

## Accountability and Social Report in Local Governments. A Case Study

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**Abstract :** Social and economic changes occurred in recent decades in our country have determined a turnaround in accounting field that led to theorization and activation of a law aimed at bringing public accounting systems of local governments to those already developed and consolidated in companies operating in private sector. In recent years, the growing sensitivity of public opinion to accountability and transparency has made salient the importance of social accountability in local government. Social report is an information channel on administrative and management actions carried out by local governments; it makes explicit tools used by public sector in order to interpret social demand and different types of interests present in the territory, overcoming, in this way, traditional reporting systems limitations. On the one hand, social report allows public sector to carry out efficiency and effectiveness monitoring of policies; on the other hand, it helps to redefine objectives and priorities based on different citizens' needs in line with limits imposed by economic resources. Getting ideas from ministerial and regional guidelines on social reporting in local governments, this paper proposes a case study on social report budget of the Municipality of Palermo, with a particular focus on latest editions and a specific attention to the performance of financial statements main aggregates. Examining municipality SR peculiarities and identifying possible best practices could be very useful to understand how local government accounting system is changing as a result of the citizen accountability need.

**Keywords:** Accountability, Local governments, Palermo Municipality, Social Report

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### I. Introduction

Social and economic changes occurred in Italy in recent decades have resulted in a reversal of accounting trend that led to the activation of a law aimed to bring public accounting systems of local governments to those already developed and consolidated in companies operating in private sector. In this framework, the growing sensitivity of public opinion to accountability and transparency has made important the relevance of social reporting in local governments. Moreover, social report (SR) is an information tool on policy, administrative and management actions carried out by local governments. Indeed, it makes explicit the way in which a public authority has understood social demand and various types of interest present in its territory, exceeding, in this way, comprehension limits of traditional public reporting systems. The SR is a reporting tool that allows public authority to carry out, on the one hand, the efficiency and effectiveness monitoring of policies; on the other hand, to redefine objectives and priorities based on diverse needs of citizens (businesses, organizations, associations) in line with the limits imposed by economic resources availability [1]. Making reference to from ministerial and regional guidelines on social reporting in local governments, this paper proposes a case study on SR budget of the Municipality of Palermo, with a particular focus on latest editions (2010-2015) and a specific attention to the performance of financial statements main aggregates. In particular, we will try to analyze the consistency of data presented by the Municipality of Palermo in its SR against indicators proposed by national and regional guidelines. Examining municipality SR peculiarities and identifying possible best practices could be very useful to understand how local government accounting system is changing as a result of the citizen accountability need.

### II. Accountability, citizens and local governments. Characteristics and peculiarities of social reporting in public sector

Accountability and social responsibility are realized through the social reporting tools. Social reporting assumes various documentary forms such as: SR, environmental report, participatory budget, territorial budget. SR purposes are different depending on the type of institution which use it. Private businesses need to legitimize themselves to public opinion, trying to show how they are socially responsible and careful to produce, not only shareholder value, but also social value for the community. Conversely, public sector does not need to legitimize itself in terms of social responsibility, because the activities of Public Administration (PA) has a strong social

connotation for its nature; however, it needs to manage consensus and social legitimacy of administrative activity, trying to consolidate the fiduciary relation between institution and citizens. For these reasons public administration SR is the instrument through which they communicate to citizens how they were able to meet community needs creating public value [2]. In public sector, SR may be considered an information tool that aims to communicate and legitimize results achieved, institution choices and their social consequences. The correct, complete and effective communication of results is a necessary condition in order to consider SR an accountability tool for local governments, in order to allow a communication as comprehensive and transparent as possible of action consequences [3].

SR appears as part of accountability concept, exposing information which is not recognized on accounts, but that are very important for the assessment of activities and results achieved. An essential element of SR is the attention to all categories of stakeholders that can affect the ability to achieve goals with their active and reactive behavior. In this framework, local governments have an information and accounting system very complex and difficult to understand by citizens. For these reasons, SR allows citizens to better control local government's work. Similarly, it allows to local administrators to have a document in order to inform administered community more clearly and obtain, in this way, its legitimacy and agreement [4]. Overall, SR can contribute to improve local government political responsibility because it increases transparency and visibility of policy choices and allows to better evaluations of government capacity [5]. In recent years, these and other factors are leading to the gradual emergence of accountability concept in local government [6]. The first experiences of accountability in Italian public sector date back to the nineties, but it is only in the twenty-first century that social reporting and, in particular, SR become one of the main topics of interest and experimentation in local governments.

