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**PANEL: PROVISION OF PUBLIC SERVICES: FROM PUBLIC/MUNICIPAL DELIVERY TO  
PRIVATIZATION (AND REVERSE TO "RE-MUNICIPALISATION"?)**

Chair: Prof. Hellmut Wollmann; Co-Chair: prof Harald Baldersheim

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**PRIVATE GOVERNMENT “WITH” PUBLIC MONEY?**

**Municipal corporations and local utilities in six Italian regions**

by

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**Abstract:** Since the early 1990s, in Italy the corporatization of public bodies has become a prominent phenomenon, especially at the local level and in the domain of public utilities. In the context of a very fragmented and somewhat contradictory national legislative framework, the number of Italian municipal corporations has recently passed 5000 units, and represents a complex puzzle of diverse governance models and ownership structures. The paper aims at discussing the state of the art of the public-private balance in the Italian municipal corporations, providing a quantitative analysis of the composition of the share capital of the Italian municipal companies involved in the management and delivery of public services, and trying to sketch a general picture of the composition of their shareholders' Assemblies. Aggregate data will be limited to six Italian regions, and will refer to all the companies in which at least one municipality is direct or indirect shareholder. The analysis will take into account: a) the composition of companies' share capital, in terms of both numerical representation (“heads”) and financial weight (“shares”) of public, private and “mixed” shareholders; b) the distribution of “heads” and “shares” among the various types of public utilities; c) the identification of the different categories of actors that make up the public, private or mixed quotas, and the analysis of their presence and financial contribution in the various public services sectors.

## **1. Introduction**

Since the early 1990s, in Italy the corporatization of public bodies, i.e. the creation of organizationally and financially self-standing companies for the fulfilment of public-interest activities, has become a prominent phenomenon, especially at the local level and in the domain of public services. In the context of a very fragmented and somewhat contradictory national legislative framework, the number of Italian municipal corporations has recently passed 5.000 units (Unioncamere 2009; Corte dei Conti 2010), and represents today a complex puzzle of diverse governance models. In fact, while the number of private law companies fully or partially owned by the Italian municipalities has increased dramatically in the last twenty years, many differences exist as far as two key conceptual dimensions are concerned, which define the degree of privatization, i.e. the *ownership structure* and the *operational principle/rationale* that shapes the modality of service delivery (Wollmann 2012).

Our basic hypothesis is that the scattered process of corporatization which invested the management and delivery of local public services in Italy is the result of a complex mix of rationales (and, to a certain extent, unintended consequences of the national regulation), which are largely (re)shaped by local actors and only partially have to do with the taken-for-granted advantages justifying the increasing recourse to private-law companies and managerial tools (e.g. economies of scale, leverage for loans, dividends, increases in efficiency etc.). In other words, we agree with those who emphasize the political facet of corporatization (see, among the others, Christensen and Pallesen 2001; Flinders 2005; Pollitt et al. 2005; Thynne 2011) in saying that the creation of private-law companies at arm's length from political power may also allow local “public” actors, such as elected and politically accountable decision makers, to exploit market-like instruments for the attainment of (often undeclared) political objectives.

In fact, over the last two decades local governments in Italy (as in many other European countries) have experienced a severe reduction of financial resources, coupled with a significant increase in their competences and tasks; in this context, making recourse to private-law companies instead of in-house mechanisms for service provision may grant mayors a greater ease in human resource management, as well as an easier interface with banks and with the market in general, including the

possibility of developing public-private partnerships; or, again, the opportunity to develop debt outside the limits of the (Internal) Growth and stability pact (Citroni, Lippi and Profeti *forthcoming a*), as well as the opportunity to avoid or shift the blame (Fiorina 1986) to managers for policy errors or unsatisfactory services in a context of poor financial resources (Christensen and Pallesen 2001; Yamamoto 2004).

Furthermore, municipal corporations (and their shareholders' assemblies) may also be conceptualised as strategically built local "arenas" of representation, where local elites can be recruited or find new career opportunities, new coalitions can be arranged, and decisions can be made in an attractive and unobtrusive place far from the traditional mechanisms of democratic control. This holds true for both fully-publicly owned and mixed public-private companies, where the interests of local administrators and private shareholders can be adjusted in a "governance fashion", contributing to strengthen territorial networks of influence and allowing public actors to maintain political control over "sensitive" policy areas which are crucial for local governments' perceived legitimacy (such as local utilities).

Understanding what the specific reasons (and consequences) of corporatization may be is a task that would certainly profit from in-depth analysis of specific cases and techniques such as qualitative surveys and interviews. However, a quantitative analysis of the overall phenomenon and its characteristics is no doubt a necessary step to "frame" the problem and better define research hypotheses; this is all the more important because in Italy no "official" (institutional) register of municipal corporations exists and, although recent attempts to shed light on the phenomenon<sup>1</sup>, information is still fragmented and – let alone the financial dimension and sectors of activity – the population of such companies is still largely unknown by decision-makers and the public. Drawing upon the results of the first phase of the *Citygov* research project<sup>2</sup>, this paper aims thus at discussing the current state of the art of the public-private balance in the Italian municipal corporations involved in the delivery of public services, through a quantitative analysis of their share capital, and

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<sup>1</sup> See Bortolotti, Pellizzola and Scarpa (2007); Scarpa, Bianchi, Bortolotti and Pellizzola (2010); the annual reports of Mediobanca-Civicum foundation (available since 2002), Unioncamere (2007 and 2009), Confservizi and the national Court of Accounts.

