

# The Financial Collapse of Local Bodies: the Case of the Municipality of Taranto

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**Abstract**— The present work aims to offer a contribute for the evaluation of the opportunity to adopt strategies based on state support or, alternatively, on the managerial autonomy of local bodies in financial trouble. The research, after analyzing the main guidelines at European level and mentioning possible solutions currently laid down in Italian legislation, presents the results of an empirical investigation on the economic effects produced on the local economy by the collapse of the Municipality of Taranto. The choice of the city of Taranto is due both to the significant magnitude of the ascertained debt, which was one of the highest in the history of Italy, and to the considerable economic effects caused by the recovery procedure. Specifically, have been firstly examined the reasons which led to the collapse of the local public authority and the main aspects characterizing the administrative management of the passive mass besides the possible solutions for the definitive implementation of the recovery plan.

**Keywords**— *local bodies, financial default*

## I. PURPOSE AND METHODOLOGY OF THE RESEARCH

The theme of the crisis of the local authorities has not been deepened, in its various aspects, by the international and national doctrine, concerned mainly with analysing the dysfunctions of enterprises.

Such a lack of interest is justified by the fact that, usually, the financial difficulties of local authorities are solved with extraordinary funding by the central government aimed at limiting the effects on citizens, local economies, and, indirectly, on the economy as whole.

In literature, however, particular attention on the crisis of the local public administration has been reserved especially by Anglo-Saxon and north-European literature (from Sweden, Norway, Germany), where the issue of the efficiency and effectiveness of the public services management is a recognised, practiced and developed subject [1], [2].

The most relevant doctrinal studies were directed mainly to investigate the causes of the crisis and its geographical and time distribution [3].

That said, the aim of this research is to evaluate the opportunity to adopt strategies of state support or, alternatively, to leave to the local managerial autonomy the

adoption of regeneration policies for local bodies in financial trouble.

In order to usefully contribute to the discussion on the topic of state support vs. managerial autonomy, in this study, after analysing the main guidelines at European level and mentioning possible solutions currently laid down in Italian legislation, are presented the results of an empirical investigation on the economic effects produced on the local economy by the collapse of the Municipality of Taranto.

The choice of the city of Taranto is due to both the significant magnitude of the ascertained debt, which was one of the highest in the history of Italy, and the significant economic effects caused by the lengthy rationalisation procedure, not yet concluded after about ten years.

In this regard, have been firstly examined the administrative management of the passive mass and sought the reasons and possible solutions for the definitive implementation of the recovery plan. Secondly, with reference to the companies admitted to the passive mass, we determined the economic losses and the survival status of the companies involved in the insolvency procedure and resident in the local area of reference.

In particular, this study aims to answer the following main research questions:

- which strategies are most suitable for solving the financial crisis of the municipal administrations?
- what are the reasons which led to the collapse the Municipality of Taranto?
- what are its effects and possible solutions for its extinction?

In terms of methodology, this study is characterized by a multiple approach [4]. The first part of the work is descriptive-informative [5] on the main institutional and doctrinal guidelines on State support vs autonomy in the management rationalisation of local authorities; the second part is experimental-inductive, with cognitive-interpretative purposes of the multi-faceted economic causal effects related to the phenomenon of financial collapse [6], [7], [8].

In reference to this last part of analysis, the course of the research followed a bottom-up approach: firstly have been

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examined the information derived data obtained from the official documentation, and subsequently the same have been observed and reprocessed to better describe and summarize the complexity of the economic phenomenon under investigation [9].

At the operational level, in order to reply to the research questions a series of activities were planned, organized and coordinated.

As first stage, have been acquired the resolutions of ascertainment of debts admitted to the insolvency procedure. This documentation, provided by the Extraordinary Liquidation Board (OSL) through the Chambers of Commerce of Taranto, dated from the beginning of the insolvency procedure (October 2006) to 30 September 2013.

Subsequently, the applications for the admission to the passive mass have been grouped by number and amount, and separated into rejected applications, applications opened but not yet carried out, applications settled and unsettled due to rejected offerings. This procedure was intended to ensure, on a certain date, the total amount of liabilities and to define the number of already settled instances and the number of those still to be settled.

Through the examination of applications eligible for the admission to the passive mass it was possible to determine the universe of investigation, which consisted of the holders of claims considered either eligible or ineligible by the OSL.

