

WORKING PAPER

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The Long and Tortuous Way
of a Tentative Reform*

Franco OSCULATI & Andrea ZATTI



CIRIEC N° 2008/08

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ISSN 2070-8289

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Local Public Transport in Italy:
The Long and Tortuous Way of a Tentative Reform

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1. Introduction

Even if the clear identification of the category of Services of General Interest (SGIs) is not immediate, the mainstream economic theorizing of the provision of SGIs is tied to the concept of market failure. Public interest emerges when market is thought to fail to provide an adequate – both quantitatively and qualitatively – level of services and when more commonly considered causes of market failures (monopolistic power, externalities and public goods, asymmetric information, merit goods and cream skimming) are likely to occur. This idea is clearly present even in the European Commission’s approach, as “Services of general economic interest are different from ordinary services in that public authorities consider that they need to be provided even where the market may not have sufficient incentives to do so” or “the public authorities consider that certain services are in the general interest and market forces may not result in a satisfactory provision”.¹

In this perspective, it is commonly recognized that important general or public interests are related to the provision of Local public transport (LPT) services², above all in urban areas, and therefore can justify the introduction of public service obligations by Member States and local authorities³. In short, market failures can be related to:

- indivisibilities and decreasing average costs: many collective transport services have characteristics of natural monopoly, with relevant essential facilities and sunk costs (rail networks, rolling stock, depots, shelters) that can create barriers to the development of competition in the market;
- network and density economies: the existence of strong interdependences throughout the whole transport chain (parking facilities, single lanes, rail and bus services, different type of tickets, timetables, information) can make it more efficient the presence of one only operator, or, at least, the strict integration of different actors⁴;
- social cohesion: collective services ensure accessibility to a basic right - transportation - above all for some categories (the so called transport disadvantaged) who cannot fully afford or in any case take advantage of private cars: those too young or too old to drive, low income earners, disabled, ill people, large families, migrants and visitors;

¹ Communication from the Commission: “Services of General Interest in Europe” (2001/C 17/04), p. 7.

² In what follows, we will refer to LPT services, as those passengers’ services provided to the public on a non-discriminatory and continuous basis, according to pre-established tariffs, routes and timetable, and which are designed to meet users’ mobility requirements on a small (urban) or medium (“regional” or “extra urban”) territorial scale.

³ As provided by Article 73 of the Treaty which indicates how competent authorities for public passenger transport can introduce such obligations to ensure an adequate contribution of transport services to sustainable development, social integration, environmental improvement and regional balance.

⁴ A solution which can contribute not only to the reduction of production costs for providers but even of transaction costs for users.

- territorial cohesion: they reduce spatial imbalance and disparities. Even if local transport is less important than other services in obtaining spatial cohesion on a wide scale, for example at the European or national level, it is vital to ensure accessibility for specific zones (outskirts, peripheral and rural areas) and to avoid discontinuities between the city centre and outer areas;
- sustainable development: they can create conditions - at the local level - for a sustainable development of economic, environmental and social activities. This dimension has progressively become more and more relevant, since the major role played by private cars, constantly associated to economic development in last decades, has created a dynamic trend not sustainable in the long run. In other words, if, on the one hand, income growth has allowed a partial (of course, far from complete) reduction of restrictions considered in the previous two points, thank to the flexibility – both spatial and temporal – offered by private means, it has also contributed to generate important (above all urban) problems: traffic congestion, air pollution, noise pollution, visual intrusion. The outcome can seriously have influence on the competitiveness and efficient management of local areas and give to LPT a new and probably increasing “collective role”.

Passengers transport services provision has therefore to do with economic efficiency, as well as equity and solidarity, both interpersonal and territorial, in a context where public intervention can be justified to limit and regulate market actors. In particular, public service obligations can schematically concern:

- price regulation (for all users) and differentiation (for specific users), in order to meet the merit goods nature of services, above all for disadvantaged categories;
- access regulation, in order to extend the network and services also to low-demand areas, to integrate its different parts and to eliminate barriers for disadvantaged groups;
- quality regulation, in order to make services attractive, capable of facing the competition of private means and to reduce welfare loss of individuals not using car (for physical, economic or age reasons);
- environmental regulation, in order to minimize pollution and congestion of local private and public transport.

