

INTESA  SANPAOLO

Local Government Monitor

Research Department
November 2010

Local Government Monitor

Executive summary	3
Public investment financing at the European level: the role of local administrations	5
Public investments in Europe	5
The key role played by decentralised agencies	7
Local investments and social & economic development in Italy	8
Decentralised agency investment financing sources	10
Transfers between levels of government	10
Debt	14
Investment financing in the EU: the Marguerite Fund	18
Public-private partnerships	18
Infrastructure construction and procedural constraints	21
Time and cost inefficiency in the realisation of public infrastructure	21
Time and cost efficiency in Italy: Contract Authority report	22
Time and cost efficiency: recent developments	26
Time and cost efficiency: European comparison	28
Main reasons behind the delays	29
The Services Conference	31
Disputes	32
Role of local agencies: payments and compensation	33

November 2010

Intesa Sanpaolo
Research Department

Industry and Banking

Laura Campanini

In co-operation with Ref.

Executive summary

Public investment financing at the European level: the role of local government

In the past 30 years, public investment spending in European Union countries has gradually dropped. Despite some exceptions, mostly in new Member States, public investment as a percentage of the EU-15's GDP has halved since the 1970s. Italy is the only country that has not attempted to reverse this trend in the past few years, as opposed to a slight recovery in France and Germany, and a stronger upswing in the United Kingdom.

As is the case in Italy, in all major EU countries local administrations play a key role in planning investments, although financial relations between different levels of government differ from one country to the other. Aggregate EU-15 data show that Central Administrations are only responsible for 30% of investment spending, as opposed to 67% of the total implemented by decentralised administrations, when considering both local governments and Federal States. The countries in which this trend is the strongest are those with a Federal structure, i.e. Belgium, Austria, Germany and Spain. In this context, Italy's position stands out as although it still hasn't completed its transition towards fiscal federalism, its capital formation spending breakdown is very much in line with that of Federal EU countries.

Investment financing by decentralised administrations is widely based on capital account transfers, which cover a good portion of spending.

Local Governments may also resort to debt, which in any case remains limited (16.1% of total public debt on average in the EU) and is generally subject to binding restrictions. Recourse to the bond market by European local administrations has accelerated in the past two years. In the past 10 years, total bond issues have amounted to over EUR 420Bn. In 2009, the total worth of issues exceeded EUR 73Bn. Among European countries, only Germany is a significant issuer: between 2000 and 2009 it issued bonds worth a total of EUR 280Bn.

However, it would be reductive to limit an analysis of investment financing to national budgets alone. The budgetary hardships faced by European countries, amplified by the economic crisis of the past two years, have made it necessary to explore new instruments, that go beyond the exclusivity of public financing for investments.

On this front, an interesting solution is represented by the private equity fund "Marguerite", supported by the European Commission and established to finance strategic infrastructural projects in the water, railway, naval port, and power grid sectors.

Recourse to public-private partnerships for the financing of major works has also steadily increased in Europe in the past decade. Data gathered by the European Investment Bank show that in the past decade, project financing has taken on significant proportions in Europe. The distribution of public-private partnership in European countries indicates that this kind of initiative has grown to substantial dimensions only in a few countries, led by the United Kingdom and Spain.

Infrastructure construction and procedural restraints

The delay in defining, approving, and executing the infrastructure investment projects, is rooted in several aspects which characterise the realisation of such works in Italy.

Research carried out by ANCE and AVCP (the public contract watchdog) show that public works in Italy are generally completed at a significant delay compared to the timeline established in the contract, whereas fewer problems are incurred in containing the cost of the works. Sixty-percent of works were completed at a delay of over 20% of the initially established duration, as opposed to only less than 30% of cases in which delivery deadlines were met or beaten. Works commissioned by Regional Administrations are particularly slow, and last almost double the time predicted. By sector, the longest delays are recorded in energy infrastructures.

While planning efficiency remains low, and deadlines for the completion of works are left unmet in most cases, an improvement has been recorded in the past decade. Between 1999 and 2005, 65% of works were completed at a delay of over 20% compared to forecast duration, as opposed to 60% in the following five years.

The comparison with the rest of Europe outlines Italy's performance in terms of efficiency in the construction of public infrastructure as especially poor, on the front of both cost containment and work timeline. Italy takes 90% longer than the forecast timeline to build its infrastructures, as opposed to a European average of 26%.

On average, the execution of a public work in Italy takes just under 11 years. A breakdown by project phase shows that the greatest delays are accumulated in the planning phases (preliminary, final, and executive), which on average require five-and-a-half years.

There are many critical aspects in each of the various phases of the public work procedure, ranging from issues tied to the functioning of the "Services Conference" (Conferenza di servizi) in the planning phase, to the changes made during execution, and to legal disputes during the tender.

The most recent measures adopted with regards to the Services Conference are contained in the 2011 Budget, and mostly aimed at simplifying its functioning and speeding up the process of adopting the final provision.

The need to upgrade Italy's infrastructure endowment requires particular attention to be paid not only to the resources addressed to the construction of public works, but also to the procedures based on which the works are executed, in order not to risk seeing organisational and planning shortcomings undermine the financial efforts made.

Public investment financing at the European level: the role of local administrations

Public investments in Europe

The crisis of 2008-09 has brought the issue of growth policies back to the fore. The insight offered by numerous analyses clearly outlines the need to support aggregate demand in the short term, through appropriate monetary and fiscal policy measures, while also looking to longer term trends, i.e. to potential economic growth.

The OECD estimates that a public spending increase of around one per cent of GDP has a boosting effect on economic activity in the first year of about 0.3% if implemented through higher transfers to less wealthy households, of 0.6% if implemented through higher public consumption, and 1% if mostly directed to stepping up public investment. On the other hand, when fiscal policy is tuned to a reduction of taxes, the effect on GDP in the first year is of around 0.2% when acting on consumption taxes, and of 0.7% when taxes wages are cut.

However, spending addressed to strengthening infrastructure has implications which go beyond the impact effects of the increase. **The strengthening of infrastructure endowment increases the stock of physical capital and supports potential GDP, boosting it in the long term.**

All the same, trends over the past few years have been characterised by a decline in the share of public spending addressed to investment, in favour of faster current spending growth.

Public investment spending in industrialised countries has gradually decreased since the 1970s. In EU-15 countries, spending on public investment has declined from around 4.5% of GDP in the early 1970s, to less than 3% of GDP in recent years¹.

Over the past 20 years, in order to rebalance its public finances, Italy has also opted to cut investment spending, among other national budget items, keeping it at modest levels as a percentage of GDP, both in historical terms and on an international comparison basis. Public investment, which in Italy amounted to around 3-3.5% of GDP throughout the 1980s, then dropped to less than 2.5% starting in the mid 1990s.

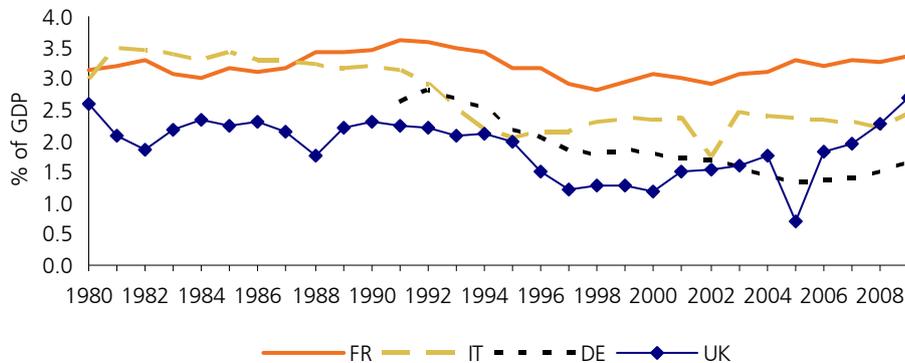
Italy is the only country that has not attempted to reverse this trend in recent years, as opposed to a slight recovery in France and Germany, and a stronger increase in the United Kingdom. However, this was also due in part to a decline in the denominator. Public investment has also decreased in the smaller countries of the Union, where since the 1970s spending as a percentage of GDP has halved on average, from over 5% to less than 3%. The sharpest drop was recorded in Austria, from 4% of GDP in 1980 to around 1% in 2009.

On the other hand, diverging trends are observed when analysing the countries, prior to the EU's expansion, included in the convergence target, i.e. with lower-than-EU-average income (Spain, Portugal, Ireland and Greece). Spain and Ireland stepped up public investment spending in relation to GDP. In Ireland in particular, between 1995 and 2009 investment spending doubled². Vice versa, in Portugal, government investment spending as a percentage of GDP decreased significantly, from almost 4.5% in 1997 to just over 2.3 in 2009.

¹ In truth, in EU-15 countries this trend has reversed in the past three years, but only due to the weak trend of the denominator, which actually dropped in 2009, compared to the more inertial trend of public spending.

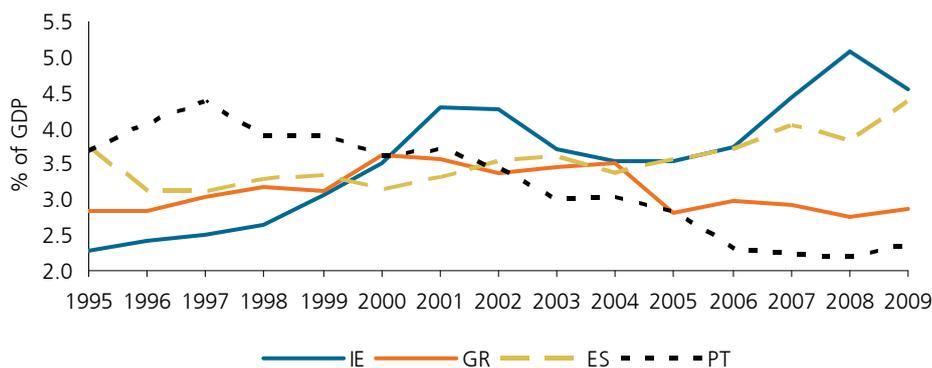
² The drop recorded in 2009 was due to highly unstable public finances in Ireland, which led to significant spending cuts.

Chart 1 - Investment spending as a % of GDP



Source: Ref. elaborations on Eurostat data

Chart 2 - Investment spending as a % of GDP



Source: Ref. elaborations on Eurostat data

The reasons behind the generally decreasing trend of public investment flows, with a few exceptions, are manifold.

The trend is in part the result of the increasing pressure placed on governments to support current spending. The very nature of infrastructure as a “public good”, i.e. the non-excludability from their use, may have effectively weakened incentives for each level of government to bet on investment spending, to the advantage of current spending. This is because taxpayers tend to have a keener perception of some particular forms of current spending, such as in the pension or health care sectors, where services are provided on an individual basis.

A key factor is also the **sustainability of public finances**. Investment spending is in fact one of the most easily manoeuvrable budget items, and as such it is frequently subject to cuts, when the implementation of deficit consolidation policies are necessary. From this point of view, future prospects are therefore even more uncertain, in light of the progressive deterioration of the public finances of European Union countries, caused by the economic crisis.

It should be said that in recent years discrepancies have repeatedly been evident between the pressures exercised by European budgetary rules, which penalise public investment, and opposite pressures deriving from the Lisbon approach, in favour of a re-launching of investments.

The solution of the discrepancy lies in the changing political priorities in public finance management, with support offered to strengthening infrastructure endowment, while respecting overall restrictions, and easing the weight of current spending as a result.

This is the direction taken by past proposals towards a different articulation of the Stability Pact targets, hitherto expressed in terms of an overall balance, calling for the adoption of targets defined through a different consideration of investment spending: for instance, the proposal of setting targets based on a so-called golden rule which, given the balanced budget requirement, admits deficit spending for public investment means. This proposal also meets intergenerational fairness criteria, as deficit capex spending transfers to future generations not only a higher national debt, but also a larger stock of public capital.

