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Critical issues in the Italian municipalities: a reconstructive analysis

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An interpretation of the phenomenon

In order to better understand these three aspects (the commons/fundamental functions, cognitive decision-making process, society/market nexus), the analysis of critical financial issues at municipal level may provide a special point of view.

The municipality cannot fail, or more precisely, it cannot cease to be, because it performs essential duties for its community. The increasing number of municipalities that have entered into financial instability calls our attention back to the nature of the insolvency procedure which on one hand is similar to the bankruptcy of a private party, but cannot, precisely for the reasons referred to, fully unfold in this direction. The latent risk of this possibility significantly worsens the system as a whole: after a bankruptcy procedure, the perception of risk in the municipalities increases, triggering a rise in costs to finance them. Bankruptcy also has effects on creditors who, as a result, are incentivised to either stop entering into relations with the public entity, or to charge higher costs for their services, anticipating reduced repayments postponed over time. Thinking about the spread of recourse to instability procedures to resolve the critical financial issues of the municipalities produces an increase in costs borne by the general public in the medium term. The low cost of money, a condition which is moreover only contingent, could favour this type of approach, but this would be a short-sighted decision. To remedy imbalances, it is fundamental to enact a structural reorganisation in the process of managing the municipalities and insolvency procedures, which must be directed towards recovery, redefining the role of the various players.

The significant financial difficulty recorded in budget documents clearly shows that we are grappling with a complex instrument that requires stability; and since the ultimate goal of financial decisions in a complex society is that of reconciling different and naturally conflicting interests (therefore an eminently political process, in which redistribution actions and allocation decisions find a point of balance), to get out of it a robust cognitive process is required. Specialisms, consistent information and objective assessment techniques are the tools required to ultimately decipher the imbalance, to make possible knowledgeable decisions by decision makers and the community. From this perspective, the study of discussions is of extreme interest, summarised in the resolutions of the municipal councils gathered in the database created with this research.³ The kaleidoscope shows in this reading all of the various facets: fervent agendas; opinions that suddenly change direction; misunderstandings crystallised by the paperwork-based approach that informs many procedures; a not always clear distinction between the skills of the players, muddled up by a flood of unsystematic legislation. The need emerges for a decisive consolidation of information, to render the administrative structures of the municipalities more robust (in particular in the tax management segment), widespread

The critical financial issues of the Municipalities: a fertile intersection to investigate the relationships between the commons and fundamental functions, and between society and the market.

The end goal of budget decisions is to reconcile different and naturally conflicting interests.

² On this point, see Giovanni Allegretti, (2001), Bilancio partecipativo e gestione urbana: l'esperienza brasiliana di Porto Alegre [Participatory budget and urban management: the Brazilian experience of Porto Alegre], in: M. Carli (2001, ed.), Il ruolo delle Assemblee elettive. [The role of elective Assemblies] Giappichelli Editore, Turin, vol. I, pp. 551- 579.

³ A continuously updated database was created as part of the research, located on the website of the Ministry of the Interior (<http://dait.interno.gov.it/finanza-locale/notizie/comunicato-del-6-marzo-20189>), which in turn refers to the Ca' Foscari website (http://www.cafoscari.eu/studi/public/elen_info.php).

An examination of the critical financial issues of the municipalities cannot fail to take into account the profound evolution recorded in recent times in the governance of public finance. Three aspects are being referred to here: the constitutional reform of 2012, relating to the balanced budget; the process of harmonising the public accounts, which was fully implemented in 2015, after a lengthy experimentation period; the decision maker *accountability* process most recently reinforced by the new budget standardisation implemented, from the regulatory perspective, with the innovations of 2016.

The financial imbalance of the municipalities is complex in nature, and takes place in two arenas: the labile and, in certain respects, unrealisable separation between political policy and management; the issue of internal and external controls, to be made more robust and specific.

The clear impulse towards standardisation of the 2012 constitutional reform is a good antidote (and the reinforced legal reform of 2016 accentuates this aspect). For the entire public administration the structure, principles, contribution towards debt sustainability and revenue and expense alignment methods are gathered within a reinforced source, more stable than the periodic reconciliation of conflicting interests characterising annual budget decisions. Local government entities, the State included, are required to balance their budgets in a uniform manner.

The contortions of the internal stability pact have finally been overcome (since 2016)⁶. The top of the regulatory pyramid has been codified and, if appropriately implemented, it may generate considerable progress in public finance decision-making processes.

The process of budget harmonisation moves in the same direction, another strong antidote against the degeneration of structural imbalances, if the launch phase is well implemented and monitored. The regulatory instrumentation deployed by the harmonisation process - which is based on the twin charts of accounts activated for the central and local administrations by Regulation 132 of 2013 and by Italian Legislative Decree 126 of 2014, respectively - makes it possible to see at the basis of the regulatory pyramid, the top of which is given by the mentioned sixth paragraph of article 81 of the Constitution, a single text of accounting rules for all entities included in the segment of the public administrations.

A third antidote for avoiding critical financial issues in the municipalities is increasing the accountability of the budget decision maker. In this regard, the new structure of the spending programme which emerged from the 2016 reform, for which this is designated as an aggregate "of expenditure with a uniform purpose, intended to pursue results, defined in terms of products and end services, so as to achieve the objectives established in the missions", that is, of the public policies over which the budgetary policy is broken down, is moving in the right direction. The programme is in turn broken down into actions (a breakdown which hopefully will also be transposed in the multilevel system), accentuating the emphasis on results.

Separation between political policy and management and the issue of controls: the two arenas of financial imbalance in the Municipalities.

Three antidotes against the degeneration of structural imbalance.

⁶ The Internal Stability Pact, introduced in 1999 with the introduction of the single currency, was governed through the financial law (from 2009 the stability law), an economic instrument intended to implement the public finance manoeuvre. The instruments of the Pact were then modified multiple times over the years to provide solutions to specific problems, resulting in significant (and not always rational) regulatory stratification.