The research results allow both to evaluate the convenience of the extraordinary financial support to relieve local economies in financial troubles, and to justify the introduction of the new legal institution of the multi-annual rebalancing, introduced in Italy by Law 213/2012, as an alternative to the insolvency procedure.

Additional contributions of the study are the opportunity to encourage a responsible behaviour based on the efficiency of public administrations, and the quantification of the economic damage caused by the default of a public administration.

## II. THE EUROPEAN MANAGEMENT OF THE FINANCIAL COLLAPSE OF LOCAL BODIES: STATE SUPPORT OR MANAGERIAL AUTONOMY

The current economic crisis that hit the economies of many Western countries, including Italy, inevitably affected the policies of state budget and public spending of the various local governments, with significant consequences on their already precarious financial conditions [10], [11], [12], [13], [14].

In many UE and non-EU countries, including Italy, in order to promote a greater accountability of the local governments in the management of public resources, as well as a more efficient and effective administrative action, were introduced new systems of economic and management governance, typical of companies [15], [16], [17], [18], [19], [20], [21], [22], [23].

The introduction of such instruments oriented to an effective management required the adoption of complex

reporting and performance measurements, in terms of accountability and management control [17], [24], [25],[26].

In order to support the decision making processes of local administrations through a proper information structure, we moved from a cash basis accounting system to an accrual basis accounting system, suitable for monitoring the economic, financial and capital effects of management action [24], [25], [27], [28], [29], [30], [31].

In this new scenario, the survival of local public bodies depends largely on the management administrative abilities to maintain, over time, the conditions of economic and financial balance, essential to ensure the continuity and the autonomy of the public administration [32], [33], [34].

The maintenance of the different equilibrium conditions requires, of course, that the management of the public body is able to conjugate the efficiency and effectiveness of the services offered (suggested value) with the users' expectations and needs (recognized value) [14].

The introduction of this cultural "revolution", inspired by the concept of "corporatization" and implemented in different ways in various EU countries, has led to a fiscal decentralization and to increased administrative autonomy [35].

Jointly to mentioned implemented change, and in order to rationalize public spending, in the EU area has been introduced the "stability pact" [36], [37], [38], [35] which resulted in progressive restrictions of state contributions and decentralization of many public functions [10], [39].

The measures introduced, together with the inability of many local governments to direct the changes implemented, have, unfortunately, led to an impoverishment of the financial resources of local bodies and helped to produce, in severe cases, structural imbalances and even default situations [3].

In Italy, this critical situation is unfolding in its whole severity, as evidenced by the 479 cases of financial ruin declared until May 2013, as well as by the 25 municipalities having their financial difficulty stated since 2012 until April 2013 [40].

The Council of Europe, during the updating of the European Charter of Local Autonomies, established the principle of protection of the financially weakest local bodies, which must be supported through state funds for fiscal equalization (art. 9) [35]. This provision has been transposed in Italy with the approval, in 2010, of the Charter of Local Autonomies.

In doctrine, several studies have been made on this subject with the purpose of identifying the best mechanisms for the distribution of public resources to local governments [41], as it was assumed that any government intervention in support of the local governments in difficulty breaches the principle of autonomy and weakens the liability of public administrators [42], [43], [44].

It is clear that the decision for the intervention in favour of local bodies in critical situations is complex. The financial rescue of local governments in financial distress poses, indeed, a strategic dilemma, both for central government and for the

local bodies as well [45]. So, if in a governmental context the decision for the extraordinary intervention and rescue clashes with the need to have real information on the financial condition of the local body in financial trouble [46], [47], it must be taken into account that the benefits that the local community gets from public intervention can be considered a special and individual interest, damaging the interests of the national community [48].

Of course, at local level can be found two opposed needs, namely, on the one hand are required more state resources to fund public services without burdening local economies with more taxes; on the other hand, there is the claim for a greater decision-making autonomy favouring a better management efficiency.

Local bodies are favourable to State support, though studies carried out on this matter show that where public intervention is operative, unsustainable and uncontrolled spending policies are encouraged [49], [50], [51].

The negative effects produced on the national economy by the widespread and generalized state public interventions in support of local authorities in difficulty have been proven empirically, thanks to case studies in Norway, Sweden and Germany and reported as proof at the Council of Europe [37], [46], [50], [52], [53], [54].

Moreover, in these countries the institutionalization of extraordinary state funding in favour of local governments in financial trouble have prompted many municipalities, also not in difficulty, to declare a state of financial collapse, with serious consequences for the national economy.