The choice of focusing on investments must therefore necessarily imply an institutional architecture and a set of rules geared to encouraging a greater allocation of budget resources to supporting infrastructure endowment growth. This aspect has become topical once again in recent years, also due to the fact that many infrastructures have taken on an increasingly transnational dimension, and their coordination requires the involvement of the European authorities in the decision-making process. As is also the case in other fields, the structuring of the levels of government which superintend the definition of financial flows addressed to spending on infrastructure differs across countries.

The key role played by decentralised agencies

A breakdown by level of government of data on the investment spending and capital account resources of the various European countries is useful in drawing an overall picture of how the burden of investment spending is subdivided in each country, and of the structure of capital account financial flows across the different sections of Public Administration³. The body of data used is that provided by Eurostat on European public finance, which allows comparisons to be drawn between countries.

As is the case in Italy, decentralised levels of government also play a predominant role in determining investment spending in the rest of Europe. Aggregate EU-15 data show that Central Administrations are only responsible for 30% of investment spending, as opposed to 67% of the total implemented by decentralised administrations, when considering both local agencies and Federal States. The countries in which this trend is the strongest are those with a Federal structure, i.e. Belgium, Austria, Germany and Spain, with Belgium standing out for the hefty share of investments controlled by the Federal Regions, in excess of 80% of total PA spending on fixed capital formation.

In this framework, Italy's position is peculiar, as although it still hasn't completed its transition towards fiscal federalism, its allocation of capital formation spending is very much in line with that of countries such as Germany and Spain. However, it should be highlighted that in the EU-15 there are only a handful of countries in which the share of investments controlled by local levels of government is lower than 60%, namely: Sweden (54%), the United Kingdom (50%), Luxembourg (44%), and Greece, which is the only EU-15 country whose structure is still strongly skewed to the advantage of the Central Administration (70%). As is the case in Italy, on the other hand, in France, Ireland, and the Netherlands, local government authorities are responsible for around 70% of total PA investment spending.

When the EU-27 is considered, the role of decentralised agencies is less substantial. Among recent Member States, excluding Latvia, Slovakia and Poland, investment spending controlled by

³ Data referred to 2009, the latest available.

local administrations is invariably close to, or less than, half of the total, with Estonia bringing up the rear with a share of just around 35%.

Lastly, France has the peculiarity of being the only country in which investments carried out by the Welfare department add up to a substantial share of the total, at around 10% of total PA investment spending. The other Member States in which Welfare accounts for a notable share of investment spending are Greece, Italy, and Austria, albeit of little more where than 3% of the total.

	Million euros				% of total PA		
	PA	Central Adm.	Federal Adm.	Local Adm.	Central Adm.	Federal Adm.	Local Adm.
EU-27	341,098	108,910	27,117	195,103	31.9	8.0	57.2
EU-15	300,291	89,564	27,117	173,882	29.8	9.0	57.9
Belgium	6,140	936	2,210	2,924	15.2	36.0	47.6
Bulgaria	1,642	938	:	701	57.1	:	42.7
Czech Rep.	7,387	3,697	:	3,646	50.1	:	49.4
Denmark	4,481	1,420	:	3,060	31.7	:	68.3
Germany	40,010	10,140	7,400	21,950	25.3	18.5	54.9
Estonia	667	430	:	236	64.5	:	35.3
Ireland	7,430	2,158	:	5,272	29.0	:	71.0
Greece	6,821	4,908	:	1,696	72.0	:	24.9
Spain	46,003	12,141	16,706	16,742	26.4	36.3	36.4
France	63,940	12,409	:	44,531	19.4	:	69.6
Italy	37,040	8,809	:	26,996	23.8	:	72.9
Cyprus	696	575	:	121	82.6	:	17.4
Latvia	733	255	:	476	34.7	:	65.0
Lithuania	1,034	587	:	436	56.8	:	42.2
Luxembourg	1,345	740	:	592	55.0	:	44.0
Hungary	2,530	1,275	:	1,243	50.4	:	49.1
Malta	127	120	:	6	94.9	:	5.1
Netherlands	22,805	6,872	:	15,897	30.1	:	69.7
Austria	2,985	597	801	1,476	20.0	26.8	49.5
Poland	16,542	6,452	:	9,969	39.0	:	60.3
Portugal	3,980	1,345	:	2,592	33.8	:	65.1
Romania	6,280	3,691	:	2,581	58.8	:	41.1
Slovenia	1,708	772	:	917	45.2	:	53.7
Slovakia	1,462	554	:	890	37.9	:	60.9
Finland	4,724	1,513	:	3,142	32.0	:	66.5
Sweden	10,500	4,726	:	5,774	45.0	:	55.0
United Kingdom	42,087	20,849	:	21,238	49.5	:	50.5

Source: Ref. elaborations on Eurostat data

Local investments and social & economic development in Italy

The role played by local administrations in the development of the territory expresses itself, as well as through current spending actions, with the creation and management of public infrastructures. Within the Public Administration, local government plays a primary role in determining investment policies. Implementation actions vary in nature, and may impact the formation of infrastructure directly (financing of the works) or indirectly (concession of authorisations), embracing many sectors to different degrees across the territory.

Local Councils are the main actors both in providing personal services to citizens and in promoting public capital formation. In 2008, over half of all local council investments were addressed to roadwork and transport (new works and maintenance), and to territorial management (integrated water management, public housing, waste management and processing).

Local Councils also play an important role in the social sector, both in terms of current spending and capex spending. In particular, investments in education (infant, elementary and middle schools, as well as school transport and meals) account for a substantial portion of their budgets, and a fair portion of investments are also addressed to other social functions (nursery schools, retirement homes, cemetery services). Also important spending items are culture (public libraries, museums), and recreational and sports activities (swimming pools, sport facilities).

For Regional Administrations, the most important spending item is health care; the significant differences in terms of the efficiency and quality of the services offered on the national territory testify to the importance of management and operational setups, as well as of capital endowment. Another important component of regional spending is local public transport. The aspect most directly tied to the link between decentralised government and economic growth on the territory is the system through which public support is offered to enterprises. Since 2000, Regions are responsible for both regional interventions, i.e. established based on specific laws, as well as local interventions, i.e. delegated to them by Central Government and established by state laws. The breakdown of incentives by target reveals that regional policies are highly varied, and in any case tend to focus on supporting investment.

Local government investments have an important impact not only on GDP growth and economic development, but also, and most importantly, on the quality of life, the sustainability of growth, and socio-cultural aspects.

The availability of nursery schools and services for senior citizens aids the participation of women in the labour market, and therefore supports growth and development.

Health care infrastructures explain in part the different efficiency and quality of the services offered on the national territory.

Transport infrastructures contribute significantly to the competitiveness of an area and its accessibility, also as a tourist destination. In addition to the major infrastructures, covered by EU programmes or target laws, secondary infrastructure (the so-called last mile) also affects travel times and methods. At the local level, the lack or inadequacy of works, of even modest entity, may create major bottlenecks that hinder growth. Roundabouts, motorway junctions, and byways are all important elements which fall under the competence of local administrations.

Choices with regards to renewable energy sources, waste management and disposal, water purification, and local public transport, are all important in terms of the sustainability of growth and environmental pollution.

Looking ahead, local administrations will need to tackle both migration trends, destined to increase in the future, and the burden of an ageing population, which will significantly step up demand for services. On the other hand, the infrastructure gap separating Italy from its main European partners, and the demand for infrastructures that are functional to the provision of personal services, necessarily require greater financial commitment to face increased needs. Lastly, given such a scenario, another fact which cannot be overlooked is the highly varied current distribution of infrastructures and services on the territory, with a strong penalisation of Southern Italy in absolute terms, but substantial inadequacies also in some areas of Central-Northern Italy.

Decentralised agency investment financing sources

Transfers between levels of government

In almost all European countries, transfer flows between levels of government guarantee a substantial portion of the financing required to back public investments implemented by local government.

While a simple analysis of data cannot determine whether all the resources received as capital account transfers are then effectively addressed to investments or to other forms of capex spending, it is nonetheless interesting to note the relative weight of the resources transferred on total investment flows. In Italy, the ratio is of around 46%, as is the case in Germany, whereas a significantly lower value is observed in France (29%), and higher rates are recorded in Spain (57%) and in the United Kingdom (69%).

Table 2 – Weight of capital account transfers on total local agency investments	
Main European countries, 2009	% values
EU-27	38.8
EU-15	42.2
Italy	46.6
Germany	46.6
Spain	57.0
France	29.2
United Kingdom	69.9

Source: Ref. elaborations on Eurostat data

A more detailed analysis requires a distinction to be made in terms of each country's constitutional setup. Data available on France and Italy make no distinction between regions and local agencies (*départements* and *communes* in France), as they are non-federal states. On the other hand, in federal states such as Spain and Germany, the intermediate role played by the federal entities, the *Länder* in Germany and the *City Councils*/*dades autonomas* in Spain, can also be assessed.

Taking **Germany** as the first example, 70% of the total capital account spending of the Central Government (EUR 23Bn out of a total of around EUR 33Bn) is destined to capital account transfers, and the remainder is used for investments made directly by the Central Government. Spending for transfers as represented in the table above also includes capital account transfers addressed to the private sector. Of these EUR 23 Bn, **the share which fuels the capital account income of other PA sectors amounts to just under EUR 8Bn, almost entirely transferred from the Central Government to the *Länder*, the German federal states. To all effects, investment spending implemented directly by the *Länder* is covered by the resources transferred by the Central Government.**

As shown by data, the largest portion of investment (55%) is made by local government (districts and municipalities) which, similarly to Italy, are responsible for sectors which require the biggest share of investments (roads, town planning, water and sewage systems, and economic development), whereas the *Länder* cover urban transport spending. **Around half of local administration investment spending (EUR 10Bn in 2009) is financed through transfers almost entirely originating from the *Länder*,** which also account for the largest share of the capital account income of German local agencies. Of this, only 15% is generated by own revenues, on a total of around EUR 12Bn in 2009.

Spain, like Germany, is also a federal state, although it cannot be considered as such from a constitutional point of view, as its federalism is of an asymmetrical kind, with two different systems governing relations between the central and local administrations, depending on the

kind of *City Councils* *Autónoma* (special – Basque Country and Navarre – and ordinary – all the others). However, in practical terms the level of decentralisation of functions is comparable to that of the EU's other federal states, as confirmed by the figure on investment spending, mostly competence of the decentralised authorities. Compared to Germany, however, one difference is immediately apparent: while in Spain the overall share of investments implemented by decentralised administrations is roughly in line with the situation in Germany, its allocation across federal states and municipalities is different. **In Spain, decentralised agency investment spending is evenly split between the *City Councils* *Autónomas* and local agencies**, and this feature was even more evident in 2009, when the investment spending of the autonomous communities equalled that of the local agencies. The Central Government addresses most of its capital account spending to transfers (EUR 18.1Bn, around 60% of total capital account spending). Of these, EUR 11Bn are capital transfers to other public sector bodies. When analysing 2009 data, another important difference compared to Germany becomes apparent: central government capital transfers are addressed to the autonomous communities and to local agencies in equal proportions, whereas in Germany direct central government transfers are almost exclusively addressed to the *Länder*. However, it should be said that in 2009 transfers from the State to the local administrations increased very significantly as a result of the plan recently put in place by the Spanish Government (Plan-E – Spanish Plan for Economic Stimulus and Employment), which provides for substantial additional infrastructure financing, addressed to local governments. Consequently, in 2009 investment spending by Spanish local agencies also grew in step with the additional transfers, by around EUR 5Bn. Therefore, **the percentage of local agency investments financed through transfers from the public sector in Spain grew considerably in 2009, amounting to around 60%**. Of the EUR 16.7Bn investments implemented, EUR 9.5Bn came from transfers, of which EUR 6Bn from Central Government, and EUR 3.5Bn from the autonomous communities.