<sup>2</sup> The *Citygov* (*Public and private in the government of cities*) research program has been scheduled for the period 2010-2013 and it is funded from the Tuscany Region for 300,000 euros on the the ESF - POR EU program

a closer look on the composition of their shareholders' Assemblies. Aggregate data will be limited to six Italian regions representing all the geographical areas of the country (Lombardy, Emilia-Romagna, Tuscany, Latium, Apulia and Campania), and will refer to all the companies in which at least one municipality is direct or indirect shareholder. Compared to other available researches on the topic (see footnote n.1), our database<sup>3</sup> includes detailed information on all the companies' shareholders (then classified by nature – public, private or mixed – and category) and subsidiaries, and distinguishes companies according to the relationship they have with municipalities (i.e. direct or indirect municipal shareholding).

After a short presentation of the national legislative framework on corporatization and public service delivery, the analysis will try to account for the diversity of “corporatization paths” which exist in Italy today; to assess how and to what extent the two aforementioned dimensions of privatization, namely the *operational logics* and *ownership structures* which characterise municipal corporations, have developed so far; and which kind of public-private balance emerges from the collected evidence. To this purpose, we will take into account:

- a) the general profile of private-law municipal companies (i.e. number, territorial distribution, legal form, sector of activity, share capital and territorial borders of municipal share ownership), with a specific focus on companies involved in the delivery of public services;
- b) the composition of companies' share capital, in terms of both numerical representation (“heads”) and financial weight (“shares”) of public, private and “mixed” shareholders;
- c) the identification of the different categories of actors that make up the public, private or mixed quotas respectively, and the analysis of their presence and financial contribution in the various public services sub-sectors.

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<sup>3</sup> The database was created between 2006 and 2008 thanks to the lists of municipal companies created by regional administrations for the national accounts on public expenditure; starting from these regional lists, a research on the database of the Chambers of Commerce was made to find further data on the companies: the list of other shareholders, the field of activity, the list of subsidiaries which the companies owned shares of, and so on. The database thus contains 740 companies directly owned by municipalities and 595 companies indirectly owned by the same municipalities (i.e. owned by one or more of the previous 740 companies). A list of 11.391 stockholders (including 2.652 municipalities) and of their ca. 26thousand “ownership relationships” to municipal companies (expressed in Euros) is used to describe the ownership structure of companies.

Finally, some conclusions will be drawn discussing our hypothesis in the light of the data previously illustrated, with an eye to further developments of the empirical research.

## **2. The legislative framework**

In Italy, legislation on corporatisation is mainly a by-product of sector-specific regulation of public utilities. Repeated attempts at an overall reform of public utilities imposing compulsive competitive tendering have always been aborted or have, most recently, faced repeal through a referendum. Over the last one and a half centuries only three acts of parliament have dealt explicitly with the regulation of municipal corporations (namely law 103 of 1903 - *Legge Giolitti* - reforming local government and establishing formal acknowledgment of public-law municipal enterprises, so-called *aziende municipalizzate*; law 142 of 1990 reforming local government and providing municipal enterprises with increased autonomy in budgeting procedures, and legal personality; law 127 of 1997 - *Legge Bassanini bis* - giving municipalities the possibility to transform their enterprises into private-law joint-stock companies - *società per azioni*), and none of them appear to be decisive in explaining corporatisation and its development in the Italian case: all three have in fact come to sanction phenomena which had already come about in practice, and none of them forces municipalities to create *municipalizzate* or to transform them into joint-stock companies, they only allow them to do so.

Instead, corporatization seems to be influenced more by the regulation concerning local public services. Compulsive competitive tendering, independent regulation and purchaser/provider split, inter-municipal cooperation in service delivery, unbundling of service production processes, full cost recovery have all been on the agenda since the early 1990's, and may have indirectly influenced local strategies of administrative reform.

This strand of legislation, however, is itself quite a complex system of very few, uncertain and unstable overarching norms, and many sector-specific acts:

- Norms favouring tendering or limiting the recourse to in house providing have been inserted in budget laws (most notably Laws 448/2001 and 133/2008) or

other “omnibus” bills (most recently, “Ronchi” Law n. 166/2009, dealing with the implementation of EU requirements). Such laws, however, once approved have either been ruled out by the Constitutional Court and revised (e.g. law 448/2001 and its article 29 on externalizations, whose legitimacy had been questioned by some Regions), or have left ample margin of manoeuvre at the local level (e.g. law 133/2008, which allows a number of exceptions to the principle of compulsive competitive tendering), or have been repealed through a referendum (e.g. the provision for more privatisation in the domain of public services established in law 166/2009 has been repealed through a popular referendum in June 2011).

- Overarching, encompassing norms on local public service delivery have been the object of many bills proposed in Parliament by both the left and the right wing since 1997<sup>4</sup>; but none of them reached the stage of final approval due to political resistances within the ruling majorities. Principles such as separation between service delivery and regulation, full cost recovery in the delivery of service, inter-municipal cooperation within “optimal territorial districts”, and unbundling of activities, have instead been established through different laws concerning sector-specific regulation<sup>5</sup>, with consequent piecemeal and incremental overall effects.

