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Spending Reviews: A Comparison of Italian Experience with the Most Successful European Practices

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Abstract:

Over the last decade several countries have introduced and carried out, in different ways and varying degrees, some form of performance review or spending review as cultural change and economic development. Both consist in a set of procedures but they differ in terms of objectives pursued. Performance procedures assess expenditure from the point of view of efficiency whereas spending review procedures analyse the efficacy of programs and resource allocation. Both sets share the overall objective of improving management and control of expenditure by means of:

- *the rationalization of budget processes (expenditure tendencies and mechanisms that inform spending);*
- *continuous assessment of efficacy levels; (Daniel Landau, 1986 Economic Development and Cultural Change)*
- *control of efficiency and quality of spending programs. (Albert O. Hirschman 1965 Economic Development and Cultural Change)*

Keywords: *Public services, the rationalization of budget processes, continuous assessment of efficacy levels, cultural change, economic development, control of efficiency and quality of spending programs*

1. Introduction

Over the last decade several countries have introduced and carried out, in different ways and varying degrees, some form of performance review or spending review. Both consist in a set of procedures but they differ in terms of objectives pursued. Performance procedures assess expenditure from the point of view of efficiency whereas spending review procedures analyse the efficacy of programs and resource allocation. Both sets share the overall objective of improving management and control of expenditure by means of

- the rationalization of budget processes (expenditure tendencies and mechanisms that inform spending)
- continuous assessment of efficacy levels
- control of efficiency and quality of spending programs.

International experiences highlight differences both in approaches and in specific procedures adopted.

However, the first step in any spending review plan consists in devising a concrete hypothesis, based on the identification of critical issues and possibly drawing from the consolidated experiences of other countries. In other words, it is a quest for a codified set of good convergent practices and not an abstract reference model.

Spending reviews are time- and resource- intensive operations and their aims, objectives and priorities may be affected at different levels. For example, public spending management and its targets of rationalization, efficiency and efficacy are affected by supranational institutions which often substitute national or local ones, as is the case in EU countries, and also by citizens, who can influence spending programs and management decisions, for example, at local and regional level, and, whose priorities are often at odds with those of the global budget.

In Italy, the spending review was introduced due to need for change in the public sector, perceived also at the national level but required at the European level. Actually, the first measure aimed at PA change go back to the 90s and represented a response to the kickback scandal "tangentopoli". They were mostly laws on re-organization of local authorities, the national healthcare service and

social security, the streamlining and transparency of administrative procedures and the reform of Civil Service. The latter was meant to promote a more economics based and less law based functioning of the PA. The measures introduced the separation between political function and administrative function. The shortcomings of such measures, which persisted more or less unaltered after all subsequent interventions until the SR, brought about the creation of the role of Special Commissioner (Commissario Straordinario) with the formal task of preparing a plan for the spending review but with no real decision making power.

1.1. The Spending Review in Europe and in Italy: an Outline for Comparison

Describing the Italian measures and their outcome by contrasting them with other international experiences will highlight the weaknesses of the system and suggest possible alternatives. From a brief overview of the idea of spending review, as conceived and implemented in other countries, several differences emerge with Italy and, most of these seem to be country specific and imputable to peculiarities of the Italian system.

In Italy, The PA's numerous attempts at reform show their direct dependence on the characteristics of the country's political system and on its management practices and organization strategies. The shortcomings in public policy determination and in the definition of macroeconomic choice priorities are amplified compared to other European contexts. Furthermore, it is worth pointing out that, in Italy, the actual decision to initiate a spending review as such, was taken to comply with European Union decisions and European budget requirements.

Drawing from the literature and the practical experience of other countries, a comparison of key spending review concepts, features and developments will be carried out and the main critical issues pertaining to the Italian case will be identified in the next paragraphs.

1.2. Spending Review: General Considerations Pertaining to International Experiences

All the countries that initiated a spending review conceived it as the quest for an effective a way of devising procedures aimed at controlling the dynamics of public spending. The continuous qualitative change and quantitative increase in the services, that the public subject needs to satisfy, has determined enormous public budget problems especially concerning the access to resources and the upgrading of public structures to ensure adequate service quality.

All countries with a SR in place proceeded to implement a reform of the Public Administration which was carried out according to either, or a combination of both, of the following approaches.

The first entailed performing a microeconomic analysis of each public structure to identify sectors where resources were used inefficiently and then modifying, via administrative measures, the organization of the service management so as to reduce costs. The second, (via top-down political decisions) aimed at re-prioritizing resource allocation in compliance with budget constraints and not necessarily according to principles of efficiency.