However, according to recent empirical research aimed to detect the degree of diffusion of SR in local governments, emerges as the "fad" of SR is decreased after the first decade of twenty-first century, leading to a substantial disappearance of the document in small towns and a half-hearted hold in large municipalities. There are several reasons that are leading to the gradual abandonment of SR by municipalities (especially small ones), first of all the significant amount of work involved to prepare it and related costs. The vacuum could be filled by the obligation on local governments to draw up the "simplified balance sheet" - as lean accounting tool with purposes partially comparable to those of SR - introduced by provisions of Legislative Decree No. 118/2011 (and related measures as Legislative Decree No. 126/2014). Really operational in 2016, new reform is helping to redefine structure and functioning of local governments accounting systems, with an increase of transparency level in the PA [7].

### **III. Structure and content of social report documentation into local governments according to ministerial and Sicilian Region guidelines**

At the national level, "Guidelines for social reporting in local governments" were approved on June 7, 2007 by the Observatory for finance and accounting of local governments of the Ministry of the Interior, taking account Consolidated Law on local governments ordering (Legislative Decree No. 267/2000 and subsequent amendments and supplements), as well as the Directive of Public Administration Minister on 17 February 2006 concerning public administration social reporting (better known as Baccini's Directive). The document provides a useful guide to local governments to navigate within organizational and governance paths that lead to SR drafting, in order to promote effectiveness and credibility of presented results. As mentioned, these guidelines refer to Baccini's Directive that invites public administrations to adopt social reporting instruments (such as SR) to bridge the "comprehensibility deficit" of traditional reporting systems. Along the lines of ministerial guidelines, the Economy Department of Sicilian Region (2013) recently issued their own "Guidelines for preparation of Sicilian Municipality Social Report". These guidelines have been prepared by Department of Statistics and Economic Analysis of Sicilian Region. The action plan is to promote Sicilian municipalities ability to build indicators for social reporting. It is also true that this guidelines version is proposed as a basis for more advanced processing to be utilize in concert with other branches of Regional Administration and local governments' representatives. In line with our question research, in this section, we decided to focus analysis on Sicilian Region guidelines, instead of national ones, considering our case study refers to the latest editions of SR of the Municipality of Palermo. In any case, it is equally true that not emerging strong differences between national and regional guidelines.

Sicilian Region Economy Department guidelines [8] refer to Sustainability Reporting Guidelines of Global Reporting Initiative [9], which according that a SR processing should be based on clear principles and organized for thematic relevance. Among these principles for SR preparation, it is possible cite: transparency, stakeholder involvement, completeness, salience, balance, comparability, accuracy and reliability. Within this principles framework for social reporting, the presence of core elements is decisive in SR construction process. This core must be formed by elements such as exposure of organization structure, governance model and local authority's vision, adoption of a mission that includes Municipality strategic objectives, stakeholders mapping

and interests involved, adoption of an indicators structured system with related explanation of data sources, description of actions taken in order to achieve objectives; finally, preparation of a work done evaluation for SR construction. Regional guidelines recommend to municipalities with more than 15,000 inhabitants to follow a schematic diagram structured in 7 points (also proposing some indicators/descriptors) for SR preparation. The document should include: a) data related to township salient features; b) local entity data (with specific reference to Council and City Council, municipality organizational structure, local authority's financial and economic resources); c) the description of strategic political vision and objectives to achieve strategic vision, as well as explication of moral principles that guide political action; d) an indication of the policy to be pursued for each stated goal (or project area); e) identification and involvement of stakeholders and establishment of basic indicators for the most important ones; f) a summary evaluation of achieved results against stated goals and involved stakeholders, with useful indications of improvement objectives; g) methodological note explaining how SR is designed, constructed and publicized. Regional Economy Department (2013) recommended to report the selection criteria and the composition of working group (with the roles and expertise of members), as well as working methods adopted for SR preparation, construction times, work phases development, evaluation and disclosure methods.