Fifth. In exercising controls, it is necessary to respect the prerogatives of the local government entities.

The great financial crisis also impacted the system of controls, in some manner bringing that of the court of auditors back to its age-old nature as an economic/legal syndicate on the management of public money and the apparatuses responsible for it. This external twist also filled the gap left by the low implementation of collaborative control since its introduction into the legal system. There are essentially two reasons for the difficulties of highlighting the famous three "e's". The first, general in nature, is given by the presence in the public administrations of an *X-efficiency* (Harvey Leibenstein, 1966), which prevents the mechanical transposition of private-law rules; the second, specific to the Italian system, is the strong attachment of the administrative culture to the logic of fulfilling obligations over that of results.

The problem of "rendering legal the numerical parameters of budgets" remains current and, in this respect legitimacy-regularity controls take on significant relevance, to recognise the value of the budget as a public good. Punctual and justified screening, after which a decision is expressed, performs a function of decoding public policies, an essential element of cognitive democracy. This is why it is necessary to analyse the difference between "the planned and the completed" and express an opinion about this, avoiding the flattening that can be caused by excessive standardisation (moreover useful for a summary assessment). A synthesis between these two focuses is possible. From the improvement in the procedural approach which without confusion, and correcting where time has been marked, must precisely identify the duties of each player, operator and controller, the aporia must be recreated between collaboration, for which there is a strong need in the municipalities, and decision, which becomes increasingly complex and rapid.

The issue of the fundamental functions of the municipalities and substitutive powers is crucial. An examination of the origins shows the analogies with today and, more than any other consideration, illuminates us as to the fundamental character of the functions that the local government entities perform for their respective communities. A comparison between the lists that the legislature has defined from the end of the nineteenth century to date also reveals the intrinsic difficulty of defining these functions. This is an exercise the legislature has dedicated itself to multiple times in the republican period, without reaching a full specification (the Charter of autonomies). An open problem that should be resolved because it is interwoven with that of defining essential levels, both ascribed to the national legislature. The essential levels are the measure of the fundamental functions. Without the definition of the latter, we cannot analyse the former, which represent the real critical point of fiscal federalism. The essential levels have been developed with the indication of requirements and standard costs which represent a valuable analysis to identify optimal practices for the organisation of the activities of the municipalities,

The problem of "rendering legal the numerical parameters of budgets" remains current.

The essential levels are the measure of the fundamental functions.

The new financial reorganisation procedure could call for processes changed by the new bankruptcy law (Law 155 of 2017) such as warning signs, assisted crisis settlement and arrangements with creditors. It is also crucial to coordinate this procedure with the corresponding rules of local state-owned companies and bodies, which were also recently updated (Italian Legislative Decree 175 of 2016).

Lastly, the new system must be robustly framed within a standardised auditing system founded on indicators which must give rise to a veritable model for predicting imbalances.

Overcoming the critical financial issues of the municipalities and, especially, implementing a system that makes prompt intervention possible to prevent them from becoming structural, is highly important. This is because the budget of the municipalities represents the resources available and the decisions made “how they were presented to the electorate, how they were programmed, how they were realised”. While therefore on one hand the State can no longer be permitted to reduce resources in a cascade process “which falls according to the branches of financial relationships”⁷ until reaching the municipalities, on the other hand it is necessary to strengthen a system capable, at the same time, of helping those who ask for collaboration and strike out against evasion.

Promptly intervening to overcome critical financial issues.

⁷ Aldo Carosi, La Corte costituzionale tra autonomie territoriali, coordinamento finanziario e garanzia dei diritti [The Constitutional Court: local autonomies, financial coordination and the guarantee of rights], in Rivista AIC edition 4 of 2017.

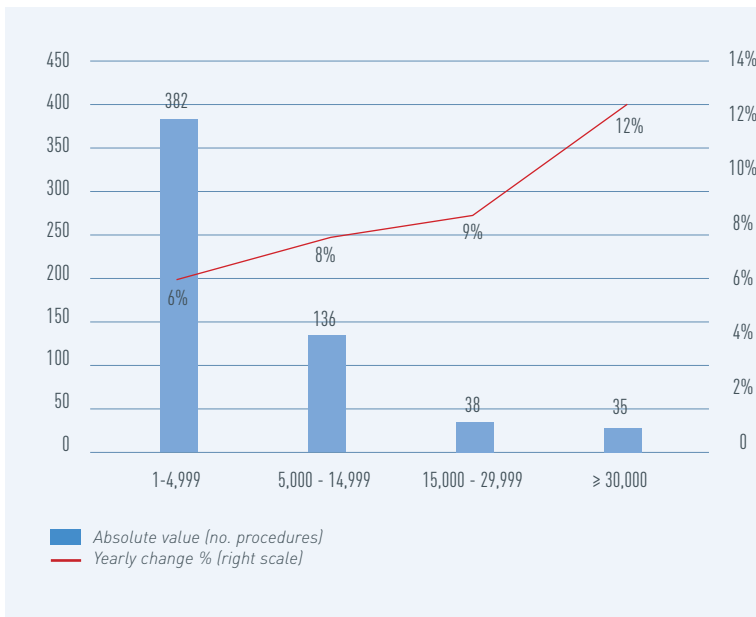
2.1 Cases of instability

Article 25 of Law Decree no. 66 of 1989 introduced the instability procedure in the Italian legal system to respond to increasing critical financial issues in local government entities. The Municipalities that made recourse to the instability procedure from the year of its introduction until the end of 2017 number 553: roughly 7% of all Italian Municipalities.