The improper use of state aid has ended up causing serious financial difficulties to such an extent that the same governments were forced to eliminate or limit the financial support measures.

In most European countries, however, there are specific regulations concerning support to local bodies in financial difficulty and, in most cases, these actions are conditioned by the occurrence of certain conditions affecting local bodies to access the aid (p.37) [37].

The parameters generally used to ascertain the financial condition of local bodies are linked to the ratio between debt and their own resources, or to the relationship between debt extent and working capital (p. 37) [37].

Infrequent are the instructions about the methods for determining the contributions to be paid, the quantification of which is left, in most cases, to the discretion of the central government (p. 37) [37].

Ultimately, Europe has welcomed the direction of the management autonomy of local bodies to manage their own financial difficulties, including administrative instability, although, there are exceptions, as demonstrated by the *ad hoc* interventions granted in favour of local bodies in financial difficulty using financing channels other than the specific ones (p. 37) [37]. The issue in question, for its economic, political and social implications, is still open, as shown by the different solutions adopted by individual European States.

### III. THE FINANCIAL COLLAPSE OF LOCAL BODIES IN ITALY (NOTES)

The financial collapse of the Italian local bodies (Municipalities and Provinces) is a recent legal institution, currently ruled under Title VIII of the second part of the Testo Unico degli Enti Locali (Local Bodies Consolidated Act - TUEL), approved by Legislative Decree no. 267/2000, amended several times in relation to the needs and operational issues faced by the local bodies in financial troubles.

Its introduction, due to the need to curb the growing phenomenon of off-balance liabilities and to limit the uncontrolled increase of public spending, has the declared objective of enabling local authorities in financial difficulties to ensure the performance of their institutional duties and the supply of key services in favour of the local communities [55].

The various amendments done to the TUEL have made the insolvency proceedings similar to that of the bankruptcy, even though with deep differences. In the case of insolvency, in fact, though the need to protect the creditors of the local body is taken into consideration, priority is given, unlike what happens in the case of enterprises, to the need for administrative and operational continuity of the local body, notwithstanding its state of insolvency.

In particular, the relevant legislation (art. 244 TUEL) imposes the obligation to declare the insolvency status at the occurrence of one of the following essential conditions: the inability to perform its own institutional duties; the inability to fulfil the payment obligations through the ordinary ways of restoring the rebalancing of the budget (Art. 193 TUEL), by including the off-balance liabilities as well (art. 194 TUEL).

The function of the insolvency statement is that to create an administrative separation between the management before and after the collapse, by restoring the local body through the destination of credits and assets to the extinction of the debts.

The local authority has the opportunity to start a new life without the previous financial and administrative indebtedness and with a rebalanced budget. In that situation, particular attention must be paid to the elimination of all the structural causes that led to the financial difficulties.

Therefore, liabilities and assets, including residual unbounded assets and liabilities, are extracted from the municipal budget and transferred to the extraordinary management of the liquidation procedure, which is entrusted to a specific Extraordinary Liquidation Board (OSL), consisting of three members, in the case of municipalities having more than 5,000 inhabitants, and only of one member in the smallest municipalities.

Under the technical-managerial aspect, financial recovery may follow three different and alternative processes:

- Ordinary procedure;
- Simplified procedure;
- Extraordinary procedure.

The "ordinary" procedure, governed by Articles 252, 253, 254, 255, 256 and 257 of the TUEL, provides that the Liquidation Board, after assessment of the debts, upon request

of creditors, draws up a plan for the detection of all liabilities in order to arrange a repayment plan by which, through obtaining a mortgage financed by the State and at the expense of the same entity, the abnormal situation that caused the collapse is removed.

Regarding the "simplified" procedure (Art. 258 TUEL), similar for some aspects to that of the composition with creditors, it allows to define the claims in a composition procedure by offering payment as settlement in an amount ranging from 40 to 60 per cent of the entire debt.

In this case, once ascertained the total amount of liabilities and accepted the simplified liquidation procedure, the local body in financial trouble commits itself to make the necessary resources available to the creditors for the payment of debts for the amount agreed, except for the debts relating to the wages of the employees, which are paid in full. For disputed credits that are under legal action, there is the obligation to set aside the full amount for debt secured by privilege and half of the amount for those devoid from such protection.