#### **IV. Data and financial indicators of social report in local governments**

In accordance with ministerial guidelines and Sicilian Region rules, a local authority SR should contain data on financial and capital resources in order to meet the needs of internal and external accountability, but also the needs of accountability for the implementation of an economic and financial cost accounting as a methodology to be accountable to all interested stakeholders [10]. According to Baccini's Directive, SR may improve institution accounting dimension, because it can integrate and revitalize the already adopted accounting system based on economic and financial resources according to current regulations; but it can also improve institution operation because it responsibility administrators on public expenditure sustainability, on European Stability Pact and on restructuring actions of public deficit. Moreover, in compliance with regional guidelines, a SR section should contain information on economic and financial resources of local entity. The starting point remains the Stability Pact to control budgetary policies which municipalities are obligated; it is important to describe, within this section, a detailed and analytical composition of Municipality's revenue and income. Regarding revenue items, Economy Department of Sicilian Region recommended to report inside the SR a summary table and/or a summary chart of annual data and estimates indicating: tax revenue, current transfers, non-tax revenue, capital transfers and receivables imposition, receipts from loans, in addition to revenues from clearing entries or services for third parties. With reference to expense items, regional guidelines recommend distinguish current expenditure from capital one. Holding this distinction, it is recommended to bring in SR two tables and / or two summary diagrams on data of current year and one on the previous both for current expenses, subdivided by item, and for capital expenditures itemized. It would be desirable even report a public works table with total amount and amount funded in current year, besides indicating any participation in societies of Municipality with its related shares.

#### **V. The case study: the social report of Palermo Municipality, 2010-2015. Relevant aspects of Financial Statements**

The Municipality of Palermo has begun to produce SR since 2004 financial year. Specifically, this is the job of Strategic Development Sector under Area of Institutional Relations, Development and Innovation. As established practices, the SR of Municipality of Palermo is published in springtime of each year and it refers to the previous year. Since 2013, the City has produced two versions of this document: an "analytical" one (full document) and a "synthesis" one (extract from full document). In order to facilitate the reading of SR to citizens, in 2012 City Council has begun a process of internal communication to enhance the document communication to citizenship through an action "multifactorial" relating the drafting of a "Social Report Participated". In order to implement the guidelines adopted by Council Resolution 109/2012, City Council considered necessary the preparation of a summary version of SR, more accessible to citizens, to combine with the "analytical version" which the Authority has already adopted [11][12]. However, with reference to the year 2015, City Council decided to produce, again, a single SR making a different and innovative ways of use of the document, in fact it will be available in a web platform inside the institutional site of the Municipality of Palermo (2016).

SR of years 2013, 2014 and 2015 (although the latter presents some changes) is organized in different sections. The first concerns the municipal administration commitments with citizens, through the Mayor's program explained in its basic components. The other sections refer to 5 strategic areas identified by the local administration (efficient and transparent Palermo, Palermo solidarity, productive Palermo, Palermo Capital of Culture, livable Palermo), in which are explicit the actions of administrative processes in relation to policy objectives and stakeholders interested, subdivided according an approach that emphasizes the link between Mayor's program, strategies, objectives and achievements. More specifically, first section refers to the Entity

identity, its resources, municipal administration strategic planning, relationships and communication systems for citizens. Second and third sections refer respectively to social action and commitment in the productive sector by municipal administration. The fourth section takes care of cultural policies, education and commitment to sport. The last section focuses on interventions for improving mobility, technological infrastructure, in addition to protection environmental heritage (Comune di Palermo, 2016). Overall, the structure of SR for the years between 2010 and 2015, reflects recommended guidelines of Economy Department of Sicilian Region. However, there is a serious gap: SR of the Municipality of Palermo has not methodological note, so citizens do not know how the document was designed, constructed and publicized. Selection criteria, composition and working methods used by the group that is responsible for the drafting of report, which are not indicated, still less implementation times, evaluation methods and disclosure of the document are not illustrated.

With regard to the financial position of SR by the Municipality of Palermo, the section dedicated to Financial Statements contains data and information about revenue items, current revenues, revenue which finances investments, indebtedness, expenditure items, current expenditure, investment, as well as information concerning restrictions imposed by Stability Pact. Therefore, this section of SR is in line with guidelines of Office for Economy of Sicilian Region (2013), although it contains more data and information than those recommended at the regional level.