This synthetic account of legislation on corporatisation and public service delivery is in fact a dramatic oversimplification of an ongoing process of reform, stop-and-go intervention, revision and correction of norms, the latest being article 25 of the so called “Decreto Cresci Italia”, a Decree Law issued by the new Prime Minister Mario Monti and enacted by the Parliament in March 2012. The article, which deals directly with market competition in public services, sets some new restrictions to in house providing, and further promotes competitive tendering as the “normal”

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4 Several bills were proposed over time: “Napolitano” (1997), “Vigneri” (1999-2000), “Lanzillotta” (2006) each named after the proposing Member of Parliament.

<sup>5</sup> The “Galli” law on the water sector (n. 36/1994); Decrees 22 (“Ronchi”, on waste disposal) and 422 (“Burlando”, on public transport) of 1997; decrees 79 of 1999 (“Bersani”) and 164 of 2000 (“Letta”) on electricity and gas respectively.

procedure for the selection of service providers<sup>6</sup>. However, many areas of uncertainty continue to characterise the national legislation, concerning in particular the companies' ownership structure (e.g. the public-private balance) and legal form, thus leaving considerable room for manoeuvre to municipalities and paving the way for the development and consolidation of "local paths" towards corporatization.

### **3. Municipal corporations in Italy: how, how much and why?**

As anticipated in the introduction, corporatisation – namely the process of transformation of former public-law enterprises into private-law companies, as well as the creation of *ex novo* joint-stock or limited companies – is today a widespread phenomenon in Italy, which mostly involves the local levels of government. In fact, a recent survey by the Court of Accounts (Corte dei Conti 2010) enumerates 5.860 companies fully or partially owned by 5.928 Italian municipalities (out of about 8.000), testifying a constant increase of their number since the mid-Nineties (see also Citroni, Lippi and Profeti *forthcoming b*). In addition, more than 50% of such companies are joint-stock or limited corporations, i.e. they have the legal form which is normally associated with a pure private/market orientation. Corporations are even more diffused in the domain of local utilities, and in particular in sub-sectors such as local transports (87,5% of all the municipal companies involved in service provision) and energy production/delivery (75%) (*ibidem*). Whilst no legislative act ever compelled local administrations to create municipal corporations, a tendency towards the use of such instrument is quite clear.

The relevance of corporatization is confirmed when we take a closer look at municipal companies in the six regions which compose our dataset (table 1): here we find 740 companies directly owned by municipalities and 595 companies indirectly owned by the same municipalities (i.e. owned by one or more of the previous 740 companies), whose share capital accounts for over 8 billion euro of municipalities' money and over 14 billion overall. They involve a very large number of municipalities

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<sup>6</sup> More precisely, the recourse to competitive tendering – which cannot be made compulsory due to the referendum results – will become an indicator for the evaluation of local government's performance and for the consequent attribution of State financial transfers (Law n. 27/2012, art. 25, comma 2).

with an average of 2.5 companies each, reaching an average of 9.5 companies for municipalities over 100,000 inhabitants (Citroni, Lippi and Profeti *forthcoming b*). Also the dominance of “pure” corporations is confirmed: joint-stock companies are 48% of the total, while limited companies are 41%, the rest being consortia (*ibidem*) – i.e. companies which are only meant to carry out tasks for the partners and not for the market.

Region	Companies <i>directly</i> owned	Companies <i>indirectly</i> owned	Total N.	Municipal capital (in €)	Total share capital (in €)
Lombardy	169	171	340	2,812,055,622	4,887,604,891
Emilia-Romagna	234	145	379	1,801,949,929	2,900,846,252
Tuscany	211	160	371	924,975,949	1,764,341,328
Latium	45	74	119	2,055,449,170	3,856,456,524
Campania	43	25	68	358,593,707	437,801,500
Apulia	38	20	58	119,405,282	156,654,657
Total	740	595	1335	8,072,429,659	14,003,705,152

Table 1 – The population of companies in the Citygov database

However, the large presence of municipal corporations and the dominance of market-oriented legal forms, taken in themselves, are not necessarily unequivocal indicators of the existence of a genuine private, market-oriented rationale behind the creation of private-law companies. Instead, several “signals” seem to point to opposite directions.

A first hint at the fact that the use of such companies may respond to a wide range of specific local strategies, and not to a “given” and consistent new paradigm for the reform of administrative action, is no doubt the strongly diverse diffusion of municipal corporations across the national territory, as our data show with reference to regions of the North (Lombardy and Emilia Romagna), Centre (Toscana and Latium) and South (Campania and Apulia) of Italy (table 1): Southern municipalities, in fact, appear to make much more limited use of such kind of companies – and to contribute significantly smaller amounts of money – than do the Northern and Central municipalities, plausibly due to the persistence of the well know cleavage between the political and administrative traditions in the two macro-areas of the country (see, among the others: Putnam 1993; Fargion, Morlino and Profeti 2006; Vassallo *forthcoming*).



The strategic dimension of corporatization is further confirmed by the fact that municipalities make recourse to private-law companies well beyond the purpose explicitly envisaged by the national legislative framework, i.e. the management and delivery of local utilities. In fact, it is true that corporations involved in the public services domain absorb 75% of the municipal share capital, but numerically they represent just 35% of the total, the remaining 65% being spread over many other sectors such as research and training, economic development, infrastructures, housing and so on (table 2). Apparently, thus, corporatization is perceived by the municipal political actors as a tool which is flexible and convenient enough to govern several policy areas, and adaptable, if needed, to local policy making necessities.