The main aim of this paper is to investigate if and to what extent recent developments in organizational, managerial and financial arrangements, which have generally emphasized the role of market and competition, are coherent with the fulfillment of public interest and can effectively ensure a “*high level of quality, safety and affordability, equal treatment and the promotion of universal access and of user rights*” as required by the Protocol on services of general interest annexed to the Treaty of Lisbon by the Inter-governmental conference meeting in Lisbon in October 2007⁵.

⁵ See COM(2007)725.

2. The legal framework

The generally agreed presence of market failures in transport has led since the beginning of the 20th century to a massive intervention by public authorities – at different levels of government – in most European countries, commonly carried out through the direct provision of collective services by the state or by sub-national authorities.

In Italy, this form of “industrial municipalism”⁶, where local administrations have supplanted the market and behaved as an entrepreneur in designing and managing many local public services (including collective transportation), has made an important contribution to the process of industrialization, preventing problems of large urban migration and of social and territorial exclusion. Some troubles started to emerge at the end of the sixties, which coincided with the rapid development of private motorization and highlighted the increasing incapacity of the prevailing organizational form to face the new challenges related to economic development and the modification of urban settlements. Two major (and strictly correlated) elements can be mentioned (Osculati, Zatti, 2005).

On the one hand, the systematic settlement (bail out) of the operational deficits of local transport authorities by the state through a national conditioned Fund⁷ has lowered the financial responsibility of local governments and increased the burden of the supply of services on the national budget. On the other hand, the complete absence of market pressure and the overlapping of political and administrative functions have caused low productivity, high operative costs (mainly due to excessive and expensive⁸ manpower), low fares, fragmentation of suppliers, high imbalances between operative costs and fare revenues⁹, and a minimal attention to customer satisfaction. This vicious circle between financial shortage, the lowering of quality and declining patronage has progressively undermined the ability of collective services to fulfill their social role, above all in terms of representing a valid alternative to the overwhelming use of private cars.

Since the beginning of the nineties the urban transport sector has undergone a radical change as part of a more general reform of the Italian public administration and of an even more general international trend¹⁰ characterized by the

⁶ Introduced under Law 103/1903 and Decree 2578 of 1925.

⁷ Fondo Nazionale Trasporti.

⁸ The 2001 Italian Master Plan for Transport reports that in the period 1984-1995 labor costs in transport services were about 22% higher than in the industrial sector.

⁹ The ratio of operative costs covered through fare incomes for buses, for example, has declined from about 60% in the sixties to 25% at the beginning of the nineties.

¹⁰ This widespread adoption of “new” solutions for administrative problems has been commonly labelled “New Public Management” (NPM), a definition that combines a variety of different and heterogeneous public management techniques that seem to be shared as a programmatic approach by many Western countries. Schematically, the NPM provides for the implementation of a wide variety of instruments: privatisation; placing the emphasis on the citizen as client; de-centralisation; strategic planning and management; the creation of a competitive environment even within public administration and among different public administrations; the measurement of results; contracting out; public service management flexibility; the use of innovative accounting methods; personnel

decentralization of administrative responsibilities, according to the principle of vertical subsidiarity, and the adoption of new organizational and management solutions. This process, common to other local public utilities, has been carried out¹¹ firstly, by providing for the separation of day-to-day management and short-term planning from strategic policy regulatory and long-term planning functions; and, secondly, by giving an increasing legal and operational responsibility to service providers. In this direction was the increased operational and budgetary autonomy accorded to the internal operator managed by local authorities, the so-called “special enterprises” (*aziende speciali*¹²), and the possibility of having local public services managed by a gamut of other alternatives, including joint-stock companies, with equity stake public, or mixed (mixed enterprises)¹³. Self-production, carried out by internal departments strictly organic to local authorities, should have been replaced by more visible and separate operators, tied to the “buyer” by contractual schemes, which define the respective tasks at best and stimulate the attainment of certain levels of quality and costs.