**Table 1: Budget revenue, 2010-2015 (correct values in million EUR)<sup>a</sup>**

Overview of budget revenue	2010	2011	2012	2013	2014	2015*
Administrative surplus	16	22	0	7	12	478
I. Taxes	252	256	337	338	488	473
II. Current transfers	544	560	446	416	176	237
III. Non-taxes revenue	62	65	55	55	64	97
IV. Capital transfers and debt collection	192	16	132	102	10	49
V. Loans	0	1	136	150	215	351
VI. Revenue from services for third parties	75	82	84	76	64	821
<i>Total</i>	<i>1.141</i>	<i>1.002</i>	<i>1.190</i>	<i>1.144</i>	<i>1.029</i>	<i>2.506</i>

Notes: <sup>a</sup> Data from 2010 to 2014 refer to Final Account; \* Data referred to Budget 2015

Source: Our elaboration of data from 2010, 2011, 2012, 2013, 2014 and 2015 social report (Comune di Palermo 2011-2016)

Specifically, it is possible to observe the trend of budget revenues during the period 2010-2015; Table 1 summarizes all revenue items recommended by regional guidelines, although the Municipality of Palermo has also considered appropriate to indicate data on surplus administration as an additional resource to finance expenditure. Overall, due to the application of rules on fiscal federalism, there has been a progressive compression of transferred resources (Titles II and IV of budget) by public entities (in particular state and region) offset by an increase of so-called "Treasury Enter" of the City (Titles I and III of the budget), mainly consisting of municipal taxes, driving code sanctions and utility tariffs (Comune di Palermo 2016).

**Table 2: Budget spending, 2010-2015 (correct values in million EUR)<sup>a</sup>**

Overview of budget expenditure	2010	2011	2012	2013	2014	2015*
Current expenditure	769	782	703	748	784	877
Capital expenditure	191	38	164	123	231	439
<i>Total</i>	<i>960</i>	<i>820</i>	<i>867</i>	<i>871</i>	<i>1.015</i>	<i>1.316</i>

Notes: <sup>a</sup> The data from 2010 to 2014 refer to Final Account; \* Data referred to Budget 2015

Source: Our elaboration of data from 2010, 2011, 2012, 2013, 2014 and 2015 social report (Comune di Palermo 2011-2016)

With regard to expenditure items during the 2010-2015 period, Table 2 distinguishes from current expenditure and capital expenditure. It is noted a growing trend both for current expenditure and for capital expenditure. Furthermore, the Economy Department of the Sicilian Region (2013) recommended to indicate in SR a classification of current expenditures and capital expenditures. Indeed, focusing attention to the last two financial years, Table 3 summarizes current expenditure and capital expenditure divided by item. Functions of Directors and Control, Environment and Land Management, Roads and Transport highlight the most significant amounts as for current expenses as among capital expenditure.

**Table 3:** Classification of current expenditure and capital expenditure for budgetary functions, 2014-2015 (correct values in million EUR and percentages)<sup>a</sup>

	Current Expenditure				Capital Expenditure			
	2014		2015*		2014		2015*	
Expenditure per Function Area	N	%	N	%	N	%	N	%
Administration and Monitoring	294	37.2	294	37.2	50	21.6	153	34.9
Justice Area	7	0.9	7	0.9	0	0.0	0	0.0
Local Police Area	49	5.5	49	5.5	1	0.4	5	1.1
Public Education Area	34	3.9	34	3.9	6	2.7	7	1.6
Culture and Cultural Heritage Area	12	1.1	12	1.1	2	0.9	6	1.4
Sport and Recreation Area	3	0.5	3	0.5	7	3.0	4	0.9
Tourism Area	2	0.3	2	0.3	0	0.0	1	0.2
Roads and Transport Area	117	14.3	117	14.3	83	35.9	124	28.2
Environment and Land Management Area	203	22.6	203	22.6	79	34.2	121	27.6
Social Area	59	13.3	59	13.3	2	0.9	14	3.2
Economic Development Area	4	0.4	4	0.4	0	0.0	0	0.0
Production Services Area	0	0.0	0	0.0	1	0.4	4	0.9
<i>Total Expenditure</i>	<i>784</i>	<i>100</i>	<i>784</i>	<i>100</i>	<i>231</i>	<i>100</i>	<i>439</i>	<i>100</i>