	N. companies	Capital owned by municipalities
Infrastructure, constructions, real estate	15%	7%
Pharmacy	4%	2%
Research, training, consulting	17%	3%
Public services	35%	75%
Economic development	15%	11%
Other	4%	1%
(n.a.)	10%	0%
(Total)	100% (1335)	100% (€ 8.072.429.660)

Table 2 – Fields of activity of municipal companies in the 6 regions.

	Min	Max	Median	Mean
All sectors	0.41	1,265,622,563	26,650	1,208,100
Public Services	1	1,265,622,563	33,187	1,499,351

Table 3 – Descriptive statistics on companies' municipal shares

Variations in local strategies of corporatization, as well as some indications on the “frail” market dimension of many Italian municipal corporations, emerge also from descriptive statistics concerning municipal share capital (table 3). Not only the range between the minimum and maximum shares is impressively high, but the distribution is also very asymmetrical and overbalanced towards lower values: in half the cases (companies) municipal shares are in fact under € 26,650 (little more than € 33,000 for companies involved in public services) and the median value is far much lower than

the mean (both in general and in public services only), the latter being uplifted by few but very high municipal shares contributed by the largest Italian chief-towns (e.g. Rome and Milan)<sup>7</sup>.

Indeed, not surprisingly the total amount of money a municipality decides to contribute strongly co-varies with its demographic size ( $r=0.94$ ). What is more surprising, however, is that the relation between “corporate attitude” and municipal size – albeit remaining positive and significant – tends to weaken a lot if we consider the number of companies in which the municipality participates ( $r=0.18$ ). These data, combined with data in table 3, clearly show that a conspicuous part of Italian municipalities do not invest large sums of money in corporations, thus revealing a weak propensity towards a genuine market orientation; but, at the same time, they do not lay aside the possibility to play the “corporatization game”, in a sort of “così fan tutti” (thus do they all) fashion. This of course calls into question what the specific reasons may be.

The question becomes even more challenging if we consider that no less than 17% of our 740 companies directly owned by municipalities are set up by a single municipality, with no other partners involved in the share capital. Single-municipality companies are mainly used in the public services domain (22%) – a fact which could be partially explained by the existence of specific sub-sector regulations promoting the creation of private-law municipal companies – and in pharmacies (33%) – i.e. a traditional field of municipal enterprises in Northern Italy – but they are also pretty relevant in sectors such as economic development (11%) and infrastructures (16%), two policy areas where the municipality could have done with an internal office what it now does with a private-law company. This is an interesting figure which would be certainly worth further attention and a supplement of qualitative research to detect the political rationales behind such kind of choice.

Municipal corporations are also largely used as a means to foster partnership among public institutions (32% of all 740 directly owned companies are made of public capitals only coming from two or more public entities), whether they be municipalities or other public partners such as Regions, Provinces, Chambers of Commerce etc. This holds true especially for local utilities, following a rationale which

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<sup>7</sup> The maximum value shown in table 3, in fact, is the share capital that the municipality of Rome contributes to ACEA, a joint-stock company in which Rome holds 51% of shares.

is related to the realization of economies of scale and savings in the management of services, and complying with specific requests of inter-municipal cooperation set by the national regulation on specific services, such as water and waste management. Indeed, public-public partnership is pretty diffused also in other policy sectors (especially economic development, infrastructures and research&training), with a significant part of companies (74%) being the result of inter-municipal cooperation in its pure form or combined with the presence of other public partners. As a matter of fact, as previous studies have pointed out, corporatization in itself is today the most relevant vehicle for inter-municipal cooperation in Italy, which is far more diffused and appreciated than the institutional, formal settings envisaged by the national legislation on local governments reform (i.e. municipal associations etc.) (Citroni, Lippi and Profeti *forthcoming b*).

However, inter-governmental networks created through corporatisation remain mainly local in nature: although it may also serve as a new and flexible form of inter-municipal cooperation (Citroni, Lippi and Profeti, *forthcoming a*), only rarely do municipalities contribute money and buy shares in companies located outside the territory of their respective provinces, and hardly ever do they own capital in companies which lie in regions different from their own. Table 4 shows that this is particularly true for large municipalities, while on the other extreme the smaller ones find it very difficult to establish their own companies in their own territory. The most recurrent pattern of cooperation takes thus on the shape of a network with the largest municipality (usually the capital city of the province) at the centre and other neighbour small and medium municipalities which gravitate around it, with predictable differences in their strategic attitudes towards corporatization.

Faced with these data, and adopting an organizational perspective, we may hypothesize that public-public partnership through corporatization is first of all a strategy municipalities can use to "reinvent" their policy-making style, to protect themselves against various "environmental" challenges (scarcity of financial resources; increasing social demands; uncertain and contradictory national legislation on local autonomy etc.), and to provide local administrators with larger room for manoeuvre (with respect, for example, to the control exercised by the elected assemblies and the opposition parties) in their inter-institutional relations. In

other words, Italian municipalities may have tailored the private-like instruments and rationales promoted by the hegemonic paradigm of public administration to their needs, although recent case studies on specific companies operating in the domain of local utilities (see e.g. Citroni *et al.* 2008) seem to suggest that the concrete outcomes of such a strategy are often far from intentional.

