



## Italy: an austerity cure for its public services

Italy's "Spending Review"<sup>1</sup> is set to be maintained by the Renzi cabinet, after initiation by the Monti government, and its continuation and enhancement by the Letta government. According to various experts, this announcement signals a "normalisation" of Italian politics and favours renewed investment<sup>2</sup>, but it also implies substantial budget cuts in government administration.

To substantially reduce expenditure (it was hoped to save EUR26 billion in three years) through streamlining, based on a report prepared by Piero Giarda<sup>3</sup>, the Monti government introduced a set of measures in 2012 to reduce public spending in all sectors, from drug reimbursement to sharp cuts in the operation of public services.

The Spending Review was designed to meet four key objectives:

- reduce waste;
- guarantee controlled public spending;
- free up resources to revive development;
- make the public sector more efficient by focusing on the areas that require most work.

### Difficult relations with staff representatives

Italy's powerful trade unions were not initially opposed to the streamlining of government expenditure and organisation. During the long negotiations that preceded adoption of the text and publication of the Spending Review law, a draft agreement was signed between the then Minister for Public Service, Filippo Patroni Griffi, and the union representatives for public service workers at government level and at the level of the 20 regions, 110 provinces and 8,101 communes. The draft agreement provided in particular for the unions to return to the negotiations on the organisation of labour and contract renewals<sup>4</sup>, after having been excluded by the previous government. The unions had particularly sought initiatives in favour of temporary public service workers, some one hundred thousand workers employed in schools, hospitals and other services and whose contracts were due to expire without renewal<sup>5</sup>.

However, the principle of the draft agreement had been torn to shreds by early September 2012, due in particular to problems surrounding staff cuts.

Under the Letta government, the Spending Review was brought back on the agenda. In October 2013, an "extraordinary commissioner for the revision of public spending", Carlo Cottarelli (previously head of fiscal departments at the IMF), was appointed. Cottarelli submitted his work plan in November 2013<sup>6</sup>, in which he set

<sup>1</sup> The law of 7 August 2012 transposing statutory orders dated 7 May 2012, No. 52, and 6 July 2012 "containing urgent provisions for the revision of public expenditure without changing the services provided to citizens".

<http://www.camera.it/465?area=27&tema=627&14.+D.L.+95%2F2012+-+secondo+decreto-legge+di+revisione+della+spesa>

<sup>2</sup> [http://www.huffingtonpost.it/carlo-stagnaro/monti-letta-renzi-il-ritorno-alla-normalita\\_b\\_4874815.html](http://www.huffingtonpost.it/carlo-stagnaro/monti-letta-renzi-il-ritorno-alla-normalita_b_4874815.html)

<sup>3</sup> The then minister responsible for relations with parliament.

[http://www.palazzochigi.it/GovernoInforma/spending\\_review/documenti/Revisione\\_spesa\\_pubblica\\_20120508.pdf](http://www.palazzochigi.it/GovernoInforma/spending_review/documenti/Revisione_spesa_pubblica_20120508.pdf)

<sup>4</sup> Italian civil servants are employed under common law employment contracts, but with specific provisions since the introduction of the "Bassanini" laws in 1997.

<sup>5</sup> Out of a total of 3,427 million civil servants employed at government and local level, there are 3.25 million open-ended employment contracts and 174,000 fixed-term employment contracts (2010 data, Ragioneria dello Stato/Istat).

<sup>6</sup> [http://www.lavoce.info/wp-content/uploads/2013/11/Revisione\\_spesa\\_-\\_Programma\\_di\\_lavoro\\_Nov\\_2013.pdf](http://www.lavoce.info/wp-content/uploads/2013/11/Revisione_spesa_-_Programma_di_lavoro_Nov_2013.pdf)

out a working methodology to save EUR32 billion in three years versus the initial figure of EUR26 billion. It involved:

- including the entire public service in the spending review (including government operating expenditure and that of semi-public entities);
- setting up a working group to be steered by around ten public sector employees, and responsible for coordinating the activities of the revenue court (*Ragioneria dello Stato*);
- accompanying this with thematic units organised "vertically" (by fiscal entity) and "horizontally" (by subject), and comprising ministry representatives.