Of the countries considered, **France** has a peculiar setup, as the weight of spending addressed to welfare agencies on total investment spending is significantly higher than the European average. Welfare agencies implement investments in sectors in which functions are delegated to them, i.e. health care (almost entirely covered) and social welfare (of which around half, on the other hand, is the competence of local government). However, in France as well, in line with Italy and the EU average, local government is effectively responsible for most investment spending. Capital account spending by the Central Government, by contrast, mostly consists of transfers, addressed in part to local administrations, and in part to the private sector. Investments in strict terms, on the other hand, account for around 35% of the Central State's total capital account spending. In 2009, the French State transferred to local administrations capital account resources of around EUR 13Bn, i.e. almost 40% of total capital account spending.

Lastly, in the **United Kingdom**, a slightly different allocation is observed in terms of investment spending, almost evenly split between central and local government. **British local administrations are strongly dependent on central government transfers to cover investment spending. In 2009, out of total investment spending of around EUR 21Bn, capital account transfers from the Central Government amounted to EUR 14.8Bn, i.e. almost 70% of the total.** As detailed later in this paper, however, in the United Kingdom, more than in the other European countries, the financing of infrastructures relies to some extent on the private sector, through public-private partnerships, which in 2009 accounted for 20% of the country's public investment spending.

Notoriously, investments in Italy are mostly carried out by local agencies. The capital account spending of Central Government mostly consists of transfers, directed both to the public sector and to the private, whereas investments in strict terms account for only 20% of total capital account spending, the lowest percentage of all the countries considered. Compared to the other countries the capital account spending of local government is more skewed towards transfers. This is actually explained in part by the presence in 2009 of an extraordinary transfer of around

EUR 6Bn from the Regions to the State. These resources, transferred by the Regions to the State, are the result of excess revenue from the Irap regional business tax, calculated net of the financing of the health care system and of the joint financing of Local Councils and Provinces, which contribute to the interregional compensation fund, the resources of which are directed to Regions showing a loss of income⁴. Barring this particular case, resource flows between levels of government in Italy mostly consist of transfers from Central Government to local administrations. More in detail, the capital account income of local government is mostly accounted for by public transfers (EUR 12.5Bn out of EUR 14.7 in 2009).

Table 3 - Capital account spending breakdown by level of government (2009) – Data in million euros					
	Capital account spending	Investments	Capital account transfers	of which: Transfers to public agencies	Other transfers
EU-27					
Central Adm.	304,481	108,910	195,572	76,691	118,881
Federal Adm.	67,556	27,117	40,439	14,941	25,498
Local Adm.	233,781	195,103	38,678	8,357	30,321
EU-15					
Central Adm.	274,586	89,564	185,022	74,308	110,714
Federal Adm.	67,556	27,117	40,439	14,941	25,498
Local Adm.	209,837	173,882	35,955	8,227	27,728
Italy					
Central Adm.	40,473	8,809	31,664	12,586	19,078
Local Adm.	42,555	26,996	15,559	6,060	9,499
Germany					
Central Adm.	33,550	10,140	23,410	7,810	15,600
Federal Adm.	32,820	7,400	25,420	10,480	14,940
Local Adm.	25,250	21,950	3,300	420	2,880
Spain					
Central Adm.	30,294	12,141	18,153	11,085	7,068
Federal Adm.	27,724	16,706	11,018	3,579	7,439
Local Adm.	17,929	16,742	1,187	202	985
France					
Central Adm.	35,005	12,409	22,596	12,952	9,644
Local Adm.	50,590	44,531	6,059	1,023	5,036
Welfare	7,823	7,000	823	270	553
United Kingdom					
Central Adm.	72,141	20,849	51,292	14,845	36,447
Local Adm.	24,722	21,238	3,484	55	3,429

Source: Ref. elaborations on Eurostat data

⁴ Legislative decree of 15 December 1997, n. 446, art. 42.

Table 4 - Capital account spending breakdown by level of government (2009) – percentage values

	Capital account spending	Investments	Capital account transfers	of which: Transfers to public agencies	Other transfers
EU-27					
Central Adm.	100.0	35.8	64.2	25.2	39.0
Federal Adm.	100.0	40.1	59.9	22.1	37.7
Local Adm.	100.0	83.5	16.5	3.6	13.0
EU-15					
Central Adm.	100.0	32.6	67.4	27.1	40.3
Federal Adm.	100.0	40.1	59.9	22.1	37.7
Local Adm.	100.0	82.9	17.1	3.9	13.2
Italy					
Central Adm.	100.0	21.8	78.2	31.1	47.1
Local Adm.	100.0	63.4	36.6	14.2	22.3
Germany					
Central Adm.	100.0	30.2	69.8	23.3	46.5
Federal Adm.	100.0	22.5	77.5	31.9	45.5
Local Adm.	100.0	86.9	13.1	1.7	11.4
Spain					
Central Adm.	100.0	40.1	59.9	36.6	23.3
Federal Adm.	100.0	60.3	39.7	12.9	26.8
Local Adm.	100.0	93.4	6.6	1.1	5.5
France					
Central Adm.	100.0	35.4	64.6	37.0	27.6
Local Adm.	100.0	88.0	12.0	2.0	10.0
Welfare	100.0	89.5	10.5	3.5	7.1
United Kingdom					
Central Adm.	100.0	28.9	71.1	20.6	50.5
Local Adm.	100.0	85.9	14.1	0.2	13.9

Source: Ref. elaborations on Eurostat data

Table 5 – Financial flows between levels of government (2009)

	Capital account transfers, million euros		
	From Central Adm.		To Federal Adm.
	to Federal Adm.	to Local Adm.	to Local Adm.
EU-27	12,934	60,992	14,545
EU-15	12,934	58,717	14,545
Italy	-	12,586	-
Germany	7,760	50	10,180
Spain	5,052	6,033	3,503
France	-	12,952	-
United Kingdom	-	14,845	-

Source: Ref. elaborations on Eurostat data

Table 6 - Capital account income of decentralised administrations – million euros

	Federal Adm.						Local Adm.					
	Capital account income	Capital account taxes	Capital account trans.	of which: agencies	From public	From private sector	Capital account income	Capital account taxes	Capital account trans.	of which: agencies	From public	From private sector
EU-27	27,614	9,113	18,502	13,804	4,698		89,756	1,868	87,888	75,617	12,271	
EU-15	27,614	9,113	18,502	13,804	4,698		84,291	1,674	82,616	73,336	9,280	
Italy	-	-	-	-	-		14,760	26	14,734	12,586	2,148	
Germany	14,860	4,540	10,320	8,160	2,160		11,980	0	11,980	10,230	1,750	
Spain	10,375	2,500	7,875	5,499	2,376		11,821	1,545	10,276	9,539	737	
France	-	-	-	-	-		13,697	0	13,697	13,022	675	
United Kingdom	-	-	-	-	-		15,938	0	15,938	14,845	1,093	

Source: Ref. elaborations on Eurostat data

Table 7 - Capital account income of decentralised administrations – percentage values

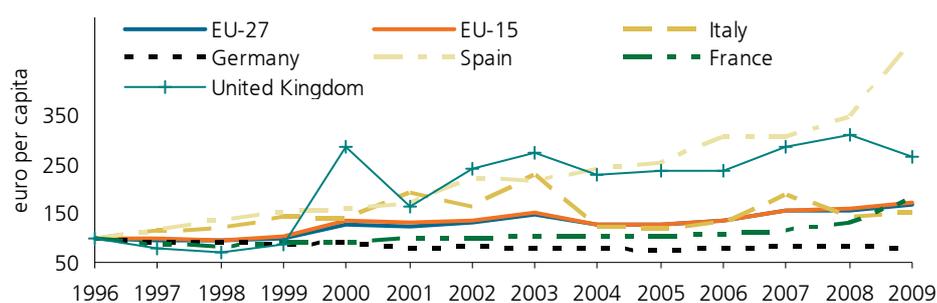
	Federal Adm.					Local Adm.						
	Capital account income	Capital account taxes	Capital account trans.	of which:	From public agencies	From private sector	Capital account income	Capital account taxes	Capital account trans.	of which:	From public agencies	From private sector
EU-27	100.0	33.0	67.0		50.0	17.0	100.0	2.1	97.9		84.2	13.7
EU-15	100.0	33.0	67.0		50.0	17.0	100.0	2.0	98.0		87.0	11.0
Italy	-	-	-		-	-	100.0	0.2	99.8		85.3	14.6
Germany	100.0	30.6	69.4		54.9	14.5	100.0	0.0	100.0		85.4	14.6
Spain	100.0	24.1	75.9		53.0	22.9	100.0	13.1	86.9		80.7	6.2
France	-	-	-		-	-	100.0	0.0	100.0		95.1	4.9
United Kingdom	-	-	-		-	-	100.0	0.0	100.0		93.1	6.9

Source: Ref. elaborations on Eurostat data

The trend of transfers to local agencies over the past decade, however, indicates that the relationship between central and local government has changed significantly, and in different ways from one country to the other. In per capita terms, **capital account public transfers to local agencies increased on average in Europe (EU-15 and EU-27) between 1996 and 2009, while slowing between 2004 and 2006.** The substantial recovery recorded in 2009 was fuelled by the fiscal stimulus policies implemented by some of the major countries of the Union.

However, the aggregate figure hides markedly different trends in individual countries. In Italy, transfers to local government underwent a drastic reduction in 2004, and recovery over the following years was slight. In Germany, transfers declined gradually throughout the period considered, whereas in Spain and France an opposite trend was observed, with a particularly sharp recovery in 2009, as a result of the investment spending support plans approved to counter the economic crisis. Lastly, in the United Kingdom, after a sharp rise in 2000, up to 2009 transfers fluctuated around an average of about 250 euros per inhabitant.

Chart 3 – Trend of capital account transfers to local agencies



Source: Ref. elaborations on Eurostat data

Debt

One of the most important levers local administrations can use to finance investments is debt, which in the great majority of cases, is addressed by law exclusively to that kind of spending. **The possibility local administrations have of resorting to debt is in most European countries subject to restrictions tied to the overall balancing of the local agency's budget. Also, in several countries preventive authorisation from higher levels of government is required.** The countries in which local administrations enjoy most freedom of action are Sweden and the Netherlands, where no limits are imposed on local debt, neither in terms of the type of spending financeable, nor in terms of its repayment. As regards debt limitations, the parameters generally used are current revenue: as is

the case in Italy, a maximum limit is fixed on the annual cost of debt in relation to revenue, in order to guarantee repayment capacity and debt sustainability. In the United Kingdom, the law imposes that a part of the resources must be set aside as provisions.

Preventive authorisation is conceded by Central Government in Spain, in Belgium, and in Great Britain, whereas in Germany authorisation to local administrations must be issued by the *Länder*. In France, by contrast no preventive authorisation is required. This is also the case in Italy⁵.

Central Government does not provide any explicit security to local debt in any European country.