For some Municipalities, the experience was not isolated: indeed, there were 38 "recidivist" entities which, in the time period considered, made recourse to the instability procedure more than once, one of which even experienced a situation of "instability in instability"⁸. The geographical distribution of the instability procedures highlights the clear presence of a "southern problem": 82% of the instability procedures (487) relate to Municipalities in Southern Italy, 11% to Central Italy and finally just 7% to Northern Italy. From this point of view, the distribution by region is particularly relevant: practically 4 out of 10 (171) local government entities in Calabria made recourse at least once to instability procedures (of which 13 multiple times), while in Campania, it was 1 in 4 (151, of which 13 multiple times). These are followed, more distantly,

From 1989 to 2017, more than 500 Municipalities declared instability: 82% were in the southern regions.

Figure 2. Distribution of instability procedures by number of inhabitants in the Municipalities in classes (1989-2017): absolute values (bars - scale on the left) and percentages out of all municipalities in the class (line - scale on the right)



⁸ This is the municipality of Cirò Marina, which declared financial instability in 2012 and which again made recourse to the procedure in 2016, without however having completed the procedure launched four years prior.

to support current expenditure) slowed down recourse to the instability procedure due to the removal of the possibility to use loans borne by the State. Instead, since 2001 there has been a stalemate due to the low level of benefits in activating a procedure.

To remove the evident stalemate, measures have been approved over time which set aside resources to cover the liability volumes of municipalities with instability. The table below summarises them.

€ 600,000 per year	for the 2004-2006 three-year period - art. 4, par. 208 of Law 650/2003 which amended par. 15 of art. 31 of Law 289/2020, for entities that declared instability from the entry into force of the constitutional law until 31/12/2003 (5 entities);
€ 4 M per year	for the 2006, 2007 and 2008 financial years - art. 4 Law no. 8/2006 of the Sicily Region, for Sicilian entities that declared instability by 31/12/2005 (3 entities);
€ 150 M	art. 24 of Law Decree 159/2007 for municipalities that approved instability procedures subsequent to 31/12/2002 and until the date of entry into force of the Decree (3/10/2007) [actual contribution of € 140 M as € 10 M, pursuant to art. 40, par. 4, of Law Decree 248/2007, was allocated to entities pursuant to arts. 268 bis and ter of the TUEL (11 entities including 2+3 above);
€ 5 M	art. 40, par. 3-bis of Law Decree 248/2007 supplementing art. 24 only for entities that approved instability procedures between 30/6/2011 and 31/12/2002 (3 entities);
€ 2 M	art. 14, par. 14-ter, of Law Decree 78/2010, for the Province of L'Aquila (1 entity);
€ 25 M per year	art. 3-bis, Law Decree 174/2012, contribution from 2012 to 2016 for increase in assets (101 entities);
€ 20 M	art. 3, par. 5-bis, Law Decree 174/2012 only for the year 2012, liquidity advance for payments in non-performing status to municipalities with instability in 2012 (5 entities).

These include 150 million euros set forth under art. 24 of Law Decree 159/2007 for municipalities that approved an instability procedure after 31 December 2002 and until 3 October 2007. In reality, the actual contribution was 140 million, as 10 million, pursuant to art. 40, par. 4 of Law Decree 248/2007, was allocated to another eleven unstable entities with specific characteristics.

This significant measure is joined by other minor ones, including that set forth under article 3 bis of Law Decree no. 174/2012, which from 2012 to 2016 set aside a contribution of around 25 million euros per year to increase asset volumes, which benefitted 101 entities, at times for more than one year.

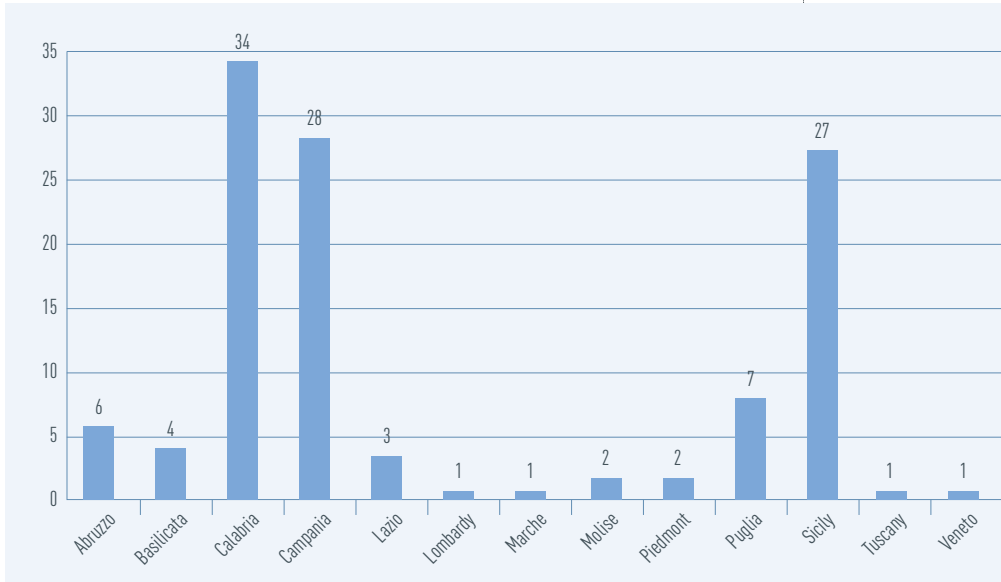
These resources, distributed with criteria privileging medium/small entities, were decisive for achieving the closure of the liquidation which, otherwise, it would not have been possible to carry out.

In parallel, this measure was accompanied by another effective intervention, useful especially for medium/large municipalities with

From 2003 and thereafter, numerous measures approved that set aside resources to cover the liabilities of municipalities with instability.