## Management of government administrations the main concern

As soon as they were appointed, the working group members trimmed the Palazzo Chigi (government seat) accounts, which led to some "surprise" revelations in the press<sup>7</sup>. Also, for the first time, the Italian Treasury created a list of all entities in which the various public entities (State, local authorities, social security bodies, etc.) held interests. The report published by the Ministry of the Economy on 15 January is the first of its type<sup>8</sup>. It lists more than 7,000 such entities (*società partecipate dalle amministrazioni italiane - SPA*) and showed they were losing some EUR2.2 billion each year.

The task of cleaning up the public finances within all of these government bodies will not be an easy one: another report<sup>9</sup>, this time on government purchases (prepared every year by the "PromoPa" foundation and the University of Rome Tor Vergata), indicated, for example, that six out of ten government administrations still make their purchases autonomously and on a small scale, rather than using the regional or national purchasing centres (Consip<sup>10</sup>), even though they are required to do so by law. More than half of these government administrations do not maintain a list of suppliers and their controls during invitations to tender are limited. "A portrait", as the report concludes, "of a still rusty government administration that is not moving swiftly enough to embrace new technologies".

## Willingness to push reform through more rapidly

The new Renzi government took on the Spending Review project and significantly accelerated its implementation. No sooner was the cabinet in power when it announced the launch of "one reform per month", the first being constitutional reform, which was followed by labour reform in March 2014 and administrative reform in April 2014. Carlo Cottarelli has already made himself available to Matteo Renzi. "We have no time to lose", he said on 17 February, "particularly as it will take time for the measures to be adopted and to yield results in terms of budgetary savings. Since our aim is to reduce public expenditure by 2% in 2016, the necessary reforms must be in place by the first quarter of 2014."<sup>11</sup> The Renzi government has not yet specified whether it will renew Carlo Cottarelli's mandate (appointed for three years) as extraordinary commissioner for the revision of public expenditure. Mr Cottarelli indicated he is ready to make way for someone else if necessary, and confirmed his confidence in Matteo Renzi, who he says is "determined to implement all necessary measures with the utmost transparency".

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<sup>7</sup> [http://www.repubblica.it/economia/2014/01/07/news/spending\\_review\\_cottarelli-75292792/?rss](http://www.repubblica.it/economia/2014/01/07/news/spending_review_cottarelli-75292792/?rss)

For example, EUR228,000 was paid for a "media relations" assignment to a virtually unknown Milan-based company with share capital of EUR10,000.

<sup>8</sup> [http://www.repubblica.it/economia/2014/01/16/news/la\\_giungla\\_delle\\_societ\\_in\\_mano\\_publica\\_oltre\\_7mila\\_spa\\_perdono\\_2\\_2\\_miliardi-76055246/?ref=HRER2-1](http://www.repubblica.it/economia/2014/01/16/news/la_giungla_delle_societ_in_mano_publica_oltre_7mila_spa_perdono_2_2_miliardi-76055246/?ref=HRER2-1)

<sup>9</sup> <http://www.ilsole24ore.com/art/notizie/2014-03-03/negli-acquisti-pubblici-vince-fai-da-te-064112.shtml?uuid=ABPMmL0>

<sup>10</sup> A company whose sole shareholder is the Italian Ministry of the Economy and Finance, Consip helps government administrations with all matters related to invitations to tender and public markets. <http://www.consip.it/on-line/Home.html>

<sup>11</sup> [http://www.corriere.it/economia/14\\_febbraio\\_17/cottarelli-fiducia-renzi-spending-review-5cab2664-97e6-11e3-910c-771d54eec810.shtml](http://www.corriere.it/economia/14_febbraio_17/cottarelli-fiducia-renzi-spending-review-5cab2664-97e6-11e3-910c-771d54eec810.shtml)