Notes: <sup>a</sup> 2014 data refer to Final Account; \* Related to Forecast Budget Data

Source: Our elaboration of data from 2014 and 2015 social report (Comune di Palermo 2015-2016)

Regarding to SR content related to the Stability Pact, "objective financial balance" of the Municipality of Palermo has identified for the year 2015 in "-25 004 EUR thousand", net of financial spaces that must be returned as a result of accession to "horizontal regional Pact" in 2013. It is recalled that, in general, Stability Pact is achieved if financial balance appears to be higher than objective; consequently, Pact is not respected in case of a negative difference. Contrary to financial balance objective of the year 2015, in the 2010-2014 period it is positive. In fact, on the basis of data obtained from management report, the definitive findings of Stability Pact showed the full policy objective achieved for financial years 2010 to 2014 [16]. Finally, it should be noted that the various editions of Palermo SR do not report in Financial Statements a board of public works and they do not give all Entity shareholdings with their equity shares. However, these data are reported in other sections of SR document.

## VI. Conclusions

Although nowadays there are available only guidelines instead of mandatory statutory constraints for Public Administration (except of "Simplified balance sheet"), in twenty-first century it has seen a rapid diffusion between local governments of a targeted approach to make accessible, transparent and evaluated the operation of public authorities, by adopting SR. This document is both a tool and a process aimed to "account" social utility produced for citizens by Public Administration. Specifically, RS can be defined as document, to be implemented periodically, in which a government refers choices, activities and services provided, giving account of used resources and describing the decision-making processes. By this framework, SR explores typical aspects of financial statements, since total amount of services to be provided to stakeholders is primarily restricted by availability of incoming resources and rules that discipline Stability Pact.

Overall, the last six social reports of the Municipality of Palermo are coherent with ministerial and regional guidelines, also introducing innovative indicators for reporting, from those related to the Financial Statements. However, it is also true that several social reports of Palermo contain a significant amount of data and information, with high levels of detail, which threatens to undermine the really principles for which the SR was born. To elaborate a SR of over 500 pages does not facilitate comprehensive presentation, transparent and understandable data of the main accounting documents of local governments. To overcome this limitation and according to solutions adopted by other local governments, the City Council has considered appropriate produce, for financial years 2013 and 2014, a "synthetic version" of SR, to be combined with the analytical one. This solution has been inadequate, because a paper extract could make dispersive and difficult to understand document by citizens and stakeholders. The "summary" version for 2013 and 2014 appears excessively wide consisting, respectively, of 89 and 140 pages. For these reasons, from financial year 2015, the Municipality of Palermo has decided to return to produce a single SR paper, using a web platform to facilitate and improve consultation by citizens. This solution could be a best practice for other local governments, although this is still an experimental project. Another limitation observed in different SR editions of the Municipality of Palermo is the absence of methodological note, expressly recommended by the ministerial and regional guidelines. In order to overcome these problems, a recent experience is related to the project "Città a rete. Trasparenza e Legalità" which has more than a third of the municipalities of the Province of Palermo, exactly 28 municipalities of so-called "territorial Coalition Madonie-Termini Imerese". The project was financed by Sicilian Region and led to validation of an innovative guidelines model by publishing the results in November 2015. Compared to regional guideline, this advanced model summarizes the best national and international experiences regarding social

reporting. The first SR documents produced by 28 municipalities refer to the financial year 2014. As recommended by guidelines of "Città a rete", the document should not exceed 40 pages in order to safeguard comprehensibility, clarity and accessibility of document. SR should start with methodological note describing the reporting process that was adopted by Entity, it also indicates the time period covered by report, methodology and organization of information and data, as they have been collected (questionnaires, cards, interviews, etc.); stakeholders involved in the reporting process; the working group who edited RS, by participating in process of collecting, processing and presenting information. Apart from methodological issues, another innovation introducing by "Città a rete" guidelines is the description for each reporting of strengths area, the weaknesses and future prospects for improving interventions [17]. Ultimately, Municipality of Palermo is a good example of implementation of regional guidelines on social reporting in local governments. Numerous are the recognized strengths. In order to overcome the emerged problems, the City Council may take inspiration from the guidelines developed by "Città a Rete" in order to improve their SR.

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