Legislative decrees n. 422/97 and 400/1999 (National Decrees) have further carried out the process as far as LPT services are concerned (Box 1): transferring the responsibility to define and fund, in a unitary manner, the whole system of services (bus, metro, tram, railways) from central to regional and local governments; reducing the reliance on public subsidies; promoting the overcoming of the fragmentation of the industries (commonly run at the level of the more than 8.000 municipalities); and introducing some forms of competition in an area previously characterized by local monopoly. The principal aim of the complex set of measures adopted has been (and still is) the recovery of production efficiency (in terms of cost per output unit) in order to permit the expansion of resources directed to collective services and infrastructures and to improve their attractiveness with respect to private means, without increasing the burden on the already meagre public finances.

The overall organizational and regulatory model designed by the National Decrees is based on two main pillars: the first one is public initiative, the second is controlled

management based on wage incentives; the use of tariffs; the separation of politics from administration; and financial efficiency.

¹¹ Main legislative acts have been represented by: Laws 142/1990, 498/92, 25/95 and D.P.R. 533/96.

¹² Public owned enterprises characterized by: a separate legal status, managerial and budgetary autonomy, an ex ante budget equilibrium constraint, and a legal status for workers comparable to that of private employees. Local authorities keep the responsibility: to define aims and strategic goals, to appoint the main administrative organs, to approve fundamental acts and to supervise the management.

¹³ Law 498/92 (and the subsequent Decree N. 533/96) entitled local authorities to form joint stock companies to run local public utilities “without the obligation of majority ownership”. When local governments are minority shareholders, private sector shareholder must be selected by means of open competitive bidding type procedures. Moreover, the “Company Statute” must include particular provisions designed to control changes in shareholdings. It must be clearly stated that private sector shareholders may not lose their status as controlling majority shareholders within five years of the formation of the company and without the prior assent of the public partner. Yet, the transfer (whole or partial) of the public owned participations in joint stock companies providing public services must take place through a public tender procedure.

competition. Accordingly, public administrations are in charge of providing public passenger transport services, which are interpreted as being elementary services of public interest which require adequate forms of planning and regulation (price, quality, quantity, access, environmental, etc.) by the competent authority. To carry out this role, local governments (regional, provincial, municipal or even inter-municipal) are given a monopsony position, i.e they act as official buyers of the service whose main task is to evaluate tenders from different operators, both public and private, and compare bids as far as price, quality, investments and environmental aspects are concerned.

**Box 1. Main innovations introduced in the LPT sector by Legislative decrees no. 422/97 and 400/99
(National Decrees)**

-Regionalization of legislative, planning and financial responsibilities, respecting general rules and principles fixed by the national government¹⁴. The reform, coherently with the subsidiarity principles, provides for the further delegation of operational functions to local administrations, except for those services which require a unitary management at the regional level.

According to this normative framework, Regions have the responsibility¹⁵ to establish relevant basins for LPT and to plan and finance¹⁶ the so-called “minimum services”¹⁷, which should be quantified accordingly to the mobility needs and characteristics of the corresponding transport basin (rate of commuting, level of traffic and congestion, level of network integration, rate of usage of basic social services) and not to the ex-ante availability of financial resources; local governments (both at the provincial and municipal level) have the responsibility/opportunity to establish and finance additional services corresponding to specific needs and users preferences. Regional governments are given also the responsibility to plan, organize and regulate railways services of “regional and local interests” which should be integrated and coordinated with other LPT services (buses, metro, tram), even if the provider (and the awarding procedure) is generally a separate one.

-Formal privatization of operators, i.e. the mandatory legal conversion by the end of 2000 of the so-called special enterprises into private-law companies (joint-stock-company or limited liability corporations), acting under the provisions of the national Civil Code.

The main goal of this provision was to reduce the political interference in the management of services and to progressively open the market to private operators with a view to future auctions.

-Mandatory adoption of “service contracts” to formalize the main regulative elements (duration, qualitative standard, tariffs, allocation of revenue from the sale of tickets, amount of the subsidy, monitoring, sanctions and rewards, etc.) in the relation between the transport authority and the provider.

-Definition of a minimum ratio of 35% for coverage of operative costs through fare income, to be included in the “service contract”.