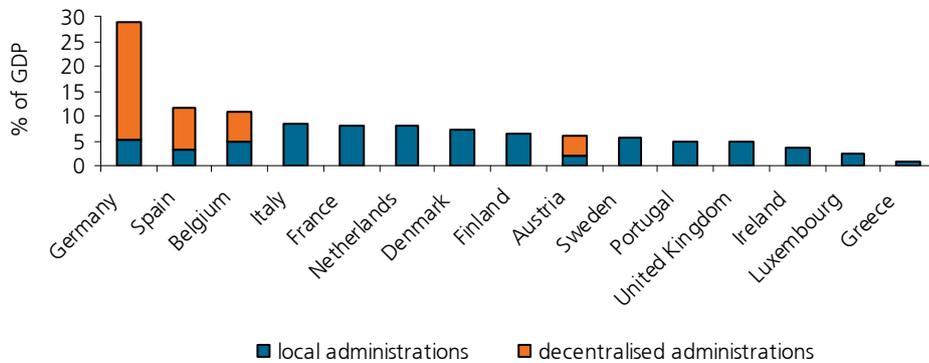
Table 8 – The main features of local debt					
country	Possible recourse to debt	Spending financeable through debt	Authorisation required	Limitations on debt	
Germany	Ample	investments	Yes for local councils	Tied to long-term sustainability	
Sweden	Ample	No limitation	No	None	
the Netherlands	Ample	No limitation	No	None	
Belgium	Ample	investments and current balance	Yes	None	
Italy	Ample	investments	No	Golden rule tied to current revenue	
Spain	Generally ample, currently not permitted for local councils until 2012	investments	Yes in some cases	Golden rule tied to current revenue	
United Kingdom	Ample	capital account	Yes	Compulsory provisioning	
France	Ample	investments	No	Golden rule Tied to current revenue	

Source: Intesa Sanpaolo elaborations on OECD data

At the end of 2009, the public debt of local administrations was not particularly large in any of the European countries: considering the EU-15, debt amounted to 12.2% of GDP. Decentralised administration debt was most significant in the Federal countries: in Germany the debt of the *Länder* and local administrations added up to 29% of GDP (5.1% and 23.98% of GDP respectively for local and regional administrations), followed by Spain (11.5% of GDP, 3.3% and 8.2% respectively), Belgium (10.9% in total, 4.8% for local government and 6.1% for the Federal states). Among non-federal countries, Italy's debt is relatively high (8.5%), followed by France (8.3% of GDP) and the Netherlands (7.9%). The weight of local debt in Great Britain, Ireland, and Greece, is modest.

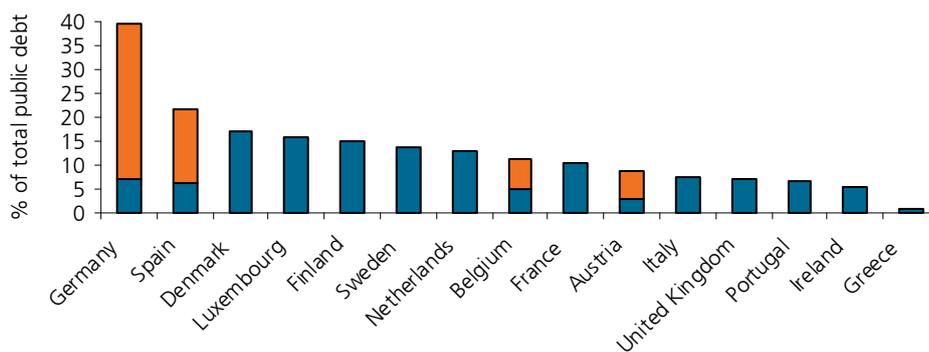
⁵ Preventive authorisation is required only for transactions worth more than a set threshold, and is geared to preventing many territorial agencies from simultaneously tapping the market, and therefore altering credit access conditions, rather than to establishing any real control over debt.

Chart 4 - Local debt as a percentage of GDP (4Q2009)



Source: Intesa Sanpaolo elaborations on Eurostat data

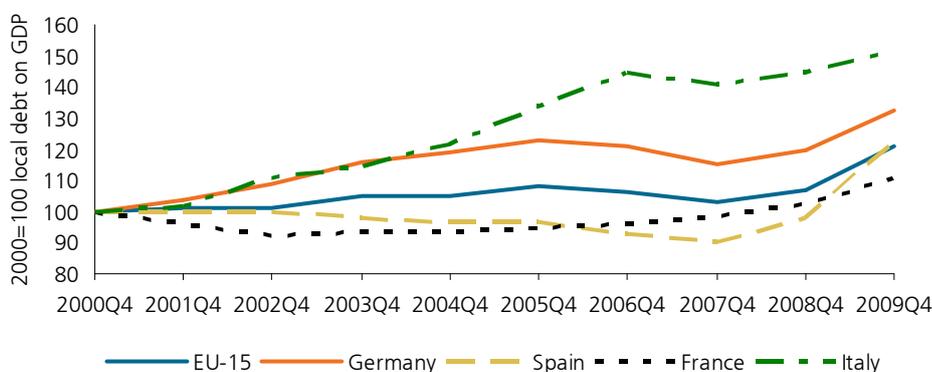
Chart 5 - Local debt as a percentage of public debt (4Q2009)



Source: Intesa Sanpaolo elaborations on Eurostat data

As regards the weight of local debt on total debt, the EU-15 average is 16.1%. Federal countries once again top the ranking (in Germany, 39.6% of national debt is ascribable to local government and to the *Länder*; in Spain, 21.6%)

Chart 6 - Trend of local debt as a percentage of GDP (2000=100)



Source: Intesa Sanpaolo elaborations on Eurostat data

The composition of debt is tightly bound to the features of the institutions involved.

In Great Britain, most local debt is taken out through the Public Works Loan Board, an independent public agency funded directly by the government, which applies interest rates set by the Treasury, that are generally extremely convenient.

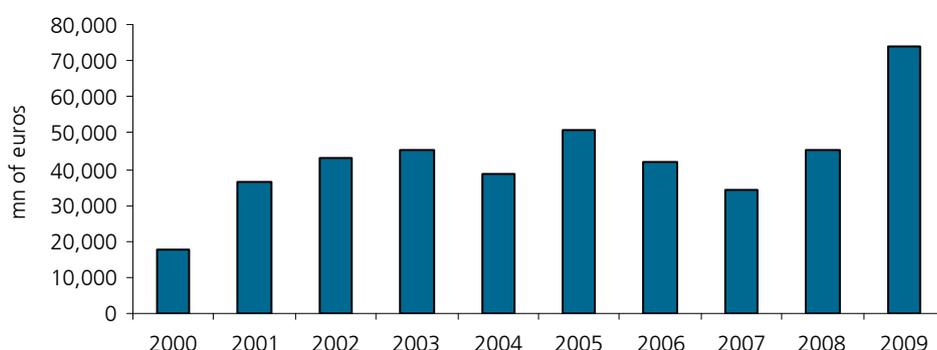
In Scandinavian countries, a key function is carried out by the Municipal Funding Agencies, consortiums which tap the market to raise the necessary resources necessary to fund territorial administrations.

In France, as also in Italy, an important role is played by the *Caisse des dépôts et consignations*, which funds itself through special circuits: savings collected through post office, bank and other savings institutions branches, also resorting to specific instruments.

In Germany, Netherland, and Spain, an important role is played by state-controlled banks.

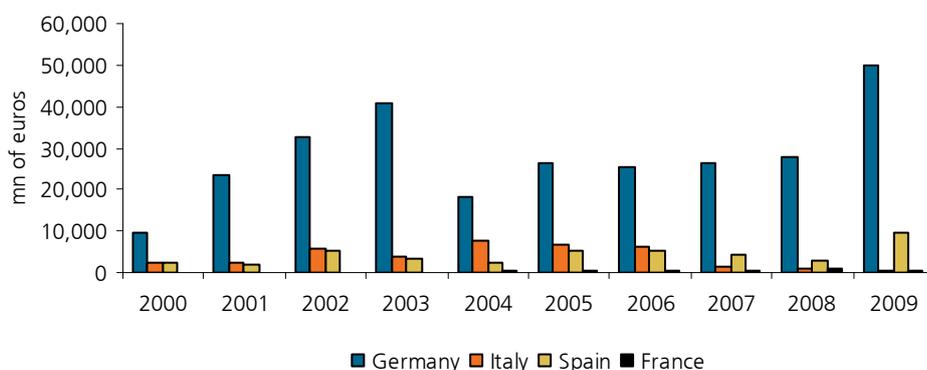
Recourse to the bond market by European local administrations seems to be accelerating sharply. In the past 10 years, bonds worth a total of over EUR 420Bn have been issued. In 2009, issues exceeded EUR 73Bn. **Among European countries, only Germany is a significant issuer,** having issued EUR 280Bn in bonds between 2000 and 2009. Italy and Spain may be considered as “emerging” markets, having issued on aggregate over EUR 80Bn in bonds between 2000 and 2009.

Chart 7 – Local government bond issuance in Europe (over EUR 50M)



Source: European Commission

Chart 8 - Local government issues in Europe



Source: Intesa Sanpaolo elaborations on Bloomberg data

Investment financing in the EU: the Marguerite Fund

The growing need to finance infrastructure development at the European level has prompted the search for alternatives to public funding, be this from national governments or the EU, also considering the economic-financial situation of European Union Member States. Therefore, in addition to the greater responsibility being taken on by the European Union, new forms of financing are taking hold that are alternative to straightforward public participation in investments. The effects of the global financial crisis have also fuelled risk aversion among institutional investors, making access to long-term financing increasingly difficult. What's more, the implementation of large infrastructural projects requires major investments, and in the future, private sector participation in the financing of necessary public works will prove to be an increasingly delicate issue.

An interesting solution is represented by the "Marguerite" private equity fund, established in 2009 to finance strategic infrastructural projects in the water, railway, naval port, and power grid sectors.

This is the first example of cooperation in the financial sector, supported by public institutions, and as such may represent a repeatable innovative instrument, should it succeed in channelling resources towards the financing of important infrastructural projects.

The main innovation introduced by the Marguerite Fund compared to traditional private equity funds, are its non-speculative ends and the institutional support provided by the European Commission, which should help attract private resources, made available both by financial institutions and private savers, as well as public capitals from non-European countries seeking to diversify their investments. Therefore, the fund is geared to the realisation of long-term projects and, unlike traditional funds, it enjoys institutional support through the participation, albeit with a minority share, of the European Commission.

The Marguerite Fund initiative was launched by the development banks of Italy (CdP), France (CdC), and Germany (KfW), and by the European Investment Bank (EIB), which together with PKO (PKO Bank Polski) and ICO (Instituto de Crédito Oficial) are the main sponsors of the Fund. The fund aims to raise EUR 1.5Bn (as opposed to a much more ambitious initial target of EUR 10Bn), of which EUR 600M made available immediately by the main sponsors, in equal portions, with the addition of a further EUR 700M from new investors. The European Commission, which as mentioned above supports the Fund, contributes a minority share of EUR 80M, of symbolic importance, as it is the only share financed using resources appropriated by a public budget, and testifies to the European Union's support of the initiative.

Based on the Commission's estimates, in the next few years the Fund will be capable of channelling investments worth around EUR 30-50Bn to the energy and transport infrastructure sector. The investment area will include the 27 European Union Member States, and priority projects to be financed will include the Ten-T transport networks, and Ten-E energy grids, as well as interventions in the field of renewable energy sources.

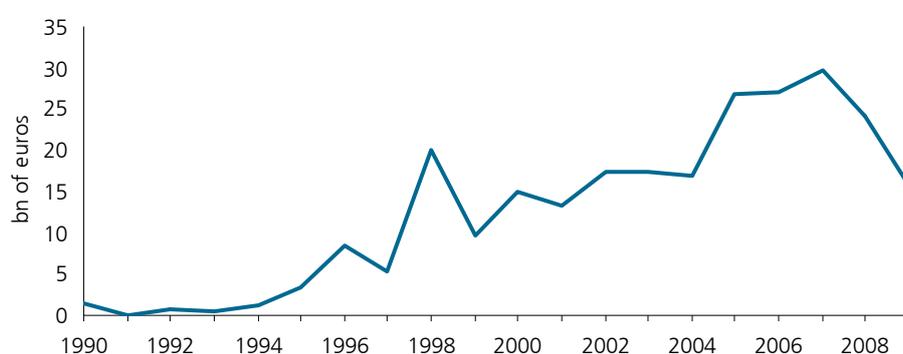
Public-private partnerships

Public-private partnerships (PPP) represent an effective alternative instrument to face the huge investments needed to build important infrastructures. Over the next few years, with public finance tensions on the rise and financial markets still not fully back to normal, project financing and public-private partnerships strike as being essential instruments through which to raise resources for investment, with the possible added benefit of improving the transparency and efficiency of allocation choices.