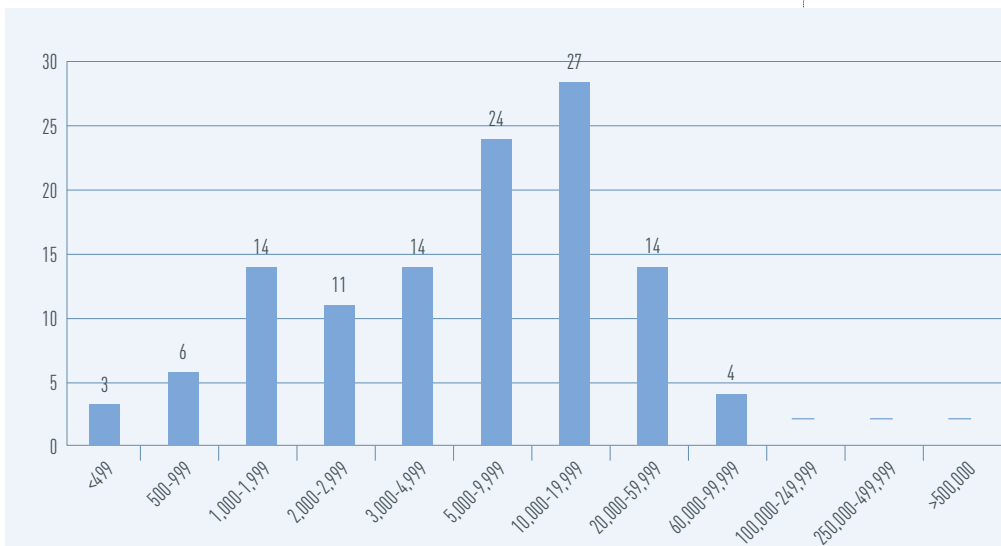
This is more than 1 percent of the Municipalities, of which 76% were located in three regions (Campania, Calabria and Sicily), as clearly shown in the graph below.

Figure 5. Entities currently with instability by region (2013-2017)



The presence of very significant structural criticalities is evident in certain regions. The distribution by demographic segments shown in graph 6 demonstrates that the municipalities most at risk are those with between 5,000 and 20,000 inhabitants.

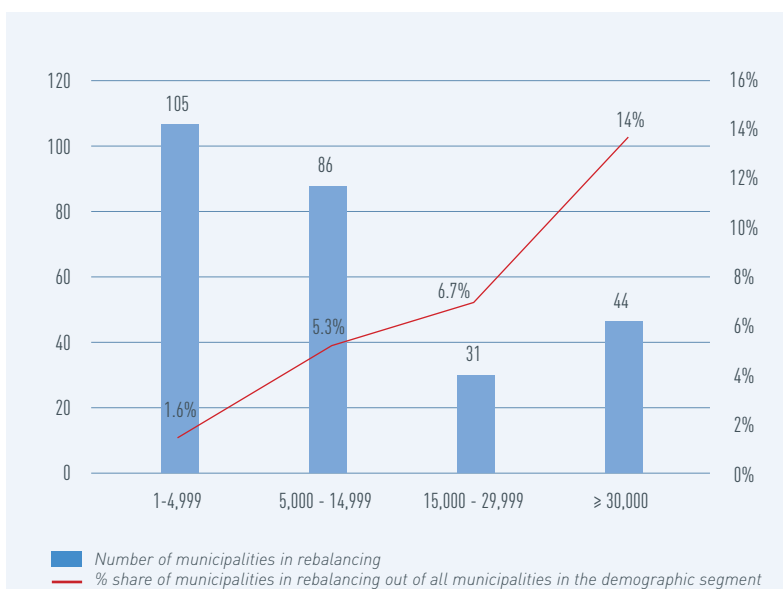
Figure 6. Entities currently with instability by demographic segment (2013-2017)



of the requests for long-term rebalancing is also quite striking, confirming the presence of a “southern problem”, although with a few differences compared to the previous situation: 74% of the local government entities in long-term rebalancing (196) are in Southern Italy, 13% in Central Italy and the same percentage in the North. At the top of the ranking are the local government entities in Sicily (56), followed by those in Calabria (54), Campania (38) and, lastly, Puglia (24). Amongst the most virtuous areas are Friuli-Venezia Giulia, Trentino Alto Adige, Valle d’Aosta and Sardinia, where there have been no requests for financial rebalancing procedures in the first five years since its introduction, and various other regions in which there were fewer than a dozen cases (Emilia-Romagna, Liguria, Umbria, Abruzzo, Marche, Piedmont and Tuscany). The analysis of the Municipalities by size also in this case confirms the clear relationship with the number of residents: while, on one hand, it is true that 105 requests for long-term rebalancing regarded Municipalities with under 5,000 inhabitants (1.6% of the total) and 89 Municipalities with a population of between 5,000 and 15,000 inhabitants (5.3%), it is even more evident than in the previous case (see Figure 8) that the percentage of Municipalities that submitted requests for long-term rebalancing rises as the resident population increases, and is almost ten times higher in Municipalities with more than 30,000 inhabitants (14.0%).

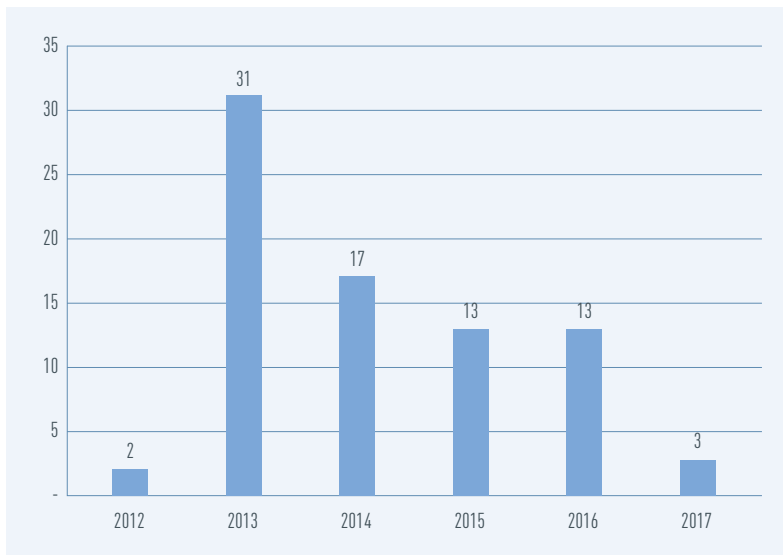
Strong concentration of rebalancing in southern regions, but more widespread nationwide than instability procedures.