-Adoption of a subsidy cap mechanism, according to which the subsidy paid to the provider should decline over time in force of a cap explicitly aimed at internalizing the increasing efficiency of the industry.

-Adoption of mandatory competitive methods (competitive tendering) for entrusting services by January 1, 2004. Tenders must be based on the scheme of the *most economically advantageous tender*, through which the government agency is not bound to accept the lowest bid but has to evaluate even other (mainly qualitative)

¹⁴ Even after the Constitutional reform of 2001 (Law 3/2001), which gave exclusive legislative competence to regional government as far as local public services are concerned, state intervention in defining the main features of the form of the market in which economic services are supplied (public monopoly, competition in the market, competition for the market) is justified in terms of competition policy and promotion, which remain exclusive central prerogative.

¹⁵ To be handled in agreement with local authorities.

¹⁶ Through a Regional Transport Fund fed by a regional revenue sharing on the national petrol excise duty.

¹⁷ Defined as “those services that for quality and quantity respond to the needs of the mobility of citizens and whose costs are the responsibility of the Region and which are defined keeping in mind factors tied to the demand for mobility and the need to resolve problems related to traffic and pollution”.

parameters as: technical merit, investments plans, environmental characteristics of the vehicle fleet, after sales services, etc.

It is established the exclusion from participation in the award of contracts of operators (and their controlled bodies) who, both in Italy or abroad, are directly awarded public service contract.

In the case of a change of public service operator, it is required to the new provider to give (“however viable”) the existing staff the right to a job and under the same contractual conditions as before.

Tenders must also ensure that the control of essential assets (networks, plants and patrimonial equipments) does not represent a discriminatory element in the awarding of services. As a consequence, call for bids has to grant that essential facilities are placed at the disposal of operators entrusted of the provision of the service.

This last provision has been strengthened by the subsequent legislative evolution¹⁸ which established for a) The compulsory separation between the bodies that own utility networks and plants and the enterprises that run the utilities. Local authorities cannot relinquish ownership of the plants and have the possibility to transfer their property to a joint stock company (patrimonial company), on condition that they keep the totality of the capital. b) The possibility to separate (unbundling) of network and plant management from service provision. The separation of these two activities does not automatically apply to all sectors since specific sector rules establish when the separation is to take place. Whenever the separation occurs, plants and networks management can be awarded either directly to the company that owns the plants (on condition that it fulfill the *in-house provision* criteria defined by the EU ruling), or to suitable company selected by competitive bidding. The local authority or the body that owns the plants will hand them over to firms responsible for utility provision.

The subsequent introduction of further legislative modifications and integrations has contributed to generating confusion and have revealed the strong reluctance to fully acknowledge the underlying logic, above all as regards the introduction of competitive methods to select providers. Law 326/2003, in particular, the reform of article 113 of the Consolidated Act on Local Autonomies (“Testo Unico dell’ordinamento sugli Enti Locali”, Law 267/2000), provides for three organizational alternatives for all economic services (LPT included)¹⁹: direct award to a stock option company fitting with the in-house criteria, direct award to mixed companies in which the private partner is selected through a public tender procedure, and competitive tender to stock option companies. A provision which, according to subsidiarity and to the Community law on public contracts and concessions, has left local governments the political choice of providing a public service themselves or entrusting it to a third party²⁰. However, even that part of the provision has soon been changed by Law 308/2004, which restored public tender as the only entrusting mechanism as far as LPT services are concerned²¹, with a deadline of 31 December 2005 for carrying out public tenders.

¹⁸ We refer to the article 35 of the 2002 Financial Law (L. 448/01), to the Law decree n. 269 of 30 September 2003 (the converted with amendments into Law 326/2003), and to art. 4 of the 2004 Financial Law (L.350/2003) which have modified substantially the Art. 113 of the “Consolidated Act on Local Authorities” (decree 267/2000), stating general rules for all local public services.

¹⁹ The discipline of non-economic services is instead left to local government, since competition policy cannot be applied in this case and state intervention is not justified.

²⁰ The opportunity has been immediately exploited by some important metropolitan areas: in Rome and Bari an in-house award to the incumbent operator has entrusted LPT services, while in Genoa the operation of local public transportation has been awarded to a mixed capital company in which the private share holder (with a share of 41%) has been selected through public tender. Moreover, one region (the Marche) has transposed the provision into the regional Law on local public transport.