As these changes in decision making mode and public budget management concern both the political level and the technical-administrative one, they can occur only if the organizational, structural and operating characteristics of both levels allow for them.

These conditions were met in some EU countries but not in Italy. An assessment of the organization and the operating mode of the entities involved in the reform process would unveil the possibility for change in the decision making mode of the political subject and in the organization of administrative structures. However, considering the inception and development of spending review procedures in Italy, the pertinent questions that need to be answered are:

1. Can the Italian political system carry out a revision of public priorities in compliance with budget constraints?
2. Can the Italian Public Administration operate according to economic logic, and to management criteria that target resource allocation efficiency?

2.1. The Italian Experience Origins and Evolution

The term "Spending Review" appeared for the first time in official documents in June 2006, in the 2007 – 2011 Dpfe (document for the financial and economic planning). But the problem of fiscal consolidation started to be addressed by the Italian governments, in 1992 with the "Amato manoeuvre". It is interesting to point out that until then Italy referred to measures of fiscal consolidation as "manoeuvres" whereas other European countries called them "annual budgeting decisions concerning new spending priorities". The first attempt at PA reform took place in 1993 with the enactment of d.lgs n.29/93. The considerations that prompted this measure concerning the re-organization of public administrations and public management were to be found in the manifest inefficiency of the public services provided, and how they compared to those furnished by other European countries. The aim of the measure was to overcome the principle of law conformity that governed administrative acts in order to make them more results oriented. Despite this innovative precedent, the law conformity guideline whereby new laws were enacted to modify procedures, persisted, according to a purely bureaucratic rationale which was founded on the correct application of, i. e. the conformity to, a rule.

All subsequent measures centred around a P.A. reform were those adopted:

- In 1997 with the decision to adopt the euro;
- In 2006 in response to the EU initiative enforced on Italy for failure to comply with the expenditure to GDP ratio requirement.

The terminology connected to S R started to be actively used in 2007 and reflected three theoretical guidelines. The first was related to reducing and reviewing public spending (microeconomic analysis of efficiency) The second was linked to the pursuit of resource use efficiency in service provision. It is centred around the accountability of managers for complying with budget constraints (management control) (monitoring ex ante and ex post of public finance objectives. The third was concerned with efficacy of

management whereby the spending review was intended as a tool to modify and revise public intervention priorities to meet the ever stringent and urgent budget constraints

However, there is no empirical evidence that these precepts have been translated into practice in the Italian experience.

2.2. The Efficiency Objective

The issue was addressed by nominating a “Commissioner for the rationalization of the purchase of goods and services” in 2012 with the aim of cutting wasteful or ineffective spending. End users, citizens and associations were invited to participate in a campaign to denounce any instance of the P.A.’s wasteful practice and 130.000 cases were reported, which attests to public interest in the matter and the popularity of the initiative. But streamlining the PA and removing obstacles and inefficiencies to reduce costs, entail performing a microeconomic analysis of the single entities of the administration and assessing the combination of the productive resources and the technology employed to ensure the maximization of the function of production. But, to date, apart from a few announcements, no economic evaluation of the efficacy and quality of services has been carried out. Another issue that requires clarification concerns the question of how the micro level can influence the macro level, in other words, how can public finance decisions be oriented towards the compliance with EU budget constraints? In order to pursue this aim, the P.A. should be in a position to perform analyses of individual sectors and be provided with pertinent and reliable data by bodies that enjoy ample discretionary powers in organizational and administrative matters. The conformity to law characteristic, mentioned in the previous paragraph, makes managers virtually unaccountable. Public management reforms have not succeeded in making managers accountable at any level: they cannot even be removed from their posts unless they are indicted on corruption charges. This situation reflects a cultural trait that can be synthetically described as the “lack of internalization” of public finance at all levels. The unaccountability of spending bodies can also be seen in the so called “non budgeted debts” which are not foreseen or included in the budget but nevertheless ordered by the spending body. In 2009 these debts amounted to 2.1 billion, in 2010 to 1.5 billion and 2011 to 1 billion. These data refer to the officially ascertained amounts, it is necessary, however, to set out an adequate data gathering and processing system of all public administrations to ensure proper implementation of the spending review. Issues concerning data quality and evaluation still need to be addressed and a substantial investment in quality, reliability, transparency and compatibility of statistical economic data, needs to be made as a pre-requisite for a SR plan.

