. These facts lead to the necessity of improvement in the efficiency and the effectiveness of public expenditure and of a more leading use of public resources. Italy has started this path, even if with some critical aspects. In particular, it has made progress according to the variables set by OECD and European Commission such as transparency, multi-annual horizon, centralization of the budget processes, use of top-down budgeting and performance budgeting.

Under this point of view we still have to institutionalize the report phase that seems to be the weak of the whole process. On the basis of the available data, we are not able to express an opinion concerning the dimension of the prudent economic assumptions. Anyhow, controlling procedures by the European Commission in the SGP area, work as a sort of auditing on the economics variables that constitute the base of the Financial Budget and so they work as a security for their reliability.

In conclusion, we think that Italy has filled the gap that was widening from the best practices in Europe. Of course the changes have been quite fast and they will probably need further time to be fully implemented. In the further researches we would like to analyze the adherence of the OECD dataset to our finding with the end to give evidence of further aspects to take into account and proposed other methodology that could be use in cross analysis.

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