²¹ Formally Law 308/2004 has established the non applicability of the article 113 of the Consolidated Act on Local Autonomies to LPT services.

The Budget Law for 2006 (Law 266/05) has postponed the deadline for tendering until 31 December 2006, with the opportunity for regional governments to further postpone this by two years if: a) at least 20% of the stock of the public provider company is sold to the market or at least 20% of services are sub-contracted to private operators in the transitional period; or if b) a new operational entity is created as a merge between two (or more) providers operating in contiguous transport basins. The same act enables existing in-house awards to expire at their natural deadline if at least 20% of services are sub-contracted to other operators not shared by the competent local authority. Last rescheduling for tendering (deadline: 31 of December 2007) has been established by Law 17/07, while at present no further postponements has been adopted, so that many services provision arrangement result formally illegitimate²².

A final innovative aspect (at least potentially) can be mentioned as far as competition in the market is concerned. A recent normative measure (Law 248/06) has in fact introduced the opportunity for Municipalities to grant licenses to market operators that develop services on their own initiative, throughout the whole territory or in selected routes, on condition that they possess fitting technical and professional requirements and that none financial compensation is required²³. While the real extent of this provision is uncertain, since it will strongly depend on how it will be interpreted by regional and local authorities and, above all, on how the relationship with the existing transport companies will be effectively ruled, it represents as well an interesting indication, since it has introduced in the field of LPT (at least formally) the opportunity of autonomous entry for market operators.

2.1. Recent legislative developments

The period of normative uncertainty previously described is probably doomed to persist even in the future. While, in fact, the first steps of reform in Italy were directed to the introduction of regulated competition, even if with several successive derogations of time limits, more recent legislative initiatives have shown a greater cautiousness in this direction, paving the way for the re-introduction of a higher degree of freedom for local authorities on how to provide public passenger transport services.

The first bill (Draft Law n. 772), aiming at reforming the organizational forms of all local public services (except for water), has been proposed at the beginning of the past legislature (mid 2006), but, after a long period of discussions and amendments, has not be approved due to the government crisis occurred at the beginning of 2008. It is however representative of the present political mood as far as local public

²² It's worth to note, however, that no sanction is provided by the national law for local administrations who are late, so that the effectiveness of the established deadlines is actually weakened.

²³ A provision already included in two previous regional laws (Emilia Romagna and Lombardy) which have anticipated the national initiative.

services are concerned. The proposed law provided for four organizational alternatives for all economic services: competitive tender to stock option companies, direct award to mixed companies in which the private partner is selected through a public tender procedure and shares at least 30% of the capital; direct award to a stock option company fitting with the in-house criteria (*in-house provision*); self-production through an internal department or a separate internal operator (“special enterprise”). Two main differences are established with respect the article 113 of the Consolidated Act on Local Autonomies:

- the in-house option is considered as an “exceptional” alternative, to be motivated to the Antitrust Authority (AGCM) through specific economic, social and environmental factors which testify that market supply can result inadequate;
- self-production is fully acknowledged as a viable option, mainly through the use of “special enterprise” for whom a fully public law system is established: i.e. the same accounting rules, contractual and procurement forms, labor force relations and recruitment mechanisms of public administrations.

Draft law n. 772 would have therefore implied that territorial authorities are given the right to choose even for a fully public organizational form – whenever they think that the public service mission could be undermined by the outsourcing procedures.

The second bill²⁴ aimed at confirming the specific sectoral regime for LPT, through the introduction of some changes to the Legislative decree n. 422/97. Main provisions concerned the further postponement of tenders to the end of 2008 for buses and to the end of 2010 for rail services, and a further change in the opportunity to award public service contracts. Two main options were considered viable: a) a stock option company selected through a competitive tendering procedure; b) a mixed companies in which the private partner is selected through a public tender procedure and shares at least 30% of the capital²⁵; this second option has to be motivated through a technical-economic analysis, to be sent also to the Antitrust Authority. No room is left for in house provision after 2010. It was provided also for a higher degree of flexibility for regional government in the definition of the minimum ratio for coverage of operative costs through fare income, in order to keep into consideration the specific characteristics of different transport basins.