2.3. From the Micro Level (operative efficiency) to the Macro Level (fiscal aggregate)

The main aim of a spending review whether it is conducted via micro measures (pursuit of greater efficiency) or macro measures (modification of political priorities, revision of resource allocation) is to reduce expenditure in compliance with budget constraints. Both levels of analysis have limitations but the implementation of a SR requires, in any case, a dialectic between the micro level and the macro level. The Italian example exhibits a discrepancy between central government’s expenditure plan and the actual spending practice of the administrations that often fail to comply with budget constraints. The new EU regulations on public expenditure call for urgent measures aimed at establishing a fundamental consistency between budgeting data at the national level and the local level. These measures should entail significant changes in terms of political decisions on expenditure and in terms of spending body behaviour. The new public accounting system that should stem from the EU regulations should no longer generate debts through “uncontrolled mechanisms.” Despite a few major successes in some sectors, the system has yet to find general and widespread application. The re-organization of the PA did not yield the desired results mostly because of the way it was carried out i. e. through the enactment of new laws and regulations.

3. The New Legislation on the Requalification of Public Expenditure in Italy

In 2005 The EU initiated an excessive debt procedure against Italy for having systematically failed to comply with the 3% constraint of the expenditure to GDP ratio. So, in July 2006, in the presentation of the document of economic and financial planning “Dpef” 2007 – 2011, “l. 296”, an experimental measure for the requalification of public spending, was introduced. It aimed at achieving the closure of the EU procedure and targeted a budget consolidation connected to improvements in service quality and in efficiency through a multi annual central government PA evaluation. The plan of the 2007 SR entailed the establishment of a “Technical Commission for Public Finance” and entrusted The Minister of Economy and Finance with the task of reviewing the spending programs of the central administrations with reference to procedure, organization and resource allocation efficiency. This was met with the approval of the Bank of Italy “BdI”. One year later, the Commission with the aid of the General State Accountancy office issued “the Green Book on Public Spending”, and the Intermediate Report on the SR”.

The spending review established by law 244/2007 and implemented in 2008 was defined as the public finance planning instrument which served the purpose of finding a way of improving the decision making process concerning priorities, resource allocation, public administration quality performance and service efficiency. The analytical work, however, has not found application in the corrective measures proposed. The Bank of Italy, commented that, in Germany, a spending review program does not compromise the pursuit of the main objectives of public action. In 2008, with the elections, the Technical Commission was dismissed and its duties were assigned to the Ministry of the Economy and Finance. In 2009 the new financial law n. 196 art. 39 created the nuclei for the analysis and assessment of spending and promoted the collaboration between the Ministry of the Economy and Finance with the individual central administrations with the aim of identifying the main factors that hindered the optimal and efficient allocation of resources. This law included the “procedures” for implementing the SR in administrations endowed with monitoring and control systems for the analysis and evaluation of the spending plan. Despite the recommendations to the contrary, issued by the Bank of Italy and the international organizations and also laid down in the in the fiscal law, the 2009 and 2008 manoeuvres continued to apply macro, top

down linear cuts to spending. Budget choices based on the long term mandatory expenditure have never really proven efficient in terms of resource allocation, they do not normally measure the quality of service provision nor do they allow for a comparison between costs and results. Finally, in 2011, political decision makers started to heed supranational requirements. Another step in this direction was taken after the 2011 economic crisis when with lg. n. 138/2011a more thorough and concrete plan was defined to revise spending and to overcome long term mandatory spending. It entailed that the Minister of the Economy was required, by the 30th of November 2011 to define the guidelines for public spending re-organization and by 2012 to prepare a spending plan for the following years. In May 2012 with d.lg n. 52/ 2012 “Urgent measures for the rationalization of public expenditure”, Minister Giada was called upon to co-ordinate a Special joint-Ministry Committee” for the study and analysis of public spending review. The activity was organized as follows:

- From October 2013 (Nomination of the Commissioner) to the end of 2014, definition of the administrative and legal measures aimed at the savings
- April 2014 insertion in the DEF of the objectives and implementation specifications
- July 2014 implementation and planning for the following three-year period
- 2015 implementation of assessment indicators
- October 2016 assessment and evaluation, and planning for the following three years

In spite of these legislative measures, the fiscal consolidation policies aimed at the compliance with public finance objectives were characterized by both an inadequate control of expenditure trend and lack of focus on its objectives. On average, the yearly spending growth rates were always higher than GDP growth rates with a sustained increase in primary spending. After this, attention to the matter gradually waned, and virtually no concrete action was undertaken. The main limitations of these measures are above all having neglected to introduce specific management tools to reduce expenditure in each individual administration and scarce operative implementation. This is another instance of the typically Italian approach: the legal conformity concerns override the analysis and assessment of performance in terms of results. Nevertheless, failure to meet objectives renewed the pressure on the national and international front to reduce expenditure. The economic crisis, the high public debt and high tax evasion call for a budget consolidation that sustains economic growth which means savings are to be made on the spending side not on increased revenue. It is worth noting that in other European countries in such circumstances, a spending review is the first step whereas in Italy the first measure is to increase taxation.