Beyond country specificities in the type of agreement reached between the public and private sectors for the supply of public utility services, the common feature of these solutions, in addition to offering the possibility of raising private capitals to finance specific investments, is the attempt to step up return on the investment, as well as the quality and efficiency of the service offered, transferring investment risk to the private sector, in order to encourage effective management of such risk.

As regards the development of this practice, **data surveyed by the European Investment Bank show that in the past decade project financing has taken on significant proportions in Europe.**

Chart 9 – Evolution of PPP in Europe 1990-2009 – Value of the projects



Source: Ref. elaborations on EIB data

Table 9 – PPP distribution in Europe (2009) - percentage values

	N. projects	Value of projects	% of investment spending
United Kingdom	67.1	52.5	19.6
Spain	10.1	11.4	3.9
Portugal	3.1	7.0	27.7
Greece	1.0	5.5	12.7
France	5.4	5.3	1.3
Germany	4.9	4.1	1.6
Italy	2.4	3.3	1.4
Hungary	0.7	2.3	14.3
the Netherlands	1.2	1.8	1.2
Poland	0.4	1.7	1.6
Ireland	1.3	1.6	3.4
Belgium	0.9	1.3	3.3
Austria	0.2	0.5	2.6
Slovakia	0.1	0.5	5.4
Cyprus	0.2	0.3	6.8
Czech Rep.	0.2	0.3	0.6
Finland	0.1	0.2	0.7
Sweden	0.1	0.2	0.3
Bulgaria	0.1	0.1	1.0
Denmark	0.1	0.0	0.0
Latvia	0.1	0.0	0.0
Malta	0.0	0.0	0.0
Romania	0.1	0.0	0.0
Slovenia	0.1	0.0	0.0
Total	100.0	100.0	4.7

Source: Ref. elaborations on EIB data

In 2009, the value of the projects taken on through public-private partnerships by the 27-country European Union was close to EUR 16Bn, i.e. around 4.7% of total EU investment spending⁶. The chart shows how the value of the projects grew consistently between 1990 and 2007, subsequently declining in the final two years of the period considered. The same applies to the number of contracts, which dropped starting already in 2007 on the previous year, and kept a downward trend over the following two years. Data referred to the final two years of the period confirm the serious impact on the PPP market reaped by the financial market crisis, which discouraged the participation of private capitals in the financing of public investment works. Furthermore, the increasing caution exercised by banks when lending has had the effect of shifting the interest of private capitals towards smaller projects, as proven by the sharper drop, between 2006 and 2009, in the average contract value (-42%) than in the number of projects activated (-18%).

The distribution of public-private partnerships in European countries indicates that these initiatives have taken on significant dimensions only in a few countries, led by the United Kingdom and Spain. In the United Kingdom half of the projects implemented are financed in collaboration with the private sector in terms of project value. The UK alone accounts for two-thirds of the total number of PPP projects in the EU. Spain ranks second behind the United Kingdom when considering the number and value of the projects, but when crossing the value of PPPs activated in 2009 and investment spending flows in the year, Portugal emerges as top of the class in the EU in terms of the weight of public-private partnerships on total investment spending. In Spain, on the other hand, the weight of PPPs on total investments is 3.9%, lower than the EU average. As is the case in Portugal, the weight of PPPs is significant compared to the EU average in Greece and Hungary, whereas in countries such as France, Germany, and Italy, which rank among the top seven countries in terms of their share of the total value of projects activated in the European Union, the value of the projects as a percentage of total public investment spending only adds up to less than 2%.

By sector, project financing is most common in transport, across European Union countries, although in recent years, in countries with a more mature PPP market, such as the United Kingdom, diversification by sector has become more noticeable, with increasing investments in the education and health care sectors. Similar trends are also observed outside the United Kingdom, although transport remains the most important destination sector.

Despite the difficulties introduced by the financial crisis, it is safe to say that PPPs have become an increasingly important solution, all the more so considering that the drop observed in 2009 may be interpreted as a correction from the extraordinarily high peaks reached before the crisis.

⁶ The figure should be read with due caution, as it is the ratio of a stock variable (the value of the projects) and a flow variable (investment spending). However, given the lack of specific information, reference should be made to this paper for a representation of the relative dimension of the practice.

Infrastructure construction and procedural constraints

Time and cost inefficiency in the realisation of public infrastructure

As suggested by literature, an adequate infrastructure endowment is a necessary condition for a country to be competitive.

We have repeatedly stressed that **Italy is penalised by an infrastructure gap compared to the average for the major European countries**, most evident in the transport sector, but also visible in social infrastructure. A typical example are school buildings: over half do not even qualify for static adequacy and habitability certifications⁷.

The reasons behind the delay are manifold, although the decreasing trend of investment spending in Italy in the past decade certainly carries a good share of the blame.

However, this trend was also common to the majority of other industrialised countries in the EU, and therefore cannot be considered as the only reason behind Italy's infrastructure gap.

An analysis of the planning and execution procedures governing public investments lays bare numerous areas of inefficiency, due partly to the backwardness of the Italian infrastructural system. Execution times and costs often strike as being disproportionate for the type of work in question, and often exceed initial estimates by far.

What's more, public intervention in support of investments takes on a double valence in phases of economic uncertainty, such as the present: as well as being necessary to boost the competitiveness of the country, it represents an effective tool to counter the effects of the aggregate demand crisis.

A release published by ANCE (the Italian construction industry association) reads: "while one of the priorities of the anti-crisis plan approved by the Government was the implementation of a public works plan, the effects are still not being felt, and the main problem lies in timing, inadequate in relation to the swift response the size of the economic crisis would have required".

Between 2009 and the first half of 2010, the CIPE (Inter-ministerial Committee for Economic Planning) issued a set of resolutions allocating substantial resources to infrastructural plans in several sectors.

To date, the activation times of the resources appropriated by the CIPE have not proven adequate to provide valid countercyclical support to these sectors, especially in the small and medium works segment, which should be the easiest to activate and reap the most immediate effects on each sector's activity. With specific reference to this plan, which should have guaranteed swift results, the CIPE has only assigned half of the resources available, through a resolution issued five months later, which is still waiting to be published on the *Gazzetta Ufficiale*, and therefore come into force, effectively keeping financing still frozen nine months after the initial financing decision.

Therefore, considering the plan's initial intent to support public infrastructure with the aim of stimulating the economy in the short term, the timing of the simple activation of resources seems totally inadequate.

⁷ On Italy's infrastructure endowment, see *Local Government Monitor*, February 2010.

Time and cost efficiency in Italy: Contract Authority report

A systematic analysis of efficiency in the public works execution procedure is carried out by the Public Contract Watchdog (AVCP), which in its Yearly Report presents the results of the processing of monitoring data on public contracts, as provided contractors to the observers charged with this task⁸.

In carrying out works, efficiency is measured based on two parameters: time and cost. Both time and cost efficiency are measured as the variance between the timing and costs of the finished work and the initial estimate of the tender starting price (net of the allotment discount). The variance is calculated in relative terms, compared to the initially estimated value of the tender. Intuitively, a zero variance of the execution time and costs of a work indicates incontrovertible management ability, both in terms of time and of financial aspects. When a work is delivered ahead of the deadline, it is also evident that virtuous behaviours were put in place, so as to improve the time efficiency of tender and execution procedures. This is not always true in the case of costs, as a negative variance of the final cost compared to the estimate may be due to project alterations during construction, which may have modified the work's execution cost structure. Lastly, positive time and cost variances do not necessarily indicate inefficient management, as they could be tied to the emergence of factors unpredictable at the time of the tender definition, of such impact as to substantially change the initial estimates.

The AVCP's analysis does not take into account alterations and suspensions, therefore inefficiencies may be slightly over-dimensioned. As explained in the section below, however, alterations during construction, which inevitably cause a lengthening of works and higher costs, may also be considered as a factor of inefficiency, due to shortcomings in the work's planning phase, and may therefore be avoided in part by improving the initial phases of the drafting of the project.

The results of AVCP's data processing are illustrated in the tables below.

Table 1 - Efficiency in the execution of works: tenders worth more than EUR 150k; 2005-09				
Variance vs. initial estimated value (%)	Works based on time and cost efficiency			
	Number of works		% of total works	
	Cost	Time	Cost	Time
<=0	2,759	3,414	22.1	27.4
>0<5	3,273	238	26.2	1.9
>=5<10	2,074	372	16.6	3.0
>=10<20	2,608	963	20.9	7.7
>=20	1,767	7,494	14.2	60.0
Total	12,481	12,481	100.0	100.0

Source: Ref. elaborations on AVCP data

⁸ The data processed by the Authority refers to the awarding of a total of 24,039 contracts for works, services and supplies in both the ordinary and special sectors in 2009, the aggregate value of which amounts to EUR 28.5Bn.

Table 2 - Variance between estimated and effective timing Small works (worth less than EUR 150k); 2005-08		
Time variance	Number of works	% of number of works
Early delivery	9,316	11.0
Up to 90 days	42,407	50.2
91-180 days	2,504	3.0
up to 1 year	1,878	2.2
over 1 year	874	1.0
n.c.	27,508	32.6
Total	84,487	100.0

Source: Ref. elaborations on AVCP data

Table 3 - Variance between estimated and effective cost Small works (worth less than EUR 150k); 2005-08		
Cost variance	Number of works	% of number of works
< 0	640	1.3
0	38,229	78.8
up to 1000 euro	891	1.8
up to 5000 euro	3,921	8.1
up to EUR 10k	1,994	4.1
over EUR 10k	2,849	5.9
Total	48,524	100.0

Source: Ref. elaborations on AVCP data

Table 1 lists **works worth more than 150 thousand euros** based on percentage variance in terms of both time and cost compared to initial estimates. These works are of many different kinds. The majority, both when considering the overall value of the contracts and the number of works, are **roadwork**, followed by **environmental works** (environmental protection, protection of the land, water resources), and **social housing and school construction**. **Railway works** and **energy infrastructures**, on the other hand, stand out for the higher average worth of contracts, of almost five million euros in the railway sector, and around two million for energy works. On the front of **cost efficiency, cost containment is a widespread trend in tenders**, as almost half of the works were completed with a negative or zero cost variance, or if positive, by less than 5%. Also, less than 15% of works were completed at a positive variance greater than 20%. Time efficiency, however, is a different story. **Sixty-per-cent of the works considered took over 20% more time to deliver than initially estimated, whereas only less than 30% of works were delivered ahead of the deadline.**

For tenders of lower value, data contained in Tables 2 and 3 offer a breakdown of time and cost efficiency of the works started and completed between 2005 and 2008. **Works worth less than 150 thousand euros** mostly consist of **maintenance work**, with extraordinary maintenance accounting for the lion's share. However, there are also **new construction works and restructurings, restorations, redevelopments, and extensions**. It is no surprise that the main contractors of these kinds of works are the territorial agencies, with a strong predominance of Councils, which account for over half of the works, both in terms of the number and value of tenders. Compared to larger tenders, **smaller works seem to feature higher levels of efficiency in meeting deadlines, as 60% of the works considered were either delivered early or at a delay of less than 90 days**. Naturally, when considering that for 60% of the works completed in the period execution times were shorter than 90 days, it would be useful to have more details on the breakdown of delays shorter than 90 days in order to make a univocal assessment, but this information is not available. Financial efficiency seems to be particularly high in smaller tenders: for around 78% of contracts, zero variance is declared compared to the tender starting price. Among the contracts with a positive variance, an interesting figure is the one referred to cost overruns by over 10 thousand euros, when considering that the average value per contract is of around 60 thousand euros.

The Authority's report also provides a breakdown by contractor.