Figure 8. Distribution of rebalancing procedures by number of inhabitants in the Municipalities in classes (2012-2017): absolute values (bars - scale on the left) and percentages out of all municipalities in the class (line - scale on the right)



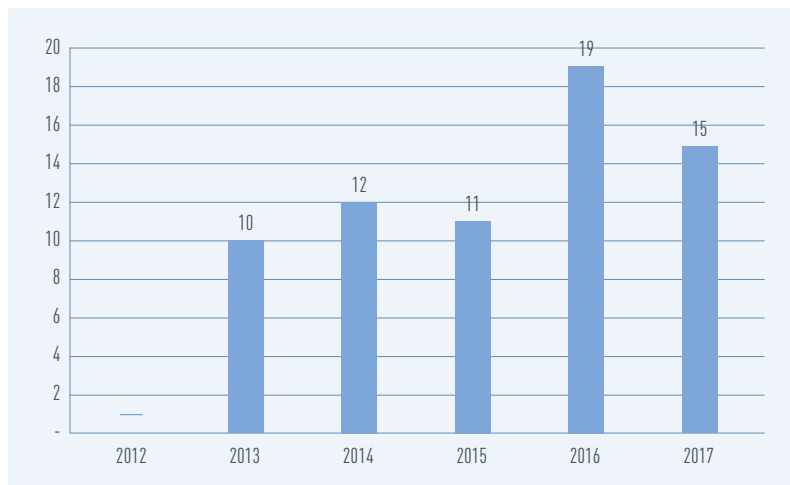
It is also interesting to consider the number of Plans approved in the meantime: the following figure shows that there are 83, broken down by year of their adoption (one-third of those presented). The primary cause is due to the frequent acceptance of additional requests implemented for multiple reasons by the legislature (see *herein*). This mechanism inevitably results in a postponement over time of the deadline for filing the new document with the Ministry of the Interior, lengthening the terms.

Figure 11. Entities in rebalancing with approved plan by year (2012-2017)



The figure below shows that as many as 67 entities, in the five years from 2013 to 2017, transitioned from long-term rebalancing to instability. This is a very indicative circumstance. Roughly one quarter of the entities that autonomously approved a rebalancing procedure (or took other routes, like that of “guided instability”) reached financial instability (more than 100 screenings are still under way). This means that something is not working adequately in the mechanism deployed. It is evident that, in certain cases, the rebalancing instrument is used surreptitiously to avoid declarations of instability, with a clearly evasive connotation (see *herein*).

**67 entities
transitioning from
rebalancing to
instability between
2013 and 2017.**

Figure 12. Entities in rebalancing transitioning to instability by year (2012-2017)

2.3 Cases of municipalities in deficit

“Local government entities are considered in structural deficit situations if they are in serious and incontrovertible conditions of imbalance, which can be seen in a dedicated table to be annexed to the management report, containing objective parameters of which at least half have deficit values...”.

This quote is from art. 24 of the TUEL and the table referred to includes ten parameters (recently revised, see *herein*) which are calculated on items in the management report (the second-to-last with respect to the reference report): these are indicators focusing on several specific aspects of the balance sheet: the operating result, the residual items (assets and liabilities), enforcement procedures, personnel expenses, loan payables and off-balance sheet payables, the use of treasury advances and disposal measures to cover financial imbalances.

An initial, and partial¹⁰, analysis of the 10 deficit parameters brings to light a picture with many critical issues: out of a total of 7,177 Municipalities examined, more than one third are failing to meet at least one of the ten deficit parameters, a percentage that declines as the number of indicators not met increases: the Municipalities that are not meeting at least five of the ten parameters (irrespective of the type of indicator) number 36 (0.5% of the total taken into consideration in this analysis) and are defined as having a “structural deficit”.

An initial analysis of the deficit parameters on more than 7 thousand Italian Municipalities.

¹⁰ The municipalities for which it was possible to check the 10 deficit parameters for the year 2016 number 7,177, roughly 90% of all Italian municipalities.

Table 1. Italian municipalities by number of deficit parameters not met - Year 2016