3.1. The Main Issues

Despite the efforts to introduce public body expenditure control in the PA, the outcome was quite discouraging even after the 2012 interventions. The main weaknesses may be identified in the following:

1. The legal conformity approach in the management and provision of public services;
2. The lack of an economics oriented service culture based on the pursuit of efficiency and quality;
3. Unaccountability of spending body decision makers for compliance with budget constraints decisions;
4. In the financial planning phase, the political level fails to identify priorities and make choices in resource allocation that are actually consistent with budget constraints. Italian politicians and election candidates have consolidated the practice of avoiding stringent expenditure proposals even when the situation requires them in order to win over or maintain electoral consensus;
5. The lack of integration between the top down and the bottom up system in the mechanism of decision making.

If these issues are addressed it will be possible to consolidate from the spending side and avoid linear cuts to public spending. It is necessary to overcome the dichotomy between the primary legislation that orients public action and the accountability of managers who operate at the different individual administrative levels.

4. The Italian Experience: the Nomination of the “Special Commissioner”

The above mentioned interventions, however did not affect the lack of decisiveness of the responsible agencies and the recurrent appointment of Special Commissioners. Between 2012 and 2015 three successive Special Commissioners for the spending Review were nominated (Bondi, Cottarelli, Guteld). The Special Commissioner is an external nominee who probes, analyses, prepares the review, advises and collaborates with the decision makers but does not decide. This is nothing new, Italy has a long standing record of such a practice which was resorted to, in different political contexts at different times and for different purposes. It seems to have been the most chosen option to tackle any type of emergency or event, Expo 2015 and Mose in Venice had their Special Commissioner, and so did infrastructure, theatres and parks. There was one for the correction facility overcrowding, for waste disposal emergency, for non EU immigrants and the gypsy nomad issue. Even more ordinary matters like, the traffic in Milan, Pope Benedict XVI ‘s visit to Milan and the tide in Venice were all awarded with a Special Commissioner. The reasons that prompted these nominations range from the need for specialized expertise to political opportunity. Nevertheless, there are about 10,000 such Commissioners or similar figures which cost taxpayers about 1 billion euro per year. Their salary, on average exceeds ordinary salaries by 40-60% and very rarely their positions are as temporary as intended. It is worth pointing out, that, in 2011, that the Court of Accounts remarked on the matter by stating “ the practice of appointing Commissioners with these conditions and payment criteria may have indirectly favoured the persistence of dead end situations” In fact, very often these positions become consolidated and go well beyond the time-span they were designed for, thus losing their exceptional, temporary and extraordinary character, and co-exist as centres of parallel super-

administrations with ample discretionary powers and little control. In many cases, Commissioners are ultimately only responsible to the Minister of the Economy at the end of their mandate. Finally, they might even end up hindering the operational activity of the ordinary institutions they were meant to support. A case in point, once again acknowledged by the Court of Accounts in its 6/2007/G deliberation was the waste disposal emergency management operation that” had given rise to a long standing and complex” extra ordinem“ body which functioned side by side with the ordinary administration and had the effect of virtually paralysing Local governments, banks, the national airline company Alitalia, the Italian Space Agency, state sponsored enterprises and even the Italian Red Cross have experienced management by Commissioner. The latest experiment is the President of the National Anti-corruption Authority endowed with special powers, staffed by high profile external experts entrusted with the task of solving the long standing and pervasive corruption problems of the country.

5. Implementation of the Spending Review

Generally, a spending review consists in evaluations carried out by a central government body to

- Identify possible saving options
- Decide on implementation
- Tackle consolidation requirements
- Re-examine adopted policies

In order to achieve its aims, it is necessary to devise a system of assessment, incentives and accountability connected to the relative tasks. With reference to the experience of some European countries a set of common characteristics can be pinpointed.