(inhabitants)	Capital outside the territory of the municipality	Capital outside the territory of the province	Capital outside the territory of the region
Up to 5.000	97,7%	23,1%	1,0%
5.001 to 30.000	80,2%	19,0%	0,3%
30.001 to 100.000	36,8%	13,1%	0,0%
Over 100.000	6,2%	5,3%	0,0%
Total	25,1%	9,2%	0,1%

Table 4 – Share of capitals owned by municipalities in companies lying outside their territory

Last but not least, municipal corporations in Italy may also take on the shape of public-private partnerships (PPP), as in fact they do: PPP concerns over ½ of the companies in our database, and although it is slightly under-represented in public services it is widely employed in important fields such as research and training, economic development and infrastructures. The opening up of shareholdings to private actors is frequently justified by the need to foster companies’ efficiency and pad out their share capital. But is that really so? In the following section we will try to answer this question by examining the composition of companies’ share capital, and assessing the current state of the public-private balance as far as the ownership structure is concerned.

**4. The ownership structure: “heads” and “shares” in municipal corporations**

In this section we provide a quantitative analysis of the composition of the Italian municipal companies’ share capital, focusing in particular on companies directly involved in the management and delivery of public services, and trying to sketch a general picture of the public-private balance in the Assemblies of shareholders. Aggregate data are limited to the six Italian regions mentioned above, and refer to all

the companies in which at least one municipality is direct or indirect shareholder. The analysis takes into account two dimensions:

- a) The composition of companies' share capital, in terms of both numerical representation ("heads") and financial weight ("shares") of public, private and "mixed" shareholders; and the distribution of "heads" and "shares" among the various types of public utilities, in order to identify the activities that most attract private interests and capitals.
- b) The identification of the different categories of actors that make up the public, private or mixed quotas respectively, and the analysis of their presence and financial contribution in the various public services sectors.

Looking at the financial contribution to the companies' share capital, we note that municipal corporations are first of all a matter of public money: on average, about 71% of shares is made of public capitals (corresponding to 10.9 Billion euro), while private quotas amount to just 11% (1.6 Billion euro), and mixed quotas to 18% (2.8 Billion euro). The dominance of public shares is even higher in companies involved in the management and delivery of public services, where public capitals reach over 73% and private money amounts to just 8% (table 5).

		Private	Mixed	Public
All companies	Heads	49%	4%	47%
	Shares	11%	18%	71%
Public services	Heads	37%	3%	60%
	Shares	8%	19%	73%

Table 5 – Public, private and mixed "Heads" and "shares" in the ownership of municipal companies

Actually, average values result from a general picture which is more nuanced and complex: while in water and sanitation services, waste management, and especially in local transports and multi-utilities (both "pure" multi-utilities and companies combining water or waste management with energy provision), the share capital is almost totally and directly controlled by public institutions, with a very residual weight of private funds, the percentage of private capitals tends to grow in other sectors, such as telecommunications (43%) and energy (20%), that is those

public services that have been touched the most by European legal provisions fostering liberalization and free market competition. Here, in fact, private shares are even higher than the public ones, which amount to 6% and 14% respectively. This does not imply, however, that municipalities and other public institutions are not interested in such domains: rather, they choose to invest there indirectly, as it is demonstrated by the very high percentage of mixed shares (51% in telecommunication and 66% in gas & energy), i.e. capitals contributed through companies in which they are shareholders.

		Private	Mixed	Public
Transports	Heads	36%	4%	60%
	Shares	1%	1%	98%
Welfare services	Heads	49%	1%	50%
	Shares	19%	2%	79%
Telecommunications	Heads	22%	23%	55%
	Shares	43%	51%	6%
Multiutility	Heads	47%	3%	50%
	Shares	1%	1%	98%
Energy	Heads	52%	4%	44%
	Shares	20%	66%	14%
Water	Heads	9%	2%	89%
	Shares	3%	25%	72%
Water + energy	Heads	0%	10%	90%
	Shares	0%	1%	99%
Waste&Environment	Heads	16%	4%	80%
	Shares	9%	14%	77%
Waste&Environment + energy	Heads	10%	0%	90%
	Shares	19%	0%	81%

Table 6 – Public, private and mixed “Heads” and “shares” in the ownership of municipal companies

It is also worth to note that the percentage of mixed heads, where they are present, is particularly low if compared to the large amount of money they contribute to the companies; faced with this evidence, we may hypothesize, on the one hand, that mixed companies represent a sort of “safe” for municipalities, since they allow them to diversify their shareholdings without increasing their direct expenditure; and, on the other, that public-private corporations themselves are few but “rich” players in

some policy sectors, thus being worth to be analysed as both actors and arenas of the corporatization game.

On the contrary, in spite of their modest financial contribution, private shareholders are very numerous: in general their presence almost equalise that of public shareholders, and also in the domain of public utilities, where they are slightly under-represented, the percent of their heads is far much higher than the amount of their shares (table 5), the only exception being the telecommunications sector (table 6). Still, this exception does not invalidate the general tendency which points toward a numerical representation of private actors which is greater than their financial weight.

The common hypothesis that the opening up of shareholdings to private actors should bring new and “fresh” money into the companies’ share capital is therefore rejected, at least as far as our sample is concerned, raising the question of which kind of rationale lays behind such a massive private presence within companies’ shareholdings. And, freely quoting Hecló and Wildavsky (1974), one could wonder whether corporatization in Italy paves the way to a sort of private government “with” public money, where decisions are made by private actors through private-like channels but costs are mostly paid by public institutions.