Contractor	No. works with higher costs	Average Variance (%)	No. works with time delays	Average Variance (%)
State administrations	306	11.6	203	52.0
Public agencies	584	10.8	554	70.5
Public housing agencies	172	12.5	148	58.9
Regions and Mountain Communities	437	12.1	392	90.0
Province	1,453	11.4	1,203	75.6
City councils	5,656	11.4	5,579	80.7
Health care agencies	295	12.2	233	77.0
Other contractors	535	12.5	517	76.5
Concessionaires	16	13.8	14	68.5
n.c.	268	11.3	224	66.5
All contractors	9,722	11.5	9,067	78.1

Source: Ref. elaborations on AVCP data

	Early completion	up to 90 days	91-180 days	up to 1 year	over 1 year	n.c.	Total
City Councils	3,817 <i>8.1</i>	25,017 53.4	1,563 <i>3.3</i>	1,208 <i>2.6</i>	605 <i>1.3</i>	14,655 <i>31.3</i>	46,865 <i>100.0</i>
Provinces	1,426 <i>16.7</i>	3,660 <i>42.9</i>	172 <i>2.0</i>	103 <i>1.2</i>	35 <i>0.4</i>	3,141 <i>36.8</i>	8,537 <i>100.0</i>
Public agencies	1,486 <i>18.8</i>	4,407 55.8	216 <i>2.7</i>	169 <i>2.1</i>	46 <i>0.6</i>	1,579 <i>20.0</i>	7,903 <i>100.0</i>
State administrations	777 <i>16.6</i>	1,488 <i>31.8</i>	101 <i>2.2</i>	52 <i>1.1</i>	27 <i>0.6</i>	2,230 <i>47.7</i>	4,675 <i>100.0</i>
Concessionaires	334 <i>7.6</i>	1,865 <i>42.2</i>	109 <i>2.5</i>	114 <i>2.6</i>	34 <i>0.8</i>	1,967 <i>44.5</i>	4,423 <i>100.0</i>
Regions and mountain communities	650 <i>15.8</i>	2,024 <i>49.1</i>	126 <i>3.1</i>	93 <i>2.3</i>	44 <i>1.1</i>	1,186 <i>28.8</i>	4,123 <i>100.0</i>
Health care agencies	72 <i>3.4</i>	981 <i>46.3</i>	31 <i>1.5</i>	20 <i>0.9</i>	13 <i>0.6</i>	1,002 <i>47.3</i>	2,119 <i>100.0</i>
Public housing agencies	188 <i>13.2</i>	794 55.6	72 <i>5.0</i>	45 <i>3.2</i>	29 <i>2.0</i>	300 <i>21.0</i>	1,428 <i>100.0</i>
Joint Councils		7 <i>87.5</i>				1 <i>12.5</i>	8 <i>100.0</i>
Other	238 <i>14.4</i>	910 <i>54.9</i>	29 <i>1.7</i>	20 <i>1.2</i>	15 <i>0.9</i>	446 <i>26.9</i>	1,658 <i>100.0</i>
n.c.	328 <i>11.9</i>	1,254 <i>45.6</i>	85 <i>3.1</i>	54 <i>2.0</i>	26 <i>0.9</i>	1,001 <i>36.4</i>	2,748 <i>100.0</i>
Total	9,316	42,400	2,504	1,878	874	27,507	84,479
Distribution %	11.0	50.2	3.0	2.2	1.0	32.6	100.0

Source: Ref. elaborations on AVCP data

For works worth more than 150 thousand euros, the overall trend sees a lengthening of execution times and an effort to contain costs as much as possible. More in detail, **Regions show execution times that are almost double the timing agreed by contract, whereas the most "efficient" public agencies are State administrations and public housing agencies. As regards costs, on the other hand, strongest containment is achieved by public agencies and bodies.**

As regards smaller works, the distinction is available only in terms of execution times, with no specific data on cost variances by contractor. Table 5 indicates the number of works by contractor and work duration, as well as the percentage weight of each item on the total. All contractors show a clear prevalence of works delivered before the deadline, or at a delay of less

than 90 days. Public agencies, State administrations, and Provinces, are the entities which command the largest share of works delivered ahead of contract deadlines.

The Tables below detail the distribution of works and cost and timing variances by type of work and geographical area, referred only to the major works.

Table 6 - Distribution of works with positive variances by category Tenders worth more than EUR 150k; 2005-09				
Work category	No. works with higher costs	Average Variance (%)	No. works with time delays	Average Variance (%)
Roads	3,236	11.3	2,916	81.7
Railway	31	14.8	28	71.6
Other transport infrastructure	149	10.4	129	75.1
Environmental and land protection works, water resources	1,221	11.3	1,163	85.5
Urbanisation works and other	630	10.7	641	86.6
Energy sector infrastructures	81	12.9	95	89.2
Telecommunications and Information Technology	16	11.7	15	88.2
Agriculture and fishing infrastructures	64	11.8	64	77.8
Infrastructures for industrial activity, small businesses, trade, food administration board	127	11.8	122	74.5
Social housing and schools	1,385	11.9	1,296	69.7
Residential housing	215	13.1	191	59.5
Cultural goods	522	12.8	513	66.9
Sport, entertainment, tourism	644	11.2	637	80.8
Health care constructions	319	11.9	253	76.1
Other public constructions	950	11.5	877	70.0
Other public infrastructures	59	11.0	48	79.1
n.c.	73	13.5	79	91.7
All categories	9,722	11.5	9,067	78.1

Source: Ref. elaborations on AVCP data

Table 7 - Distribution of works with positive variances by contract value Tenders worth more than EUR 150k; 2005-09				
Value bracket	No. works with higher costs	Average Variance (%)	No. works with time delays	Average Variance (%)
150,000-500,000	7,789	11.3	7,216	81.2
500,000-1,000,000	1,375	12.4	1,322	68.4
1,000,000-5,000,000	545	12.3	517	60.4
5,000,000-15,000,000	12	14.2	11	44.1
>15,000,000	1	...	1	...
All value brackets	9,722	11.5	9,067	78.1

Source: Ref. elaborations on AVCP data

Table 8 - Distribution of works with positive variances by geographical area Tenders worth more than EUR 150k; 2005-09				
Geographical area	No. works with higher costs	Average Variance (%)	No. works with time delays	Average Variance (%)
North-West	257	10.5	2,376	81.1
North-East	2,923	11.9	2,653	77.2
Centre	2,059	11.6	2,015	74.3
South and Isles	217	12.2	2,023	79.5
Italy	9,722	11.5	9,067	78.1

Source: Ref. elaborations on AVCP data

Within the overall trend which sees cost containment prevail over the respect of timing, a greater likelihood that financial commitment forecasts will be exceeded emerges in railway and housing works, whereas on the front of timing, the variances are greater for energy sector infrastructures.

Cost variances in percentage terms, on the other hand, only change slightly from one tender value bracket to the other, and progressively, whereas greater differences are observed for timing variances. Specifically, larger tenders show a greater tendency to deviate less from the timing agreed on in the contract.

Lastly, by geographical area, there are no significant differences between regions in terms of cost or timing variance. The most "virtuous" area, in which cost and time variances are smaller, is Central Italy. On the other hand, below-average cost containment is observed in the South and Isles, and delivery date delays are generally longer in the North-West.

Time and cost efficiency: recent developments

Supervisory Authority data allow an analysis to be drawn of the trend of time and cost variance indicators. Two surveys are considered, one referred to the 2005-09 five-year period, presented in the sections above, and one referred to works which began in 1999 and were completed by the end of 2005. In total, the surveys cover 15,387 works worth more than 150 thousand euros.

In general, execution efficiency gains emerge in terms of timing, whereas cost variances on completed works tended to be more frequent between 2005 and 2009 than in the previous period.

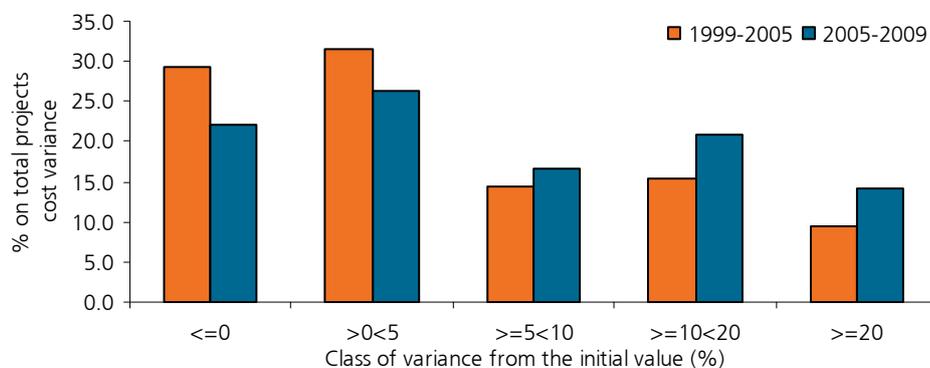
As regards costs, works with variances larger than 20% accounted for less than 10% of the total in the 1999-2005 period, but rose to 14.2% in the following five-year period. Also, works completed at no additional cost compared to the initial estimate declined from 29% to 22%.

The greater movement of cost variances is confirmed by analyses by contractor as well as by sector. Average cost variances were up from 9.7% to 11.5%. The strongest increases were recorded for projects commissioned by territorial agencies and by residential housing agencies. The work categories in which variance increases tend to be largest, in percentage in terms, are energy sector infrastructures and those tied to Telecommunications and information technology.

As regards timing, improvements were evident across the board, for almost all contractors and sectors. Works delivered at a delay of over 20% the initial timing dropped from 65% to 60% between 1999-2005 and 2005-2009. At the same time, works completed on time increased from 23.6% to 27.4%.

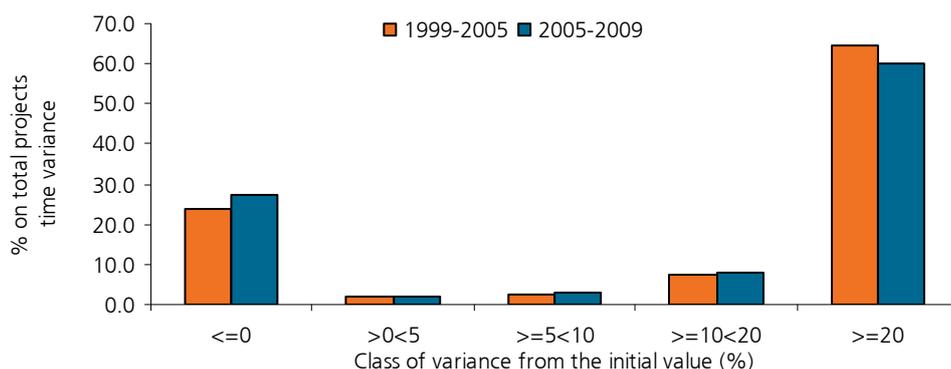
The largest efficiency gains are observed in works tendered by local authorities. By sector, efficiency gains were largest in the fields of road and railway works, which in any case continue to show some of the largest variances.