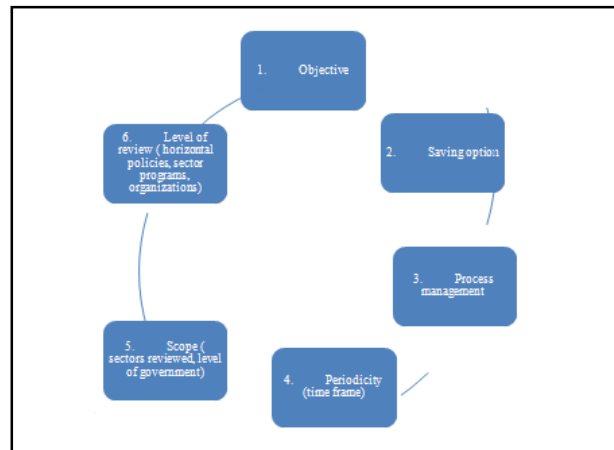


Figure 1: Common Spending Review characteristics of some European countries

Adapted from source: OECD (2011) “Typology and Implementation of spending reviews”, GOV/PGC/SBO (2011)

1. Objective
2. Saving option
3. Process management
4. Periodicity (time frame)
5. Scope (sectors reviewed, level of government)
6. Level of review (horizontal policies, sector programs, organizations)

The well-known and widely shared OECD interpretation and framework of spending reviews have been used as a frame of reference for this paragraph. Before illustrating the vectors in fig 1. It is useful to point out that the time frame of a spending review cycle can range between a minimum of one year to a maximum of 4 or 5 years A first implementation would be close to the maximum and a second or third to the minimum which also implies that there might be a cumulative effect thanks to the good practices devised and implemented.

There are six main phases to a spending review cycle which can be described as follows:

1. Objective. The objective can be functional or strategic. The functional objective is concerned with the efficiency of public action so the analysis of the process and of the resources used for the intervention is vital in order to establish if the same intervention can be provided with fewer resources. In this context the considerations on analytical accounting mentioned above are particularly relevant if the aim is to go beyond a mere recording of resources employed versus results obtained. Cost centre analytical accounting is generally considered at the central government level, even if very often it is not applied, at the local level implementation is rare. A strategic analysis focuses on both efficiency and efficacy of spending policies. The efficacy of policies is necessary to re-organize and re-orient the results obtained according to the demand topics. This evaluation is often neglected or inadequately addressed as, in the case of a lack of integration between the horizontal and the vertical levels.

2. Saving option. The saving option is strongly connected with the identification of cost centres both local and regional and national. The decisions relate to the ability of local governments to coordinate regional and national interventions, implement and monitor the results

3. Process management. The process is complex and involves several subjects. The conduct entails phases of co-ordination, integration and organizational control by the officials responsible and the agencies involved with reference to:

- definition of the method to employ;
- selection of objectives;
- report preparation;
- monitoring of actions and their implementation.

4. Periodicity. The periodicity of the evaluation review can be systematic or sporadic. The former generates a considerable flow of information which may be useful to develop analytical competences and to activate processes of institutional data/information acquisition. Information acquisition is important not only for meeting planned deadlines, as in the case of the budget for example, but also because it provides the Administration with the means of raising awareness and of generating knowledge and competencies in spending management and quality. Sporadic reviews are generally decided in response to a specific need, they consist in ad hoc evaluations and generally result in linear cuts. These may become necessary either because the Administration may have neglected to carry out a thorough and in-depth system's analysis and therefore might need to perform one-off interventions, sometimes repeatedly, which become structural in the median term, or because it is aware of management problems, contribution and fiscal evasion which are unlikely to be solved in the median – long term;

5. Scope. The long lasting economic crisis has determined that the entire public administration and all of its programs and policies should be included. The actions are less extensive for the countries that have withstood the crisis and have intervened with single review actions and re-distribution measures restricting them to a specific area or level of government.

6. Level of review. The method of analysis may be transversal or vertical. Horizontal intervention entails a combination of actions that evaluate possible reviews in multiple agencies. This method, however, does not thoroughly investigate all of the subjects that in their different roles and at different levels take part in the spending and thus the review. The vertical method entails that having identified the target, in depth interventions concerning individual spending bodies are planned. This entails analytical accounting to identify costs and procedures and therefore the weak bonds (Weick) between each cost centre, the resources employed and the results obtained. This analysis is particularly important if the two levels of interventions are to be combined and a better performance is to be ensured. The absence of the bond or its degree of weakness determines the presence of horizontal methods only, which are incongruous with long term evaluations and planning and result in low impact actions and/or inappropriate ones. Political governance is vital but it *needs to be informed by analytical accounting for each individual cost centre*. Horizontal methods alone highlight some items of mandatory expenditure, and not discretionary ones. The latter can be defined as sunk costs but are fundamental for the operation of the organization. The key factor in the definition of scope is the right combination of political governance and analytical accounting of individual cost centres objectives.