Actually, the large number of private shareholders, whereas they do not hold the majority of shares, does not automatically and formally imply that they exercise considerable influence over decisions made by the shareholders’ assemblies. In fact, one should bear in mind that joint-stock companies – i.e. companies whose majority rules are based on shares according to the civil code (artt. 2368 e 2369) – are the prevalent legal form among the companies directly and indirectly owned by the Italian municipalities. However, the large presence of private shareholders, even with a financial minority, can be concretely relevant for the overall companies’ governance (and for its implications on policy-making) for at least three reasons:

- 1) first, with respect to the company’s internal organisation, all shareholders (including the private ones) participate in the appointment/election of the company’s board and the President, i.e. the two bodies which make crucial

decisions on strategic management, represent the company and interact with other local stakeholders (e.g. trade unions, providers, contractors etc.).

- 2) Second, sitting in the shareholders' assembly provides private actors with several occasions to meet representatives of local governments, to bargain with them outside the conventional loci of representative democracy, and to consolidate their relationship with local institutions.
- 3) Last but not least, the private nature of the companies gets the aforementioned public-private relations out of public scrutiny, allowing shareholders to discuss broad policy and political strategies away from prying eyes. Of course, this is not to say that such "private" relations are necessarily negative – or even against the law: formally they are perfectly legal, and it may be that people involved therein act in good faith with an eye to safeguarding collective interests (Pizzorno 1993, 82). However, one must consider that today, in Italy, local elected assemblies (i.e. municipal councils) play a very residual role in the monitoring and control of municipal corporations: on the one hand, due to the very complex structure of municipal budgets, the direct financial impact of municipal companies is very difficult to detect (Sciandra 2011), thus limiting the possibility of councillors to have sound and consistent information on the financial dimension of corporatisation in their own municipality; on the other hand, after law n. 81/93 (which sets the direct election of mayors) the power to appoint/remove representatives within the company's boards is up to the mayor and no longer to the assemblies (that now must only be informed in advance). All these conditions determine clear limitations on the horizontal accountability mechanisms (Morlino 2003), especially as far as the opposition parties sitting in municipal councils are concerned.

In other words we may hypothesise that, beside representing an instrument to govern several policy areas, municipal corporations – and shareholders' assemblies - may also generate autonomous *arenas of representation* which develop alongside the "traditional" procedures and loci typical of elective representative democracy, providing both local private stakeholders and local elected politicians with more comfortable and "safe" ways to co-decide and accommodate their respective interests.



In the light of this hypothesis, it is therefore worth to examine in detail which kind of actors are composing the broad categories of public and private shareholders, and to take a glance at their respective contribution to the companies' share capitals and assemblies in general (table 7) and in various sub-sectors of public services (table 8). The analysis is limited to public and private actors, since the mixed ones may be easily reduced to two options, i.e. public-private companies and public-private consortia, with the latter representing just 6% of the mixed shareholders and 0% of mixed shares. Our aim is to assess how, and how much, the companies' shareholding structure resembles the networks of stakeholders normally involved in the governance of the various policy sectors.

Since our analysis focuses on companies partly or totally owned by the Italian municipalities, it is not surprising that municipalities are the leading actors, in terms of both financial contribution and numerical representation: in fact, they cover 58% of the overall companies' share capital, and 36% of "heads" represented in the shareholders' assemblies; their relevance is even higher in the public services sector (65% of shares and 52% of shareholders), with peak shareholding values in very locally rooted activities such as multi-utilities, waste management, local transports and water services combined with energy delivery (see tables 7 and 8).

Municipal heads are instead somewhat "over-represented" with respect to the amount of money they directly bring into the companies dealing with energy, pure water management and welfare services; in these sectors, however, relevant shares of public capital are provided by other categories of public actors, such as fully publicly owned companies or public consortia, which are usually in turn controlled by municipalities themselves – thus representing an indirect source of municipal financing. Other categories of public actors, such as Regions and Universities (other public institutions), are pretty relevant in companies dealing with economic development and research&training (with 8% and 3% of shares respectively) but do not participate significantly in public services corporations (at least with direct financing), nor do they find meaningful numerical representation there (tables 7 and 8). It is also worth to note that public-law municipal enterprises, i.e. the old municipal instruments for the management of public services that were able to outlive the wave of corporatisation, still represent 9% of shareholders in companies that combine

water and energy management (i.e. the closest to the ideal type of “gas-and-water socialism”, see Marquand 2004, 51), in spite of their irrelevant financial contribution to that sector (table 8).

	Public services		All companies	
	Heads	Shares	Heads	Shares
<b>Public shareholders</b>				
Municipalities	52%	65%	36%	58%
Other local governments	1%	2%	2%	2%
Municipal Associations	0%	0%	0%	0%
Mountain Communities	0%	0%	1%	0%
Public-law municipal enterprises	0%	1%	0%	1%
Chambers of Commerce	1%	1%	1%	2%
Public agencies	0%	0%	0%	0%
Public Companies	4%	4%	4%	6%
Public Consortia	1%	1%	1%	1%
Other public institutions	0%	0%	1%	1%
<b>Mixed shareholders (mixed companies)</b>	<b>3%</b>	<b>19%</b>	<b>4%</b>	<b>18%</b>
<b>Private shareholders</b>				
Private companies	12%	6%	24%	7%
Individuals	20%	0%	13%	0%
Associations, clubs and committees	0%	0%	1%	0%
Interests organizations	1%	0%	4%	0%
Private consortia	1%	0%	1%	0%
Cooperatives	1%	0%	3%	0%
Foundations	0%	0%	0%	0%
Banks	1%	0%	2%	1%
Multinationals	0%	1%	0%	1%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Table 7: Numerical presence (heads) and financial contribution (shares) of various public and private shareholders in all companies and in the public services sector

As far as private shareholders are concerned, private companies (joint-stock companies, LTD etc.) located in the territories served by municipal corporations are the most relevant actors in both financial and numerical terms: they cover about 56% of private shares and 7% of the overall companies’ shareholdings (table 7). Their financial contribution to the public services sector is slightly more limited (6% of shares), but they contribute significantly in telecommunications (43%) and energy (16%) sectors (table 8). With the exception of the telecommunication sector, their presence in the shareholders’ assemblies is usually slightly higher than their financial contribution.