This procedure presents relevant advantages since it allows on the one hand to the local body the realization of considerable savings and, on the other, to the creditors to get immediate liquidity. The adoption of the simplified procedure is certainly a valuable tool for the quick resolution of the financial crisis. Its adoption could be supported through a system of extraordinary contributions and other resources owned by the local body, useful to supply the body responsible of the management of financial collapse with the cash required to settle the claims amicably.

The "extraordinary" procedure, in compliance with Art. 268 bis and ter of the TUEL, is aimed to repair the financial collapse of the local body after the failure of the ordinary procedure for causes related to: inability to close the ordinary procedure successfully for the onerous obligations related to the process of assessment of assets and liabilities; inability of the local body to reach a real recovery; ascertainment of further administrative deficit and/or off-balance debts ex Art. 268; lack of consistency of the active mass over liabilities.

In this case, the financial recovery of the local body is achieved through the provision of financial resources in the annual budget, as extraordinary expenses, for an amount equivalent to the total passive mass. The amount of these provisions is defined in the multi-year financial engagement plans, which are subject to the approval by the Local Body Finance and Employee Commission and, subsequently, by the Ministry of Internal Affairs.

The closure of the extraordinary procedure is conditioned by the drafting of the repayment plan that will attest to the rehabilitation work carried out. Otherwise, if it is not possible to extinguish liabilities, such liabilities return to burden the local body, with the consequent risk of incurring in the executive actions previously suspended.

The peculiarity of the extraordinary procedure is that, unlike the ordinary procedure that considers only the resources existing at the time of the collapse management, under this procedure it is possible to include also future financial resources into the recovery plan.

It is believed that the extraordinary procedure should be applied as a last solution for its excessive burdens as well as for the delay in the definition of the creditors' expectations.

Currently, regardless of the recovery procedure, following the approval of the Decree Law no. 159/2007, the resources needed for the management of the financial collapse are, in principle, charged to the local body in financial difficulty, that has the onerous task to find and allocate to the liquidation procedure the resources necessary for the payment of debts.

The possible financial resources may result from: alienation of assets not strictly necessary for the performance of the local body's institutional duties; increase to the maximum thresholds of tariffs, duties and local taxes, including property tax; reduction of expenses, including the costs for staff, if it is considered redundant according to average ratio of employees-population under art. 263 of the TUEL and lastly by the Ministerial Decree of 9 December 2008; the surplus of the past five years starting from the collapse year; sums deriving from the possible reduction of a loan charged to the same local body.

The ultimate intent of the norm on the financial collapse is that to make the achievement of the financial recovery as effective as possible. A goal that for a local body in distress necessarily means compression of its managerial autonomy and temporary sacrifice of its self-government powers in order to find a permanent balanced of budget.

The legislation in question, despite the undeniable advantages for the central government and the entire national community, presents negative aspects for the individuals belonging to the local body in financial troubles, who undergo major local taxes and reduced government spending.

#### IV. THE FINANCIAL COLLAPSE OF THE MUNICIPALITY OF TARANTO: CAUSES AND POSSIBLE SOLUTIONS

The financial collapse of the municipality of Taranto was declared by Commissioner's decision no. 234 on 17th October 2006, signed by the Special Commissioner, Dr Tommaso Blonda, who, after reviewing the balance sheet data, ascertained the impossibility to restore the budget balance, to ensure the ordinary management and the payment of maturing debts as well.

The state of insolvency derived from the ascertained impossibility to face the regular payment, within end of 2006, of debts amounting to EUR 48 million, and primarily represented by advances received from the bank treasurer, securitization and instalments payment of mortgage and debenture loans.

In the statement of financial collapse, the detected financial deficit amounted to a total figure of EUR 297 million, largely due to operating deficits resulting from residual liabilities for EUR 137 million, deficit of accrual operation for EUR 103 million and off-budget debts for EUR 116 million.

The overall debt mass consisted mainly of: municipal bonds (Ordinary Municipal Bills - BOC) for about EUR 245 million; debts for cash advances on a securitization of real

estate sales for EUR 25 million; passive mortgages worth a total of EUR 67 million; advances by the bank treasurer for approximately EUR 15 million. To these had to be added the further potential debt of about EUR 30 million resulting from the possible early termination of a contract of financial derivate.

Against this debt situation, it was ascertained the absence of current assets and alienable real estate assets, in fact the latter consisted of properties and equity investments for a total of about EUR 60 million of the above is summarized in the table 1.