The six phases represent a path of bounded rationality (Simon) due to the presence of different actors and interest groups which cannot be combined into a unity of intents, and therefore the necessary ex ante evaluation, is not always adequately reflected in the in-progress and ex post phases and represents an incremental path with a satisfactory evaluation with reference to the optimizations included in the initial evaluation and plan. So the positivity of the action cannot be sporadic or discontinuous but a political and organizational tool to select objectives, saving options and assessment criteria aimed at identifying the beneficiaries of the measure, or the terms of re-distribution of the saving. The periodicity of the described cycle depends on the government's ability to plan for the long term which seems to be lacking for some countries and for Italy in particular.

5.1. The Main International Experiences of SR

In this section we will overview the main results of spending reviews implemented in the following countries:

- Australia
- Canada
- Denmark
- Finland
- France
- Greece
- Ireland
- Italy
- The Netherlands
- The United Kingdom

In three northern countries the experience was initiated quite some time ago and the management of results has been consolidated. There are gaps between expected and achieved results but they are negligible compared to the southern countries, in particular Italy and Greece and in part Spain and Portugal. This will be discussed in the next paragraph. In this section we will focus on the gap between expected results as announced by the governments and the results delivered with reference to experiences which we consider significant and consolidated. We will not, however discuss the policies considered as choices pertaining to population section, reasons, and benefits. One paragraph will be devoted to The Finnish experience which began in 2004 and continued until 2008. For the other countries, the information will be synthetically given in table format. As to the information summarized in the table, our

considerations are centred on the experiences of the European countries and their respective differences. The first (table 1) is the initiation time of the spending review. Finland started in 2005, followed three years later by Denmark, France, Ireland and Italy and then in 2010 by Greece, The Netherlands and the United Kingdom. The level concerned is central government Administration and /or local. Only three countries, Denmark, the United Kingdom and Italy planned for actions referred to both central and local Administrations. The scope, horizontal and vertical, highlights the political and technical ability of the governments to re-organize spending not only via linear interventions but also vertical and in depth ones, to identify cost centres to be pruned off without having to resort to mergers of agencies and institutions. Not all countries managed to achieve these results: France, Greece and Italy identified and implemented only horizontal actions. In Italy the review entailed linear cuts and public institutions mergers as reflected in many new names coined by adding the prefix “super” or “mega” to the old ones, e. g. Mega Ministero and Super Inps. These actions were undertaken to reduce the public debt generated before the adoption of the euro (during the Amato government) but failed to produce the desired results. The purely horizontal method adopted is also the result of the management culture deriving from the conformity to law approach which is far from centred on controls, co-ordination and integration of accounting and costs and produces a negative effect on the other variables in the table. In fact, if we check the objectives declared by Italy they include, like the other countries, functional and strategic reviews but “the Special Commissioner” emerges as the only case amongst those in the table. The correlation between scope and periodicity is strong for those countries that combined horizontal and vertical measures and planned yearly reviews but not for the others, or Italy in particular where only the horizontal measures set in the long term, four years, will be subjected to reviews as a yearly routine. The process management column shows that the horizontal interventions lack the last phase, i. e. implementation control and action monitoring and end with the production of a report. The last column shows the achieved objectives specifying the percentage of functional and strategic objectives. For the countries that implemented only horizontal interventions, like Italy, for example the difference between the two percentages is high, whereas for the countries where the combination of horizontal and vertical measures brought about functional and strategic reviews of 70% or over, the difference between the two variables never exceeds 5%. The achieved objectives confirm that the northern European countries have fare better than the southern European ones. Finland ‘s experience proved successful and though it may be difficult to export it is worth exploring for insights in administration and organization culture. Denmark, Ireland and the Netherlands obtained interesting results, and, outside Europe, also the UK. France obtained intermediate results whereas the functional and strategic levels of Greece and Italy are negative (Italy fared slightly better than Greece).

