Country

Rome Italy

Work on the construction of a new subway line in Rome has been underway since 2006

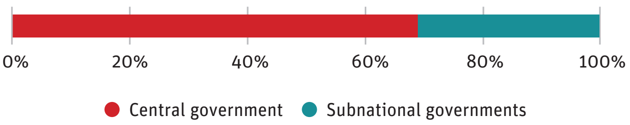
CITY:
2.9 mil. inhabitants

METROPOLITAN AREA
4.4 mil.
(+9.0% pop. change/5 years)

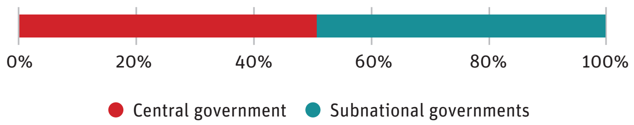
GDP: 119 % of the average EU28 GDP
(-3.5% average annual change in GDP/5 years)

How local public finance systems work in Italy

PUBLIC REVENUE



CAPITAL EXPENDITURE



Italy has a **two-tier system of subnational governments** (SNG), consisting of 20 regions and 7,960 municipalities. The third level (middle, consisting of 107 provinces, was abolished during the territorial organization reform in January 2015.

The framework of the financing system and coordination of public finance is given in articles 117 and 119 of the Italian constitution, which SNGs fiscal autonomy over revenue and expenditures. Fiscal decentralization and processes of general federalism were slowed by the economic crisis and subsequent political changes. Despite the reforms aimed at increasing revenue capacity and financial autonomy, SNG expenditures (especially investment expenditures) are limited.

SNGs play a significant role (54%) in public investment (OECD 57%). Municipalities finance 47% of the direct SNG investment, another 5% are financed by metropolitan cities and provinces (a relic of the former role of provinces in certain regions); the remaining 48% of SNG investment is financed by regions. Since the economic crisis, there have been noticeable cuts in grants and as a result of this, SNG investment has declined significantly. This decline in investment is still being felt (an annual decline of 5% from 2007–2017). In 2016, SNG investment amounted to just 1.2% of the GDP (OECD 1.7%). In 2017, an ambitious investment plan into the infrastructure (especially transportation) was adopted. Italy uses European structural and investment funds for the 2014–2020 period, with the aim of reducing regional inequality through infrastructure investment.

Constitutional reform (2001) and the Fiscal Federalism Law (2009) contributed to the fiscal decentralization of Italy. The reform was aimed at increasing fiscal autonomy, effectiveness and accountability, as well as guaranteeing adequate levels of services across regions. These steps will lead to an increased number of local taxes collected by municipalities and an increased share in state taxes, with the goal of covering SNG expenditure items. Another consequence of the reform was the replacement of some transfers from the state with tax revenues equalisation payments.

Nevertheless, government transfers and grants accounted for 47% of SNG revenue (OECD 37%) in 2016 and thus remain the main source of revenue. The share of tax revenue in SNG revenue is 40% (OECD 45%) and other sources of revenue (fees and property income) are low when compared internationally. In 2016, total SNG revenue was divided as follows: municipalities 31%, metropolitan cities and provinces 4% and regions 65%. Taxes constitute just 38% of regional revenue.

Thanks to gradual financial reforms in recent decades, SNG tax revenue has increased considerably from 25% in 1997 to 41% of total SNG revenue after the most recent reform in 2009. In 2016, SNG tax revenue amounted to 6% of the GDP (OECD 7%) and 20% of total public tax revenue (OECD 32%). SNG tax revenue is comprised of both own and shared taxes. Municipalities receive a share of personal income tax revenue, but they do not control the tax collection. Italian regions have several own-source taxes. The most important is the

This card is part of study The Poor City of Prague? Prague's public finances in the Czech and international context; available for download at http://www.iprpraha.cz/ekonomika

regional tax on productive output (imposta regionale sulle attività produttive — IRAP); other regional taxes include the vehicle tax (approx. 9% of SNG tax revenue), landfill and incineration tax, and a regional surtax on the personal income tax (addizionali regional all — IRPEF).