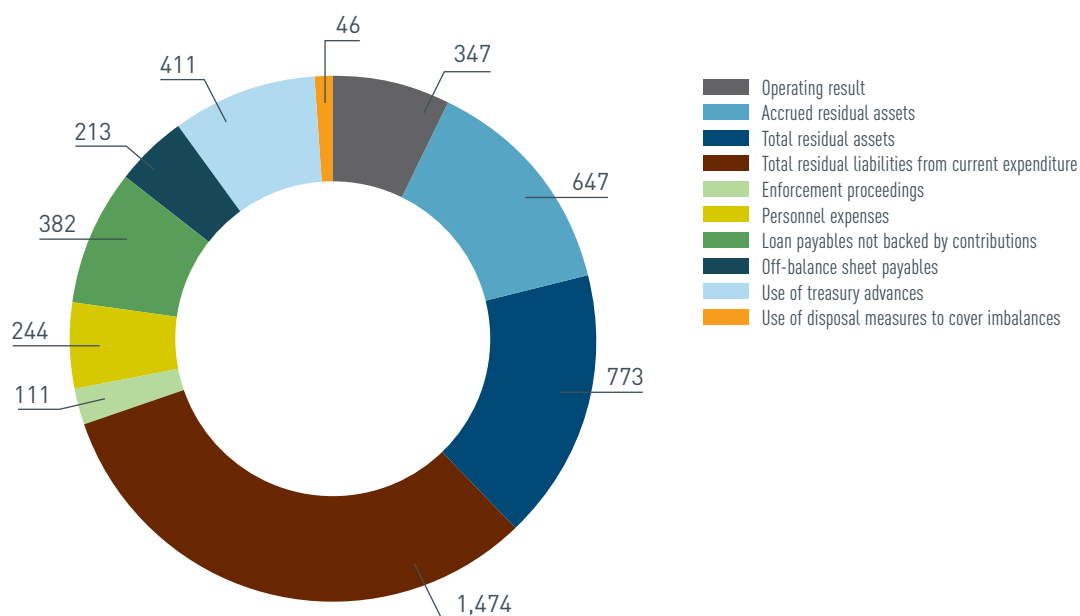
Region	Number of deficit parameters										Total municipalities
	0	1	2	3	4	5	6	7	9	10	
Abruzzo	121	70	49	17	9	1				5	272
Basilicata	62	43	13	6	5						129
Calabria	70	79	104	80	45	3					381
Campania	126	120	111	82	45	11	1	1	1		498
Emilia R.	248	56	14	3	2					1	324
Friuli V. G.	123	38	4								165
Lazio	105	105	71	35	18	2					336
Liguria	153	49	18								220
Lombardy	1,225	210	32	4	3					1	1,475
Marche	116	45	12	4	2						179
Molise	43	41	27	11	3		1				126
Piedmont	964	171	26	2	3					1	1,167
Puglia	100	82	42	11	4						239
Sardinia	181	80	33	7	1						302
Sicily	27	43	38	44	41	3					196
Tuscany	189	55	21	4	3						272
Trentino A. A.	173	24	4	1	1					1	204
Umbria	46	21	14		2					1	84
Valle d'Aosta	67										67
Veneto	435	91	9	4						2	541
Total	4,574	1,423	642	315	187	20	2	1	1	12	7,177

While the Municipalities with deficits represent an extreme case, the informational content represented by the set of indicators should not be underestimated: indeed, even failure to respect one or two parameters, especially if this takes place over multiple consecutive years, is a symptom of a financial imbalance in the entity which, if not dealt with, can lead to recourse to the rebalancing procedure and, in the most serious cases, a declaration of instability.

Returning to the description of the results of the sample of more than 7 thousand Municipalities, a rather varied snapshot emerges relating to failure to respect individual parameters as well as their geographical distribution.

Amongst the ten parameters, not all of them, clearly, have the same frequency: that relating to the verification of the management of residual liabilities from current expenditure, indeed, was not met in roughly 20% of the sample (more than 1,400 Municipalities), with peaks that in certain regions in the centre-south reached 50% of the entities (Campania, Sicily, Molise and Lazio) or even exceeded that level (Calabria).

Figure 13. Incidence of deficit parameters in the Italian Municipalities - Year 2016



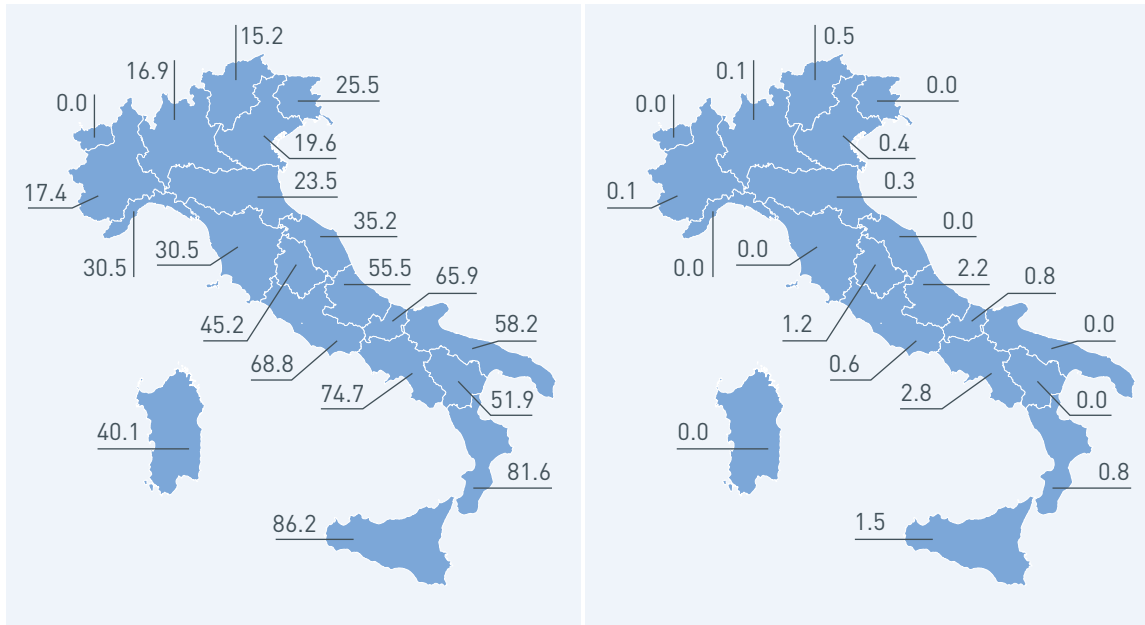
The parameter relating to residual liabilities from current expenditure not met by half of the Municipalities in the south.

A similar situation can be found for parameters relating to residual assets, two out of ten, the first regarding only the accrual and the second their total amount: around 10% of the Municipalities were unable to respect the thresholds established and, in certain cases, it is close to half of the entities in the region (Calabria, Sicily and Campania).