6. The Case of Finland

Finland’s spending review approach is based on the functional efficiency criterion. The economic assessment of expenditure is the primary element, supported by rules and procedures that regulate very straightforwardly the interventions, the co-ordination actions and the control. In Finland the “Productivity Programme” has been in place since 2004 and it is aimed at increasing the efficiency and the productivity of the central administration. Great emphasis was put on effectively exploiting ICT in government administrative structures, on enhancing labour force competitiveness and personnel I know how, management and leadership and on organizational productivity. Thorough and pervasive cost analyses and analytical accounting were performed and supported by management by objective techniques. The characteristics of the experience may be summarized as follows:

- simple legislation with few laws to apply
- Analytical accounting as a widespread and consolidated practice
- Cost centres as a widespread and consolidated management technique
- Management by objective as a widespread and consolidated technique

The spending review program is managed by the Budget Department in the Ministry of Finance. All the interventions are based on the productivity programmes drawn up by the ministries and subsequently integrated with joint preparations by the ministries and the ministry of finance. The program does not include local governments and their productivity measures. The ministry of finance is responsible for supervision, the review of reports and monitoring and follow up. The Finnish central government re-allocated 250 million euro in various sectors of the PA in 2008 and 360 in 2009, Eighty million euro, to be used from 2012 throughout 2016, have been allocated to the development of IT systems and productivity promotion needs. The program plans for a further 5,000 unit cut in PA staff between 2012 and 2016. The National Audit Office that is responsible for control acknowledges that the results are satisfactory and can be improved. In particular, the NAO advocates the extension of the program to the local level and to the entire public sector.

7. Conclusions

In conclusion, spending reviews can successfully support budget reallocations and budget cuts provided that the objectives are clear, the political and administrative preconditions are met, the design is feasible and the implementation consistent and well-co-ordinated. The experiences reported can provide useful insight for devising a framework and setting up or reforming review procedures. They also highlight the major weakness of the Italian spending review conduct which can be synthesized as lack of political will and commitment. In other words, failure to:

- set in place the announced reform measures;
- enact spending body accountability regulation;
- include incentives and/or sanctions to encourage compliance with constraints;
- provide for monitoring and follow up interventions;
- can all be ultimately seen as signs of weak political commitment.

Country	Scope	Level of implementation	Declared objectives	Periodicity	Process management	Achieved objectives
Australia (2008)	Central government	Horizontal and vertical	Functional and strategic review The ministers propose and the government decides	yearly	◦ Definition of methodology ◦ selection of objectives ◦ report preparation ◦ action and implementation monitoring 383,4 million dollars in the 4-year period	Functional review 75% Strategic review 60%
Canada 2011	Central government	Horizontal and vertical	Functional and strategic review The ministers propose and the government decides	yearly	◦ definition of methodology ◦ objective selection ◦ report preparation ◦ action and implementation monitoring 5,4 million dollars in the 4-year period	Functional review 75% Strategic review 70%
Denmark (2008)	Central and local administration	Horizontal and vertical	Functional and strategic review The ministers propose and the government decides	yearly	◦ Definition of methodology ◦ selection of objectives ◦ report preparation ◦ action and implementation monitoring 660 million euro in the 4-year period	Functional review 85% Strategic review 80%
Finland (2005)	Central government	Horizontal and vertical	Functional and strategic review The ministers propose and the government decides	yearly	◦ Definition of methodology ◦ objective selection ◦ report preparation ◦ action and implementation monitoring Public administration staff cut of 9,645 units in the 4-year period	Functional review 55% Strategic review 40%
France (2008)	Central government	Horizontal	Functional review The ministers propose and the government decides	Multiannual (4 years)	◦ Definition of methodology ◦ objective selection ◦ report preparation ◦ 15 billion euro in the 4-year period	Functional review 25% Strategic review 10 %
Greece (2010)	Central government	Horizontal	Functional review The ministers propose and the government decides	Multiannual (4 years)	◦ Definition of methodology ◦ selection of objectives ◦ report preparation 65 billion euro in the 4-year period	Functional review 25% Strategic review 10%
Ireland (2008)	Central government	Horizontal and vertical	Functional and strategic review	yearly	◦ definition of methodology ◦ objective selection ◦ action and implementation monitoring 7.8 billion euro	Functional review 75% Strategic review 20%
Italy (2008)	Central and local administration	Horizontal	Functional Review by the Special Commissioner and the government decides	Multiannual (4 years)	◦ definition of methodology ◦ objective selection ◦ report preparation 32 billion in the 4-year period	Functional review 35% Strategic review 20%
The Netherlands (2010)	Central government	Horizontal and vertical	Functional and strategic review The ministers propose and the government decides	yearly	◦ definition of methodology ◦ objective selection ◦ report preparation ◦ action and implementation monitoring 36 billion euro in the 4-year period	Functional review 75% Strategic review 70%
United Kingdom (2010)	Central and local administration	Horizontal and vertical	Functional and strategic review The ministers propose and the government decides	yearly	◦ definition of methodology ◦ objective selection ◦ report preparation ◦ action and implementation monitoring £ 81 billion in the 4-year period	Functional review 75% Strategic review 65%

Table 1

8. Notes

1. Most relevant: l.142/90, on the re-organization of local entities and agencies, l.241/92 on the transparency of administrative acts and documents, the decree of the Amato government 442/1992 ;” on public management, privatization of National health service, d.lgs n 29 of the 3rd of February 1993 on Civil Service reform.