Chart 1 - Financial efficiency in the execution of works



Source: Intesa Sanpaolo elaborations on AVCP data

Chart 2 - Time efficiency in the execution of works



Source: Intesa Sanpaolo elaborations. on AVCP data

Table 9 - Distribution of works with positive variance by contractor
Tenders worth more than EUR 150k

Contractor*	Avg. cost variance (%)		Avg. time variance (%)	
	1999-2005	2005-09	1999-2005	2005-09
State administrations	12.0	11.6	58.7	52.0
Public agencies	9.9	10.8	74.7	70.5
Public housing agencies	10.6	12.5	52.2	58.9
Regions and mountain communities	11.0	12.1	99.0	90.0
Provinces	9.5	11.4	81.7	75.6
City Councils	9.6	11.4	90.0	80.7
Health care agencies	11.8	12.2	80.4	77.0
All contractors	9.7	11.5	83.5	78.1

Source: Intesa Sanpaolo elaborations on AVCP data

* A comparison between the two periods considered is possible only with regards to the contractors listed

Category of work	Avg. cost variance (%)		Avg. time variance (%)	
	1999-2005	2005-09	1999-2005	2005-09
	Roads	9.2	11.3	91.4
Railway	13.6	14.8	84.6	71.6
Other transport infrastructure	9.8	10.4	72.2	75.1
Environmental and land protection works, water resources	10.4	11.3	91.9	85.5
Urbanisation works and other	8.9	10.7	96.9	86.6
Energy sector infrastructures	9.6	12.9	89.6	89.2
Telecommunications and Information Technology	6.4	11.7	51.3	88.2
Agriculture and fishing infrastructures	8.2	11.8	96.4	77.8
Infrastructures for industrial activity, small businesses, trade, food administration board	9.3	11.8	76.8	74.5
Social housing and schools	9.4	11.9	75.2	69.7
Residential housing	11.1	13.1	55.7	59.5
Cultural goods	11.9	12.8	78.6	66.9
Sport, entertainment, tourism	8.4	11.2	84.4	80.8
Health care constructions	10.7	11.9	79.8	76.1
Other public constructions	9.8	11.5	70.9	70.0
Other public infrastructures	11.4	11.0	77.2	79.1
n.c.	6.2	13.5	89.4	91.7
All categories	9.7	11.5	83.6	78.1

Source: Intesa Sanpaolo elaborations on AVCP data

Time and cost efficiency: European comparison

The issue of the time and cost of the execution of investment policies is also consistently at the centre of the attention of European Community bodies, which strive to assess how efficiently the resources made available by Union funds are used.

A recent European Commission publication⁹ evaluates the performance of Member States in terms of cost overruns and time delays of major infrastructural projects and productive investments co-financed by the European Regional Development Fund (ERDF).

A European comparison is no easy task, as the body of data collected by the Commission is in many ways not homogenous¹⁰.

At the European level as well, Italy emerges as having a greater capacity for cost containment in the execution of works, rather than for meeting time initially agreed deadlines. However, Italy's performance on either front is far from brilliant: Italian percentage variances are consistently above the weighted average for the countries considered, as calculated by the Commission. In particular, the most critical aspect is the chronic delay at which Italian works are completed, which in the case of the projects considered by the Commission corresponds to just under 90% of the initially estimated duration.

⁹ "Efficiency: Unit costs of major projects, Ex-post evaluation of cohesion policy programmes 2000-06", Final Report 25 October 2009.

¹⁰ Of the 271 major projects undertaken by the 11 Member States covered by the survey, the Commission only succeeded in gathering information on 96, of which 66 infrastructural projects, and 30 productive investments. Therefore, compared to an optimal size of 155 projects, the sample is smaller, and only represents 35% of the total number of projects referred to. The reason for this lies mostly in the fact that, in order to obtain funds, Member States are not formally required to supply information on costs and timing, necessary to carry out the ex-post evaluation. Therefore, in addition to being of limited size, the sample is skewed towards road and railway investments. However, the results presented by the Commission do contain interesting elements for a comparison of the performance of Member States in implementing projects co-financed by the EU.

Table 11 - Efficiency in the execution of major projects in Europe Average percentage variances; 2000-06 funds		
	Cost variance	Time variance
Germany	-6.2	28.4
Spain	15.8	25.7
France	32.9	4.9
United Kingdom	110.7	0.0
Greece	26.6	17.7
Ireland	14.1	16.2
Italy	37.6	88.4
Poland	50.3	3.8
Portugal	4.4	84.9
Weighted country average	21.2	26.2

Source: Ref. elaborations on European Commission DG for Regional Policy

Main reasons behind the delays

The data presented in the previous section show that the most critical aspect of the execution procedure of infrastructure in Italy is the lengthening of the delivery times of the works.

A more detailed analysis of the trends of infrastructure construction is provided by ANCE's report on 2009¹¹, which explain the findings of a survey carried out on 196 works, with a breakdown of the process into the different phases of the works execution cycle.

The ANCE report found that **on average, completion of a public work in Italy requires just under 11 years**. The breakdown into components highlights that that **most time is required by the planning phases (preliminary, definitive and executive), which average take five-and-a-half years**.

Table 12 – Average project phase duration (days) by initial tender price (2009)								
Procedure phases	Project worth bracket (Million euros)							Overall average (in years)
	<10	10-25	25-50	50-100	100-200	200-500	>500	
Phase I: Preliminary project	943	681	574	534	398	829	746	1.8
Phase II: Definitive project	649	409	504	568	1,226	1,491	854	2.2
Phase III: Executive project	461	298	638	455	653	452	615	1.4
Phase IV: Tender publication	68	212	105	122	165	43	100	0.3
Phase V: Tender	-	214	307	382	369	356	484	1.0
Phase VI: Awarding of works	102	100	75	87	40	93	162	0.3
Phase VII: Execution	957	914	1,056	1,200	-	-	-	2.8
Phase VIII: Testing	329	522	434	329	-	-	-	1.1
Total (in years)*	-	9.2	10.1	10.1	-	-	-	10.9

*The total is calculated as the sum of the average time for each worth bracket
Source: Ref. elaborations on ANCE data

Therefore, it is no surprise that the analysis carried out by ANCE shows that time delays are mostly concentrated in the planning phase. However, even during the execution of the works a significant number of critical factors cause delays.

In the executive phase of the works, the list of reasons for delay as surveyed by ANCE is clearly topped by the need to introduce alterations during construction. On the total number of works considered, over half show that difficulties were tied to the planning and approval of project alterations.

¹¹ "Secondo rapporto sulle infrastrutture in Italia: il monitoraggio delle opere infrastrutturali", ANCE 2009.

Table 13 – Critical issues surveyed in the execution of works (2009)

	No. of cases surveyed	Weight on total cases analysed (%)
Planning/approval of alterations	76	50.7
Disputes	11	7.3
Financial hardships of tender winner	6	4.0
Technical setup of contracting company	9	6.0
Plot unavailability/Appeals against expropriation	14	9.3
Removal of interferences	10	6.7
Delays in the crediting of resources	2	1.3
Problems tied to functional connections with other works	4	2.7
Other (bad weather, force majeure, etc.)	18	12.0

Source: Ref. elaborations on ANCE data

Current legislation only allows alterations during construction to be made in a few cases, due to specific circumstances (contingencies, new legislation, errors in the executive project, need to improve works, etc.). However, as surveyed by ANCE, the main factor behind delays is the need to introduce alterations, which causes overruns principally due to the time required to draft and approve the changes, rather than to execute them.

Slow and complex decision-making processes mean that delays are mostly concentrated in the phases which precede the actual activation of the construction site. **The planning phase is lengthy: around four-and-a-half years for works worth less than 50 million euros, and six years for works worth more. The planning phase requires three stages: approval of the preliminary, definitive and executive projects.** For large works especially, the approval phase of the definitive project takes longer than the other two stages. As illustrated in Table 14, in addition to aspects tied to the definition sharing of priorities, the main problems identified for the surveyed sample are tied to delays in the Services Conference, which affected 28% of cases, considering both the preliminary project proceedings and the definitive project.

Table 14 - Critical issues surveyed in the planning phase of infrastructure construction (2009)

	No. of cases surveyed	Weight on total cases analysed (%)
Definition of priorities in planning options	19	9.7
Sharing of priorities in planning options	25	12.8
Raising of financing	40	20.4
Difficulties at the preliminary Services Conference stage (Preliminary project)	23	11.7
Services Conference timing (Definitive project)	32	16.3
Difficulties in managing the planning process	5	2.6
Plan drafting timing	9	4.6
Other	11	5.6

Source: Ref. elaborations on ANCE data

Therefore, it is not so much the drafting of the project which requires a lengthy period of time, but rather the different stages which make up the process of authorising the project.

As regards the tender phase, the critical aspects surveyed are fewer than for the other two phases (issues pointed out only for 30% of the works considered by ANCE), although it is in any case useful to point out that these are mostly concentrated in the awarding phase, and are mostly tied to appeals from other competing enterprises. As also highlighted by the AVCP report, it is therefore necessary to compress as much as possible the inefficiencies deriving from a very slow judicial system.

Tables 15 - Critical issues surveyed in the tender phase (2009)

	No. of cases surveyed	Weight on total cases analysed (%)
Evaluation of the congruity and/or quality of the bid, etc.	17	10.7
Appeals by competing subcontractors	22	13.8
Other (deserted tenders, etc.)	8	5.0

Source: Ref. elaborations on ANCE data

The Services Conference

The reference made to the Services Conference suggests that a good portion of difficulties originate in the dispersion of decision-making powers across different levels of territorial government. The need to meet the requirements of all the administrations involved is often leads to the suspension of approval processes, resulting in postponements to the following months, if not to the following years.

The Services Conference represents the essential tool with which to counter the high dispersion rate of administrative functions in Italy, as its operational mechanism allows a joint evaluation of all the public interests involved in the realisation of a public work, thus offering an exhaustive vision of all the aspects involved. As such, it should therefore respond to the need for simplification and acceleration of the decision-making process in Public Administration, avoiding a separate evaluation of project for each level of the Public Administration, and thus avoiding overlapping. The approval of a project by the Services Conference effectively replaces all the agreements, authorisations, licenses, concessions etc. which would be required by State and Regional legislation.

While it is true that as institution the Services Conference responds to this need, it is also true that its operational mechanisms do not always allow for a fast and agile decision-making process. This is confirmed by the numerous legislative actions that have been implemented over time, in the attempt to improve its functioning compared to the initial provisions of Law 141 of 1990, which established the Services Conference for all administrative procedures, and to strike the right balance in the **trade off between safeguarding multiple interests and simplifying administrative processes**. The result is a rather articulated set of rules, which attempt to adapt the instrument to different needs in the field of public works. The general rules outlined in Law 141 have seen the addition of other instances of legislation which allow a distinction of the Services Conference into different versions: for public works in general, for major public works, for the localisation of public works of national interest, and for public works included in the Target Law.

While we will not delve here into the details and development of legislation concerning the Services Conference, some critical aspects must be highlighted. In particular, with regards to the general functioning of the decision-making process, a major source of delays was the requirement of a **unanimous vote of consent in administrative procedures**. This aspect could create considerable friction in the execution of public works, and prompted already in 1993 new legislation at introducing mechanisms to overcome the problem represented by failure to achieve a unanimous vote, thus limiting the veto power assigned to the single administrations involved. **The reform of 2005 introduced the principle, still in force, that a decision should be taken based on "prevailing positions"** (therefore overcoming the initial reference made to a hared-to-calculate majority, based on the administrations involved, the population, etc.). The reform in any case sought to guarantee "sensitive" interests, preventing a decision from being taken based on prevailing positions when opposed by an administration responsible for protecting the environment, the landscape/territory, the historical and artistic heritage, health, and public safety. Obviously, the new legislation also failed to achieve the desired effects in terms of speeding up the proceedings Conference, therefore **Law 2 of 2009 for the conversion of the anti-crisis Decree extended the prevalent position decision-making rule to situations in**

which dissent is expressed by an administration charged with protecting constitutionally guaranteed rights.

More recent actions on the Services Conference are included in the 2011 Budget, and are mostly geared to simplifying procedures and accelerating the adoption of the final resolution. **Legislative Decree 78/2010 weakens the right of veto assigned to Administrations charged with protecting cultural goods, the landscape, public health, and public safety.** If the representative of the Administration does not express dissent at the Services Conference, the silent assent rule applies. Any opposing views must be motivated, indicating alternative measures aiding approval of the measure. In case of dissent from the protection administrations, the Council of Ministers will issue a ruling within 60 days, on condition of an agreement being previously reached, within 30 days, by the Regions or local agencies involved. In the absence of an agreement, the Government will in any case issue a ruling through the Council of Ministers. This reduces the risk of a work being effectively blocked by the absence of an administration, or the expression of an interlocutory view. However, this simplification does not apply to the "VIA" (environmental impact evaluation), the "VAS" (strategic environmental evaluation), or the "AIA" (integrated environmental authorisation)¹².