Another parameter that regards a significant number of Municipalities (more than 400, 6% of the total) is that referring to the use of treasury advances not fully repaid by 31 December of the year of use: without a doubt, this is a very important aspect which, as affirmed by the Court of Auditors¹¹, may indicate either an increase in uncovered current expenditure or, alternatively, the non-payment of prior payables: Sicily, with more than 40% of Municipalities having difficulties repaying advances, represents a unique case in the national panorama, given that in other regions this level does not exceed 20% of the local government entities.

¹¹ "L'utilizzazione delle anticipazioni di liquidità nei bilanci degli enti territoriali" (The use of liquidity advances in budgets of local entities) - Hearing before the Italian Parliamentary commission for the implementation of fiscal federalism - 22-10-2015

Figure 14. Share of Municipalities by region that do not respect at least one deficit parameter (left) or which do not respect at least five (left) - Year 2016

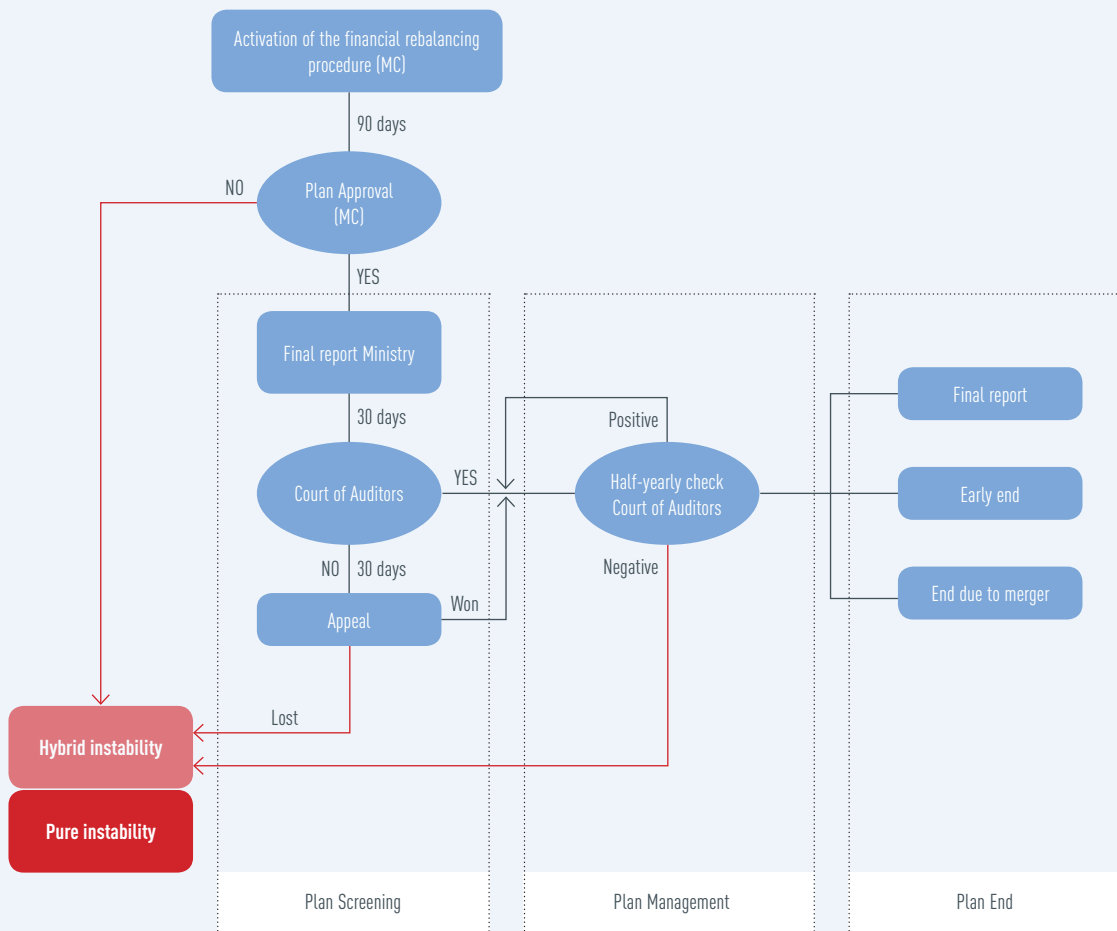


With regard to the other indicators, some “specific” regional issues emerge: excessive spending on personnel in Sicilian municipalities (26% of municipalities); the significance of off-balance sheet payables in Puglia (18% of municipalities) and loan payables not backed by contributions in Abruzzo (15% of Municipalities); the excessive presence of enforcement proceedings in Campania (8% of Municipalities); the significantly negative management result in Abruzzo (9% of Municipalities); the excessive use of the disposal of assets to cover imbalances in Abruzzo (2% of Municipalities). In summary, as appears evident from what is represented above, failure to respect deficit parameters is a critical issue in many Municipalities in southern regions: in these areas, the percentage of local government entities without any financial imbalance parameter is a very small minority (fewer than 20% of the Municipalities in Sicily and Calabria), the opposite of what was found in many centre-north regions, where cases of failure to respect the financial rules make up the minority. The critical financial issues of the Italian municipalities follow a complex procedure, recently extensively enhanced by the legislature. The salient aspects are presented in the appendix, which also provides the reader with a graphic representation of the decision-making process.

Failure to respect deficit parameters represents a critical issue in many Municipalities in southern regions.

APPENDIX. *The critical financial issue procedural flow*

The procedural flow of full-blown critical financial issues has been enhanced significantly in recent years and has become more complex, as shown in the graph below.



In addition to the instability procedure, there is also rebalancing which is activated by resolution of the municipal council. The rebalancing Plan needs to be approved within 90 days (again by the council with a new resolution). The term is compulsory and if it is not approved this leads to the declaration of instability.