Among the main causes that have produced insolvency there are, above all, the emergence of off-balance "uncontrolled" debts, as well as the high structural deficit of current assets, result of the significant incidence of compulsory non-deferrable expenditure, mainly represented by financial charges connected to the high level of bank indebtedness and to those arising from ongoing litigation for non-payment of commitments.

A further critical element is represented by the existence of a current deficit, worsened over time even because of the absence of an effective action on the revenue collection and the renunciation to possible savings, which could have been obtained through new calls for tenders on public contracts expired from a long time.

Other causes of instability were the failure to comply with the accounting standards, the unreliability of the accounting records, the presence of organizational inefficiencies of the administrative structure and the ineffectiveness of management control (see Commissioner resolution no. 234/2006, signed by the Special Commissioner, Dr. Tommaso Blonda).

TABLE I. THE INITIAL COLLAPSE SITUATION OF THE MUNICIPALITY OF TARANTO

ASSETS		LIABILITIES	
Estimated real estate and financial assets	59.967.113,24	Accrual deficit	103.325.930,30
		Deficit from residual assets and liabilities	137.699.678,97
		Off-balance debts assessed by the date of the present report	51.537.135,58
		Off-balance debts under investigation for eligibility	64.793.689,15
<b>Total assets (A)</b>	<b>59.967.113,24</b>	<b>Total liabilities (B)</b>	<b>357.356.434,00</b>
<b>Budget deficit (B-A)</b>	<b>297.389.320,76</b>		

Source: Our elaboration on data taken from the Commissioner resolution no. 227 of 17 October 2006

Following the statement of financial collapse, the management of the active and passive mass concerning the financial year 2006 and the previous ones, was entrusted, by order of the Central Government of 10 November 2006, to the Extraordinary Liquidation Board (OSL). In this way, the operation of the municipality in 2007 was only an ordinary

operation, committed only to repay financial debts not expired by the end of 2006.

In the first months of 2007, the OSL issued an invitation to apply for eligibility to the passive mass and drew up the detection plan of debts admitted to the passive mass as per art. 254 of Legislative Decree no. 267/2000 (TUEL).

Applications for eligibility were significantly higher than the liabilities initially assessed and precisely amounted to about EUR 531 million, represented by 5,001 timely applications, of which 603 without the appropriate certification of the claim, and over 152 submitted after the deadline expired on 10 April 2007 (see OSL resolution no. 45 of October 1, 2007).

Among the different procedures for managing the financial collapse, the OSL decided, in agreement with the municipality, to pay off the passive mass assessed through the "simplified" procedure under art. 258 of TUEL.

This choice was justified especially for the quick time required for the recognition of debts, as well as its effectiveness, efficiency and cheapness in the management of the recovery procedure closure, compared to the ordinary one.

In fact, the simplified procedure allows to carry out transactions with creditors of not less than 40% and not more than 60% of the assessed value of the debt (art. 258 of the TUEL).

The resulting plan for the detection of the eligible debts, drawn up in the initial phase of the "simplified" procedure, involved an estimated financial commitment charged to the municipality of EUR 200.5 million.

The relative financial provisions for the settlement of the ascertained passive mass were provided, partly by an extraordinary State contribution (granted pursuant to Decree Law no. 159/2007) of EUR 127.7 million, and partly by an expectation on collecting tax credits prior to 2006 for an amount of EUR 95 million as well as by the sale of municipal properties for an amount of EUR 40 million, as already envisaged by the resolution declaring the collapse.

The resulting budget concerning the simplified recovery procedure appeared, therefore, as follows (Table 2).

TABLE II. BUDGET OF THE SIMPLIFIED PROCEDURE (DRAWN UP ON 1<sup>ST</sup> OCTOBER 2007)

ASSETS		LIABILITIES	
Extraordinary State Contribution (D.lgs 159/2007)	127,700,000.00	Estimated debts	410,000,000
Tax revenues previous to 2006 *	95,000,000.00		↓
Properties * (Commission resolution no. 234/2006)	40,000,000.00	Liabilities to be funded (equal to 50% of the estimated debts)	205,000,000

Source: Our elaboration on data taken from Commissioner resolution no. 65/2007

During the insolvency procedure, however, both the nominal value of the liabilities and the applications for admission continuously evolving because of the numerous applications submitted, over time, by individual creditors, as well as the continuous communication made by the same municipality for the recognition of debts relating to the period

prior to 31 December 2006 and, therefore, chargeable to the liquidation board.