However, numerical over-representation mostly concerns very small local firms, i.e. those business entities owned and run by one individual (and in which there is no legal distinction between the owner and the business) which we have labelled as “individuals” in our database: they cover in fact the majority of private heads in several domains (especially multi-utilities, transports and social services) in spite of their very modest financial contribution, thus revealing the very local nature of the companies under examination and, on the other hand, the similarity in the composition of shareholders’ assemblies and ordinary arenas of stakeholders in local policy-making.

This observation is further corroborated by the fact that specific kinds of actors concentrate their presence in sectors that interest the most their business: for example, in the companies dealing with social services a large amount of private capital comes from associations, cooperatives and foundations, while multi-national companies appear to be most interested in corporations that combine waste management with energy production and delivery, i.e. those companies which are more projected toward the national and international markets; private consortia, i.e. groups of small-size enterprises operating at the local level, concentrate their financial contribution in local companies dealing with water and sanitation services and in “pure” multi-utility companies; and so do the banks, that often are local and well entrenched in the territorial system.

Drawing upon this evidence, it could be argued that the presence of private shareholders in companies operating in specific sectors of activity tends to overlap with the range of stakeholders normally involved in the governance of the corresponding policy areas, thus reproducing a sort of “parallel” arenas where public and private interests may interact away from prying eyes. In such arenas consolidated networks of local public and private actors and traditional forms of interests intermediation are reshaped through new organizational settings (corporate governance mechanisms) and thanks to the frequent presence of new “market oriented” players, such as prominent mixed or private companies operating in the delivery of public services (also at the national/trans-national level). Which kind of implications on interest representation and local democracy these arenas may

produce is no doubt a relevant topic to be further investigated through the lenses of political science.

Public services	Public shareholders		Private shareholders	
	Heads	Shares	Heads	Shares
<b>Transports</b>	Municipalities 52% Public companies 6% Other local gov.ts 2% <b>Total: 60%</b>	Municipalities 94% Public companies 2% Other local gov.ts 2% <b>Total: 98%</b>	Individuals 28% Private companies 8% <b>Total: 36%</b>	Private companies 1% <b>Total: 1%</b>
<b>Welfare services and cemeteries</b>	Municipalities 40% Public companies 6% Mountain communities 1% Public agencies 1% Public consortia 1% Other public institutions 1% <b>Total: 50%</b>	Municipalities 31% Public companies 46% Public agencies 2% <b>Total: 79%</b>	Individuals 27% Cooperatives 7% Private companies 5% Foundations 4% Interests organisations 3% Associations 2% Banks 1% <b>Total: 49%</b>	Cooperatives 11% Foundations 4% Private companies 2% Associations 2% <b>Total: 19%</b>
<b>Telecommunications</b>	Public companies 19% Other local gov.ts 11% Mountain communities 8% Public consortia 8% Municipalities 3% Chambers of Commerce 3% Other public institutions 3% <b>Total: 55%</b>	Public companies 3% Public consortia 3% <b>Total: 6%</b>	Private companies 19% Individuals 3% <b>Total: 22%</b>	Private companies 43% <b>Total: 43%</b>
<b>Multiutility</b>	Municipalities 49% Public companies 1% <b>Total: 50%</b>	Municipalities 92% Public consortia 4% Public-law municipal enterprises 2% <b>Total: 98%</b>	Individuals 44% Private companies 2% Banks 1% <b>Total: 47%</b>	Banks 1% <b>Total: 1%</b>
<b>Energy</b>	Municipalities 28% Public companies 10% Other local gov.ts 1% Municipal associations 1% Public consortia 1% Public agencies 1% Chambers of Commerce 1% Other public institutions 1% <b>Total 44%</b>	Municipalities 7% Public companies 7% <b>Total 14%</b>	Private companies 25% Individuals 23% Interests organisations 1% Private consortia 1% Banks 1% Multinationals 1% <b>Total: 52%</b>	Private companies 16% Multinationals 4% <b>Total: 20%</b>
<b>Water and sanitation</b>	Municipalities 84% Public companies 3% Other local gov.ts 1% Public consortia 1% <b>Total: 89%</b>	Municipalities 54% Public companies 11% Other local gov.ts 6% Public-law municipal enterprises 1% <b>Total: 72%</b>	Private companies 8% Individuals 1% <b>Total: 9%</b>	Private companies 2% Private consortia 1% <b>Total: 3%</b>
<b>Water + Energy</b>	Municipalities 45% Public companies 27% Public-law municipal enterprises 9% Public consortia 9% <b>Total: 90%</b>	Municipalities 88% Public consortia 8% Public companies 3% <b>Total: 99%</b>	Absent	Absent
<b>Waste and environment</b>	Municipalities 73% Public companies 5% Other local gov.ts 1% Public consortia 1% <b>Total: 80%</b>	Municipalities 70% Public companies 4% Other local gov.ts 2% Public consortia 1% <b>Total: 77%</b>	Private companies 10% Individuals 2% Private consortia 1% Cooperatives 1% Banks 1% Multinationals 1% <b>Total: 16%</b>	Private companies 7% Individuals 1% Cooperatives 1% <b>Total: 9%</b>
<b>Waste + Energy</b>	Municipalities 85% Public companies 3% Other local gov.ts 1% Public-law mun. en. 1% <b>Total: 90%</b>	Municipalities 60% Public companies 13% Other local gov.ts 6% Public-law mun. en. 2% <b>Total: 81%</b>	Private companies 7% Multinationals 1% Cooperatives 1% Banks 1% <b>Total: 10%</b>	Multinationals 12% Private companies 6% Banks 1% <b>Total: 19%</b>