Further simplification has been introduced by the rule that the results and prescriptions yielded by the VAS be used without changes for all ends tied to execution of the VIA, if carried out by the same competent authority. This speeds up the assent process, avoiding overlapping evaluations.

As regards timing, Legislative Decree 78/2010 provides that the Conference be completed within 90 days of its first meeting (although an extension to 120 days is possible for projects subject to VIA).

Disputes

One of the causes of delays in the process of approving public works, but also of inflating its costs, is the **high incidence of appeals and disputes which occur in the tender phase**, especially frequent for major works. The findings of the AVCP's survey are significant in this sense: with tenders of high value¹³ a dispute arises every two contracts; also, considering all tenders, delays compared to initially estimated timing are longer by 11% for contracts over which disputes have arisen.

The Authority points out that the high incidence of disputes generated by the procedures for the awarding of public works, made worse by the sluggishness of the judicial system, represents a considerable burden for the public contracts market, inflating its costs and negatively impacting the execution times of public works.

Also, the Confindustria report on infrastructure¹⁴ stresses that improper use of Administrative appeals is often made, which should be discouraged. In fact, appeals by competing companies are not always aimed at effectively obtaining the awarding of works, but rather of obtaining damages, as due to the lengthy time periods required by the judicial system, the contractor is not always in the position to wait for a ruling to be issued on the appeal, and must therefore execute the contract with the appeal pending. This situation is especially frequent for appeals

¹² VIA, VAS and AIA are governed by the Environmental Code. They are evaluation procedures designed for public or private projects that may have a major environmental impact (ports, road and railway infrastructure, and power lines among public works).

¹³ Public Contract watchdog data are mostly referred to tenders for works, but also include tenders for services.

¹⁴ "La riforma infrastrutturale: le criticità del sistema infrastrutturale and le esigenze di miglioramento della sua efficienza", Confindustria, September 2009

made during the tender and awarding phases. Appeals are also used by subcontractors in the specific case of anomalous bids being made. When the execution of a work is awarded to a company which made an especially low bid in the tender phase, it is not unusual for this same company to subsequently appeal, during the execution phase, for an adjustment of the price it is entitled to for the work, based for instance on the claim that conditions have changed. Obviously, this type of procedure requires a long time to be resolved, and inevitably translates into a delays and higher costs in the completion of the work.

Legislation was recently introduced to review the rules governing the judicial process in the field of public tenders, and embraced the EC Directive 66 of 2007, the so-called **Review Procedures Directive, aimed at improving review procedures in the awarding of public tenders**.

Legislative Decree 53 of 2010, which enforces the Review Procedures Directive, responds to a number of issues regarding the impact of disputes on work execution times. The new legislation moves in two directions: on the one hand, it seeks to change the awarding procedures, to prevent appeals from being made through the judicial system, improving the communication system of information on the awarding to the parties involved, extending waiting time between the awarding of the contract and its actual signing, and shortening deadlines for the filing of appeals, establishing that the announcement of the litigation is enough to block the contractor agency from signing the contract. All these measures are geared to trying to solve disputes before actual litigation.

On the other hand, the law attempts to encourage **appeals made through channels alternative to the ordinary judicial system**, reserving priority procedures for them. As regards contract execution, in case of disputes a preference is awarded to friendly settlements, whereas an entire article of the law is dedicated to the rationalisation of the rules governing arbitration.

As regards **arbitration**, the AVCP has repeatedly stressed that, while this is a procedure that allows a faster resolution of disputes compared to the ordinary judicial process, it implies a considerable rise in the execution costs of the works. Also, the cost borne by the Public Administration (PA) is even more evident when considering that, taking arbitrations as a whole, the percentage of rulings against the PA was 94% in 2009: in other words, in almost all cases, the PA had to pay damages to the other party involved in the dispute.

Strong action was taken on the cost of arbitrations by the Decree which embraces the Review Procedures Directive, in order to set a roof on compensation paid to arbiters, the main cause of the excessive costs deriving from the proceedings, usually geared to the value of the works involved. The law sets a strict maximum limit on compensation payable to the judges, valid for all and with no exceptions: the roof has been set at 100 thousand euros in total for the entire panel (the two arbiters representing the parties plus the Chairman), which also includes any compensation due to registrars. Therefore, given that the Chairman is entitled to 40% of the fee, the maximum amount receivable is now 40 thousand euros, as opposed to a 30 thousand euro limit on compensation for the other arbiters.

Role of local agencies: payments and compensation

The role of local agencies in the realisation of public works may be viewed from two perspectives. On the one hand, local agencies account for the largest portion of **Italy's public investment spending**¹⁵ and therefore advancement of the works is necessarily tied to the agencies' payment capacity. It has been repeatedly pointed out how the rules of the Stability Pact, which limit investment spending cash amounts, affect the payment capacity of local agencies with regards to the spending appropriations taken on in the year. This is proven by the

¹⁵ On investment spending by local agencies, see *Local Government Monitor*, May 2010.

ratio of cash and authorisation budgets referred to the 2008 spending of City Councils, based on which on average **in Italy capital account payments** (limitedly to investment spending) **only represent 11.4% of appropriations**. In geographical terms, the ratio decreases proceeding from North to South, from a maximum value of 19.9% in Trentino Alto Adige to a minimum of 5.5% in Campania, with the two exceptions of Sicily and Basilicata, whose values are higher than the national average.

Table 16 – Council payment capacity
Investment spending, ratio of cash and authorisation budgets; year 2008

Italy	11.4
Trentino Alto Adige	19.9
Valle d'Aosta	18.6
Emilia Romagna	16.7
Marche	15.9
Lazio	15.9
Veneto	15.0
Liguria	14.3
Sicily	13.2
Basilicata	13.2
Piemonte	12.7
Tuscany	12.5
Lombardy	12.4
Friuli Venezia Giulia	11.4
Sardinia	9.9
Puglia	9.0
Calabria	8.9
Umbria	8.1
Molise	6.8
Abruzzo	6.4
Campania	5.5

Source: Ref. elaborations on final balance certifications

This approach generates an accumulation of large capital account residual liabilities, tied to delayed payments by local public administrations to contracting companies. In turn, this compromises the regular advancement of works, placing at risk their completion in a reasonable timeframe.

Restrictions on local agencies do not only result in payment delays, but also affect investments in new works. A note released by ANCE highlights that the public tenders launched by City Councils in 2009 were 15.8% fewer than in the previous year, when an 8.5% decline had already been recorded.

However, the responsibilities of local agencies are not limited to financing. Reform of Title V of the Italian Constitution has led to the inclusion among the matters subject to concurrent Regional and National legislation the government of the territory, ports and civilian airports, major transport and navigation networks. Therefore, City Councils and Provinces are assigned a leading role in the realisation of major works of national relevance, in protection of local interests in making decisions on the localisation of the works. They take part in the decision-making process, and the refusal of assent by one of the local administrations involved may block the process, negatively affecting the country's infrastructure development.

Therefore, **obtaining assent** from not only local agencies, but also from all the other administrations involved in the process of realising a public work, represents a key issue in attempting to speed up the processes and make them more efficient. The starting point must necessarily be coordination among the levels of government involved, and the sharing of the information on the execution conditions of a work, its appropriateness in economic-financial

and social terms, as well as in terms of costs and benefits for the community (effects on mobility, services, employment, etc.).

The effectiveness of such an approach must be subordinated to **better coordination of evaluation procedures on the environmental impact of the work**, i.e. between VAS and VIA¹⁶. Some steps in this direction were made with Legislative Decree 4 of 2008, which simplified environmental evaluation and authorisation procedures. In particular, the new law (of national scope, to be embraced by Regions with appropriate legislation within 12 months of its publication) seeks to reduce overlapping and duplications to a minimum and to improve coordination, especially in the strategic evaluation and in the environmental impact evaluation. An aspect common to all Regional laws is the need to assure simplification of the procedures, avoiding where possible the pointless duplication of evaluations already carried out at a higher VAS level. A further step in this direction is the prospect of documents and analyses already produced at the VAS level being admitted for use for VIA ends.

A better functioning of project evaluation mechanisms should reduce opportunities for disputes and of dissent by the administrations involved.

A frequently used instrument to obtain the assent of the administrations involved is **compensation**. This consists of collateral works in addition to the work in question, which become a necessary condition in gaining consent to the major work from the local administration involved, for instance a City Council. In theory, compensation should be essentially constructive, in other words consist of interventions geared to avoiding a negative impact of the planned work on the environmental, social, and economic values of the territory in question. In reality, however, compensation is often used as a trade-off to indemnify the Council or the territory impacted by the construction of the work, in order to obtain assent, for instance with the construction of sports facilities, schools, or other works of public interest. These are works of public utility for the City Council, but which are in no way linked to the original work, and therefore their construction is not governed by well-defined set of rules.

A tangible risk is that requests for compensation may stray from the context of the planned public work, in terms of localisation, destination, and also of economic value, and that therefore they may simply contribute to lengthening the timing and raising the cost of the original work, without benefiting it any way.

Many courses of action can be taken to prevent the compensation system from generating inefficiencies. It might be appropriate to limit the instances in which local government may apply for compensation. In quantitative terms, an economic cap could be placed on the compensation work, geared to the value of the originally planned work. In qualitative terms, limitations on the prospected use of the compensation work may also be imposed, restricting it to the same realm of the planned work. All these restrictions should be provided for ex-ante, also by means of a programme agreement among the administrations involved, in order to avoid both a scarcely virtuous use of compensation requests by local agencies, and the emergence of critical issues also concerning the planning of the compensation work itself. The Confindustria Report also suggests financial or fiscal compensation as a viable option, in various forms, frequently resorted to in other countries. This may consist either of the direct sharing with the local administration involved of the benefits deriving from the project, in the form of financial income, or of tax or tariff reductions to the benefit of the community impacted by the localisation of the work.

¹⁶ See Note 4.

Intesa Sanpaolo - Head of Research Department Gregorio De Felice		
Industry & Banking		
Fabrizio Guelpa	+39 02879 62051	fabrizio.guelpa@intesasanpaolo.com
Industry		
Stefania Trenti	+39 0287962067	stefania.trenti@intesasanpaolo.com
Giovanni Foresti	+39 0287962077	giovanni.foresti@intesasanpaolo.com
Serena Fumagalli	+39 0287932270	serena.fumagalli@intesasanpaolo.com
Ilaria Sangalli	+39 028021 (3)5785	ilaria.sangalli@intesasanpaolo.com
Research Assistant		
Maria Cristina De Michele	+39 0287963660	maria.demichele@intesasanpaolo.com
Angelo Palumbo	+39 0287935842	angelo.palumbo@intesasanpaolo.com
Banking		
Elisa Coletti	+39 0287962097	elisa.coletti@intesasanpaolo.com
Maria Giovanna Cerini	+39 0287962078	maria.cerini@intesasanpaolo.com
Marco Lamieri	+39 0287935987	marco.lamieri@intesasanpaolo.com
Tiziano Lucchina	+39 0287935939	tiziano.lucchina@intesasanpaolo.com
Local Finance and Public Services		
Laura Campanini	+39 0287962074	laura.campanini@intesasanpaolo.com

This material has been prepared by Intesa Sanpaolo. Information has been obtained from sources believed to be reliable, but no guarantee is made as to their accuracy or completeness. This report has been prepared solely for information and illustrative purposes, and is not intended as an offer or solicitation with respect to the purchase or sale of any financial products. The document may be reproduced wholly or in part only if Intesa Sanpaolo is cited as the author.