By reading the regular reports drawn up by the OSL, it was possible to ascertain the lack of separation between the applications submitted timely, in compliance with the invitation to apply for the admission to the procedure, and later ones, received after 10 April 2007. This anomaly may have generated irrational and unjustified treatments in the management of the transactions and settlement of the passive mass, resulting in discrimination of the credit positions, given the limited financial resources available.

The number of applications submitted for the admission to the passive mass, on 9 October 2013, had increased from the initial 5,001 to 6,311. The instances admitted to the passive mass were 3,753, whereas 2,558 were rejected as not adequately documented. Furthermore, of the accepted applications, n. 2,897 defined their credit in the transaction and no. 856 rejected the settlement offer. The relative dynamics of eligible applications is represented in Table n. 3.

With reference to the passive mass assessed by 4 June 2013, the payments made for settlement of transactions accepted amounted to EUR 145 million, whereas the total value of the residual, unsettled debts amounted to about EUR 299 million, of which: EUR 149.29 million related to transaction offers which had been rejected; EUR 149.79 million were debts for which no settlement offer was made due to the lack of financial resources. The latter category of debts consisted of the Ordinary Municipal Bonds (BOC) for EUR 109.79 million and the residual trade debt for EUR 40 million. The resulting situation of payments of the acknowledged liabilities was as described in table 4.

The actual financial coverage of the settled passive mass derived, as defined by the forwarding plan, by the mentioned extraordinary state contribution which, upon conversion of the Legislative Decree no. 159/2007, amounted to EUR 130.5 million.

During the liquidation procedure, however, the OSL had to return to the central government part of the extraordinary contribution, amounting to EUR 33 million, as it had failed to use the whole amount awarded within the 31 December 2007.

TABLE III. NUMBER OF APPLICATIONS FOR ADMISSION TO THE PASSIVE MASS

<b>A) Number of instances admitted (of which):</b>	
<b>3.753</b>	
- Number of settled instances	2.897
- Number of unsettled instances because of rejected offer	856
<b>B) Number of instances rejected</b>	
<b>2.558</b>	
<b>TOTAL NUMBER OF APPLICATIONS FOR ADMISSION TO LIABILITIES (A+B)</b>	
<b>6.311</b>	

Source: Our elaboration on data updated to 9<sup>th</sup> October 2013 - OSL report no. XIV/2013

In 2008, however, the State granted an additional extraordinary contribution of EUR 25.7 million, thus partly returning the contribution previously paid back and thus reducing the loss concerning the unused extraordinary State contribution to EUR 7.3 million (or EUR 33.0 million returned - EUR 25.7 million received).

The possible causes of this loss concerning the State contribution were attributable to organizational and management inefficiencies of both the Extraordinary Liquidation Board that failed, with the means at its disposal, in compliance with terms established by the law, to examine the considerable number of instances of admission and to settle the eligible credits, both to the same municipal government that failed to effectively support, at the administrative level, the activity of assessment and verification of eligible claims.

With reference to the residual liabilities to be settled, amounting to EUR 299.09 million the financial resources, available and set aside, awaiting to be delivered as per art. 258, paragraph 4, of TUEL, amounted to EUR 75.30 million for debts unsettled because of rejected offer, corresponding to 50% of the amount of each offer made and 100% of the offers made for unpaid wages and salaries (see OSL report no. XIV, 2013).

Differently, for the remaining outstanding debt position, i.e. the bond debt BOC of EUR 109.80 million and for the residual trade debts of EUR 40.00 million, despite more than nine years was spent since the liquidation procedure has started, no settlement offer has been made, as the Municipal Government failed to make available the necessary financial resources to the Extraordinary Liquidation Board.