Table 8: Numerical presence (heads) and financial contribution (shares) of various public and private shareholders in all public services sub-sectors

## **5. Conclusions**

Drawing upon the empirical evidence presented in this paper, some conclusions can be proposed with respect to our initial question, that is *how, and to what extent, privatisation in its two key dimensions (operational logic and ownership structure) has affected local public services in Italy so far*. In order to ask that question we concentrated on municipal corporations, i.e. private law companies directly or indirectly owned (fully or partially) by local governments, which are no doubt a growing and relevant phenomenon in the Italian political and administrative system.

As for the municipal corporations' operational logic, some contrasting signals have emerged from our analysis: on the one hand, the continuous blossoming of private-law municipal companies, as well as the prevalence of market-like legal forms (i.e. joint-stock and Ltd) among them, seem to respond to a private, market-oriented rationale oriented toward better and more efficient services, which is indeed very often claimed by local decision-makers to justify their choice to externalise services production and delivery as well as to transform old municipal enterprises into corporations. On the other hand, however, the very different diffusion of the phenomenon across the North and the South of the country, the large use of corporations well beyond the domain of local utilities and legislative provisions, and the frail market dimension of several municipal corporations, let us hypothesise that a plurality of strategies may exist behind the corporatisation strand, and that the economic rationale probably is not the most relevant among them. For instance, our data show that municipal companies are largely used as an instrument to foster partnership among local public institutions, to consolidate territorial networks built around the capital cities and, in their PPP format, to reproduce real arenas of decision-making where the pre-existing relations between local public and private stakeholders may be strengthened through mechanisms of joint shareholding.

The same contradictory signals characterise also the companies' ownership structure: although private shareholders are very numerous in shareholders' assemblies, their financial contribution is generally very poor. This holds true especially in the domain of local utilities (in particular transports, water services and multiutility companies), where indeed the need of private money to realise new

investments is often claimed to be the main reason to open up the companies' share capitals to private actors. As for the ownership structure, thus, we are facing a situation of "ambivalent privatisation": a large presence of private heads sitting in the decisional bodies of private law companies, coupled with the absolute dominance of public financial resources (contributed directly or indirectly) in the nourishing of companies' share capitals. It is a situation, which provocatively we have labelled "private government with public money", whose concrete implications on local democracy are worth to be further analysed.

Our analysis of the different types of actors represented in the assemblies, in fact, reveals that the composition of shareholders' assemblies in companies dealing with specific subsectors of public services tends to replicate the network of stakeholders interested in such sectors and normally consulted (or directly involved) by public institutions in "ordinary" decision-making processes. All in all, we may thus hypothesise that in municipal corporations old and new forms of governance coexist, generating new power configurations in the domain of public services which develop "in private" although still largely nourished by public resources.

If it is true that municipal companies are becoming not only prominent actors in the management and delivery of public services, but also the most relevant arenas where decisions on concrete actions (e.g. investments, tariffs, type of service delivery etc.) are made, this hypothesis may have some important implications which have to do with a third dimension of the public-private dichotomy not mentioned so far, that is transparency. In fact, "publicity" is also inherent in the transparency, officialdom and openness of government: this is explicitly stated by Norberto Bobbio who – moving from Kantian foundations – points out that no authoritative decision is legitimate if it is made without public scrutiny (Bobbio 1984). The public may thus be defined as being "in public", made accessible to citizens and thus inherent to the concept of citizenship itself (*cf.* Crouch 2004) It calls democracy into question, and the range and scope of social decisions to which democracy should apply. An ever increasing number of decisions is taken in an ever more complex setting of public, public-public and public-private arenas, with the ever stronger involvement of managers from the public and the private sectors representing interests, territories and institutions that are selected through their ability to pay and to access shareholders' assemblies and boards of

directors. The autocratic power of mayors is relied upon to guarantee accountability, but mayors themselves are not all equal: small municipalities depend on larger ones in their strategies (see section 3), and local resources may not be sufficient to undergo the same strategy in different parts of the country (see the North-South divide in table 1). And the networks revolving around mayors and boards of directors pose serious conflicts of interest and lack the transparency and clarity that makes the public “public”.

Obviously aggregate data presented here do not allow us to draw sound and reliable inference with respect to the variety of shapes such networks may take, and the resources actors may spend to occupy central positions therein; these questions, as well as their implications on accountability mechanisms, are currently the object the Citygov’s second phase, and represent the core topics of our future research agenda.

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