The primary source of municipal tax revenue is the property tax (18% of SNG tax revenue in 2016). This tax underwent reform in 2013, when a uniform municipal tax was created (Imposta unica comunale — IUC), which includes a tax on ownership of a second property (first properties in which the owner permanently resides have been exempt from taxation since 2014–2015), service tax and waste collection tax. A reform of cadastral values has still not fully utilized the potential of the property tax. In 2016, this tax amounted to 1.1% of GDP (which corresponds to the OECD average).
Other municipal taxes include an advertising tax and tourism tax.

Italy has two separate grant systems: one system for regions and one system for municipalities. Reforms in recent years have established principles for both systems, which oblige the central government to determine and ensure the adequate financing of similar levels of basic services in all cities and regions.

The 2009 Fiscal federalism law stipulates that both standard expenditures, as well as the fiscal capacity of SNGs, are used to calculate the amounts of equalization transfers allocated; it thus replaces the original system, where grants were based more on historical trends and were not based on formulas. The system is currently being implemented.

The system for balancing the level of services primarily uses the tools of the equalisation funds. At the regional level, transfers primarily serve to cover basic public services (health care, social care and education) in regions with low tax revenue. **At the municipal level, equalisation funds are financed through both a share of the property tax and contributions from the central government.** Transfers at the municipal level are non-earmarked current grants, allocated according to fiscal capacity and necessary municipal expenditures to ensure basic functions. Since 2014, part of equalisation funds have been used to support newly merged municipalities. In addition, Italian municipalities can also receive earmarked transfers for specific investment projects.

Italian municipalities can collect a number of fees: for advertising, for using public space for economic activities and for covering expenditures for public benefit work paid for by municipalities. Regions are also entitled to collect fees. **The share of fees in SNG revenue (11%) was lower in 2016 than the OECD average (15%).** SNGs can also obtain revenue from business, commercial activity, property income, interest and dividends. As part of the federal system, decrees were also passed enabling the allocation of a part of state property to municipalities.

Source: http://www.oecd.org/cfe/regional-policy/Observatory-on- Subnational-Government-Finance-and-Investment.htm

Subway Line C

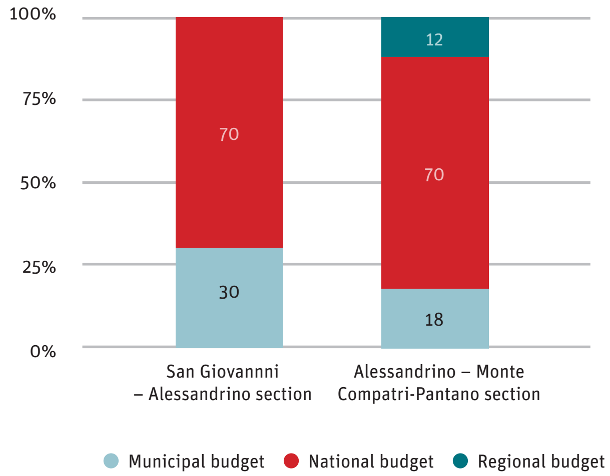
The newest subway line in Rome is 18.5 km long (8.2 km above ground) with 22 stations

This fully automatic line connects the eastern part of the city with the city center. Construction on the C line began in 2006. The first, most eastern section (12.5 km and 15 stations) was opened in 2014. A second section (5.4 km and 6 stations) was opened in 2015. The last section (600 m) with a transfer station connecting line C with the rest of the Rome metro was opened in 2018. Since 2013, a central section has been under construction between the Lateran Basilica and the Colosseum. It is planned to open between 2022 and 2023.

One of the obstacles to constructing the subway in Rome is the nearly 100% certainty of finding historical artifacts underground, which not only requires specific tunneling methods and leads to more expensive and longer construction, but it also alters projects during construction.

With respect to the structure of covering investment costs for the “suburban” part (Alessandrino-Monte Compatri-Pantano section), the Lazio region contributed 12%.

Subway Line C in Rome



Source: Wikipedia, Urbanrail.net