2. To complete the picture, with reference to aggregate level fiscal legislation, it is worth mentioning that the adoption of the Fiscal Compact has set even more stringent expenditure and budgetary constraints.
3. The current relationship between the different cost centers and those responsible for control of macroeconomic objectives must be of come. It must also establish a proper autonomy between the two moments.
4. Ministero dell'Economia e delle Finanze, *Rapporto sulla spesa delle Amministrazioni centrali dello Stato 2012*, Roma 2012.
5. The adoption in PA of the financial statements based on economic accounting is evident the usefulness of an information framework that allows you to measure the use of inputs from different centers of administrative responsibility to be included in the process of spending review.
6. To this end, firstly, the Constitution was amended so that neither the State nor the local authorities could run up unbudgeted debts in conflict with EU regulations. Secondly, a results assessment procedure was introduced to determine the achievement of objectives and if necessary to impose sanctions on negligent bodies.
7. As required by the new art. 81 approved at the end of the legislature with the accounting rules, have changed radically.
8. For example, the analysis on the cost of the fire agents contained in the "Rapporto della spesa dello Stato 2012".
9. L.296/2006, art. 1, comma 480
10. Banca d'Italia, *Considerazioni finali. Assemblea ordinaria dei partecipanti anno 2006*, Roma 2007.
11. The main proposals were :
12. -To export spending review systems to other ministries
13. -To suggest three macro areas of intervention: the rationalization of the territorial organization of local administrations, the streamlining of administrative procedures, and personnel organization
14. -Review of policies concern in gtransfers from central to decentralized bodies and other subjects
15. Ministero delle Economia e Finanze, *Libro verde sulla spesa pubblica, Doc. 2007/6*, Roma 2007
16. Ministero delle Economia e Finanze, *Rapporto intermedio sulla revisione della spesa, Doc. 2007/9*, Roma 2007
17. L. 244/2007, art. 3, comma 67 - 73
18. M. Draghi, *Considerazioni finali all'annuale Assemblea ordinaria dei partecipanti*, Roma 31 maggio 2008
19. See: decreto Ministero dell'Economia e Finanze, 22 marzo 2010
20. The Minister for the Economy, Giulio Tremontiset a study group on The SR led by professor Pietro Giarda
21. L. 296/2006, art.1 comma 480.
22. The standard spending needs of the central and local administrations were defined and The Minister was required to produce a plan for the re-organization of public spending
23. The PCM (President of the Commission ?) (Monti Government) issued a directive that set the rules for the contribution of the central administrations towards the achievement of a 4.2 billion euro expenditure reduction for 2012to be pursued by eliminating wasteful practices and promoting greater efficiency in service provision.
24. In this measure the following functions and responsibilities were identified :
25. -Enrico Bondi, as Special Commissioner for the rationalization of spending for the purchase of goods and services, was responsible for setting the expenditure level of each cost and for co-ordinating all the purchase activities of all public administrations in order to reduce spending per cost for all administrations
26. -Giuliano Amato was put in charge of the re-organization of political party funding
27. -Francesco Gavazzi was responsible for rationalizing public contributions to businesses.
28. There were also another two connected measures :d.lg 95/2012 (Provision of the same service with less resource) and the stability law of 2013n. 228/2012. The former was aimed at a net reduction of spending (difference between greater and lesser expenditure) amounting to 3.9 billion euro for 2012, 6.6 billion for 2013 and 9.9 billion for 2014. The law was then modified by d.lg 69 of 2013 which instituted an Inter-ministry Committee directed by the PCM who was responsible forco-ordinating the spending rationalization of all public administrations, all public entities and state controlled businesses. The director also had power to nominate another Special Commissioner on a three year tenure with the task of formulating guidelines and suggestions for the SR. The terms of the Commissioner's salary entailed that it could not exceed 150 thousand euro for 2013,300 thousand for 2014 and 2015and 200 thousand for 2016.
29. Banca d'Italia (a cura di), *Rules and Institutions for Sound Fiscal Policy after the Crisis*, Roma 2001

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