If the Plan is approved, the screening phase begins, which includes a sub-phase coordinated by the Ministry of the Interior (local finance) which examines the Plan and asks the municipality to provide additional elements for the screening. The screening often extends beyond the terms established by the legislature and concludes with a final report for the regional section of the Court of Auditors, expressing an opinion on the compliance of the Plan. The Court, which needs to wait for the final report before providing its opinion of approval or refusal (within 30 days), is not required to follow the opinion of the Ministry and may add to the screening it has performed.

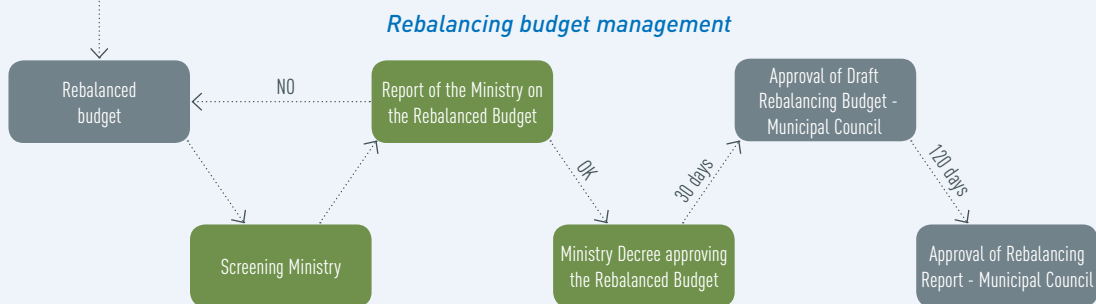
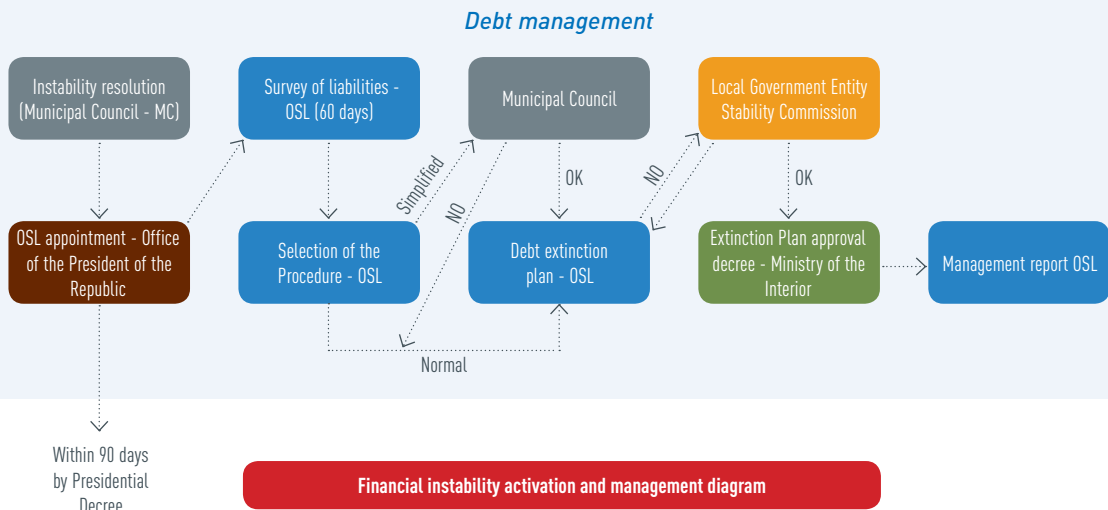
If not approved, it is possible (within 30 days) to submit an appeal to the special united chambers of the Court of Auditors. If the appeal is won, the Plan enters the management phase, as in the more frequent case in which the Plan is approved by the regional control Section. If rejected (the Plan by the Section or the appeal against the rejection), the municipality ends up with instability.

Plan management (which may have a duration from 4 to 20 years) is recorded in a half-yearly report which the municipality is required to submit to the Court. The regional Section can express a negative statement on this report until the failure of the Plan under management (this results in the municipality entering instability).

The half-yearly checks may be passed until the extinction of the Plan, which brings the municipality back into normal conditions. Extinction, at the request of the municipality and with the approval of the Court, may also take place prior to the original expiry. One reason for early extinction of the Plan may also be merger by incorporation.

In its current configuration, the instability procedure takes place according to the flow represented in the following graph.

Financial rebalancing and instability: two procedural options that begin from the Municipal Council.



In “normal” conditions, instability is declared by the municipal council with a dedicated resolution. In addition to this possibility, since 2011 there has been added a “guided instability” (article 6, paragraph 2 of Italian Legislative Decree 149 of 2011), brought about by the regional control section of the Court of Auditors, if there are severe financial imbalances (ascertained with three distinct and subsequent resolutions), which calls for the transmission of documents to the Prefect, which assigns a term of 20 days to the municipality for the declaration of instability, after which time an acting commissioner is appointed for the dissolution.

After the resolution of the municipality, by Italian Presidential Decree, an extraordinary commissioner (OSL) is appointed to handle the liquidation. The OSL begins to survey the debts and liabilities (liability volumes) within 60 days and, if deemed appropriate (most creditors agree), may propose a simplified procedure, which must be approved by the municipal council. The simplified procedure requires the very rapid payment of a sum of between 40 and 60 percent of the receivables eligible for liquidation.

In both cases, in the subsequent phase the debt extinction plan is defined, which must be approved by the Commission for the stability of local government entities of the Ministry of the Interior. Afterwards, the same Ministry approves the Plan by decree. On conclusion of the payments, the OSL drafts a management report, which is sent to the municipal council and to the Ministry of the Interior.

In parallel, while the OSL surveys the liabilities, defines the assets and pays creditors, the municipality, within 90 days of the instatement of the government commissioner, prepares a rebalanced draft budget, which is submitted to the Ministry for review. When it is accepted, the Ministry of the Interior approves it with a decree. Within 30 days, the municipal council approves it and, within 120 days, approves the report relating to the same year.

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