TABLE IV. PAYMENTS OF LIABILITIES OF THE FINANCIAL COLLAPSE

<b>A) Payments for settled debts</b>	<b>145.00</b>
<b>B) Acknowledged residual debt (of which)</b>	<b>299.09</b>
- Debt for which the settlement offer was rejected	149.29
- Residual debt for municipal bonds BOC	109.80
- Residual trade debts	40.00

Source: Our elaboration on data updated to 04<sup>th</sup> June 2013 (million eur) - OSL report no. XIV/2013

At present, therefore, the forwarding plan for the extinction of the collapse, unless further changes arising from the investigations still ongoing and from the settlement offers made, has liabilities without financial coverage amounting to about EUR 223.80 million (table 5):

TABLE V. FORWARDING PLAN FOR SETTLEMENT OF RESIDUAL LIABILITIES

FINANCIAL REVENUES		ASSESSED RESIDUAL DEBT	
Amounts set aside upon rejection of settlement offers (art. 258, par. 4, TUEL)	75,297,481.51	Debts for which settlement was rejected	149,294,137.99
		Debts from residual municipal bonds BOC	109,796,675.00
		Debts from residual trade credits	40,000,000.00
<b>FINANCIAL REQUIREMENTS NEEDED FOR THE EXTINCTION OF RESIDUAL LIABILITIES</b>	<b>223,793,331.48</b>		

Source: Our elaboration on data taken from OSL report no. XIV of 04 June 2013. (Value in million eur)

The lack of a financial coverage of EUR 223.80 million prevents the Extraordinary Liquidation Board from formulating further settlement offers on the remaining debt ascertained and does not allow to conclude the recovery procedure.

The rules in force in Italy on financial collapse allow the OSL, if the municipal administration is unable to meet its financial commitments, to face the necessary financial requirements by resorting to the sale of real estate and movable property, as well as to the use of the unbounded operating surplus of the municipal administration.

Other potential restructuring instruments recently introduced in Italy are represented by the access to the revolving fund and to the multiannual rebalance plan, under Articles 243 bis and following introduced by Law 213/2013, or else by the use of the opportunities offered by the Law 35/2013, enjoying of the liquidity provided by the solidarity fund for local bodies constituted for the payment of debts accrued at 31 December 2012.

## V. CONCLUSIONS

The European local public bodies, as a result of the Treaty of Maastricht [38], were affected by a gradual process of administrative decentralization, accompanied by significant cuts in government transfers, which led to the transition from a centralised public hierarchical system to one based on the principle of vertical subsidiarity [10], [39], [56].

This decentralization process was experienced by local authorities, not without difficulty, so much so that many Municipalities found themselves in severe financial crises.

On the issue of the possible consolidation strategies, the various European countries adopted contradictory policies that went from extraordinary state contributions to allowing an independent consolidation management.

On this point, the doctrine is unanimous in highlighting that any state intervention in support of local bodies undermines their managerial autonomy and, at the same time, leads to a weakening of the principle of governance responsibility [45], [55], [57], [58].

In Italy, the dilemma between State support and managerial autonomy has not been completely resolved, given that, despite the introduction of the financial collapse, conceived as an autonomous process of recovery, there have been state funds intended for that purpose.

In order to contribute to the solution of the problem, the results of the present study were particularly significant and significant reflections can be derived.

First of all, this analysis has showed how instability did not derive from exceptional situations, but was rather the result of an improper financial management having deep roots and caused by wrong strategic choices, critical situations inherited from the past, excess of cash advances, consistent off-balance debts.

At present, the recovery procedure has not yet ended, given the lack of the financial resources needed to cover the remaining liabilities. The relevant financial needs, of EUR 223.79 million, are likely to cause a "collapse within the collapse" of the local body. This demonstrates the inability of the local governance to manage the administrative recovery independently and promptly.

The management inefficiencies of the insolvency procedure produced significant effects on the local economy, as demonstrated by the empirical analysis above that allowed to assess economic losses for approximately EUR 361.07 million (of which EUR 109.3 million concerned the economic players residents and operating in the area in question).

Of course, this situation influenced the economic and social balance of the local areas, as shown by the observation of the survival status of settled enterprises, of which about 41% had (voluntarily or forcibly) ceased their economic activity.

The survey results highlight the dangers related to the inability of the local body to plan and define the acquisition and the allocation of the resources necessary for its financial recovery.

These problems, in our opinion, are due to the difficulty to manage simultaneously and to put on the same level the current needs that the Municipality must perform with the needs for recovery of the financial crisis.

We believe, therefore, that the choice for an autonomous management of the insolvency procedure is correct, since it raises the governance responsibility toward a greater efficiency, but at the same time the legislation is not effective enough about the reorganization ways and the related timing.

In order to limit the economic impact on local economies, a greater control on the respect of the forward plan for the coverage of the financial resources needed to extinguish the collapse procedure would be desirable.

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