Finally, in July 2008, the new government has approved a law paragraph (23bis), within a more articulated legislative initiative establishing a multi-annual financial law (Law 133/2008), which aims at setting a stable regime for all local services of general economic interest. The new discipline singles out competitive procedures as the ordinary entrusting mechanism of services to undertakings or companies (whatever legal structure they acquire²⁶), leaving the door open to other forms that respect the EU ruling (i.e direct award to: internal department or special enterprises,

²⁴ Approved by the Council of ministers on the 23 of November 2007, but due to the government crisis.

²⁵ The document rules also the selection mechanism of the private partner in order to make it coherent with the EU provisions included in the Green paper on public-private partnerships and community law on public contracts and concessions (COM(2004)327).

²⁶ This means that not only stock option companies can be selected.

stock option companies fitting with the in-house criteria, or mixed companies in which the private partner is selected through a public tender procedure²⁷). The possibility to avoid public tendering is however seen as an exception to the general rule, to be motivated to the National Antitrust Authority (AGCM) through a specific report, enlightening the economic, social and environmental factors which make market supply inadequate.

Paragraph 23bis clearly risks to introduce further uncertainty as far as LPT services are concerned. While, in fact, it represents a step ahead for many SGEIs (as water and wastes), for whom competitive procedures have until now represented the true exception, in the case of LPT services it reopens once more the transitional period (expired at the end of 2007) and the opportunity for local authorities to avoid competitive procedures. Furthermore, it assigns to future regulations, to be issued by the government, the task to define important contents of the reform as: the harmonization of the general discipline with respect to sectoral ones, the expiring data of existing direct awards, the ruling of essential facilities and other capital assets, the determination of a reciprocity clause regarding foreign operators, the need for in house and mixed companies to adopt the same procurement forms and labor force recruitment mechanisms of public administrations. The risk is clearly that a delay of the government on these implementation acts will put the reform at a definitive standstill.

As a whole, the regulatory wavering summed up in the table below, characterized by several additions and changes in the course of only a decade, seems to confirm that a definitive stabilization of the normative framework is necessary to fully carry on the results until now obtained and to give a clear direction to public authorities and market operators involved in the planning and provision of LPT services.

²⁷ As ruled by the interpretative Communication 2008/C91/02 of the European Commission.

	Scope	Awarding mechanism	Property and management of essential facilities	Exclusions
National Decrees and further modifications	Sectoral law for LPT	<ul style="list-style-type: none"> - Competitive tender to stock option companies - Opportunity for in-house awards to expire at their natural deadline if at least 20% of services are sub-contracted to other operators not shared by the competent local authority. 	<p>Not specified.</p> <p>Separation of network and plant management from service provision is not expressly required.</p> <p>Call for bids has to grant that essential facilities are placed at the disposal of operators entrusted of the provision of the service (rolling stock is not considered as an essential facility)</p>	<p>Exclusion from participation in the award of contracts of operators (and their controlled bodies) who, both in Italy or abroad, are directly awarded public service contract. The same exclusion apply to operators who manage essential facilities.</p>
Draft law n. 772	Horizontal law for all local public service	<ul style="list-style-type: none"> - Competitive tender to stock option companies; - Direct award to mixed companies in which the private partner is selected through a public tender procedure and shares at least 30% of the capital; - Direct award to a stock option company fitting with the in-house criteria (<i>in-house provision</i>); exceptional alternative to be motivated - Self-production: internal department or special enterprise <p>Existing direct awards will expire at their natural deadline without any further prorogation.</p>	<p>Public property.</p> <p>Separation of network and plant management from service provision.</p>	<p>Exclusion from participation in the award of contracts of operators (and their controlled bodies) who, both in Italy or abroad, are directly awarded public service contract. The same exclusion apply to operators who manage essential facilities.</p>
Draft Law: Council of minister on the 23 of November 2007	Sectoral law for LPT	<ul style="list-style-type: none"> - Competitive tender to stock option companies; - Direct award to mixed companies in which the private partner is selected through a public tender procedure and shares at least 30% of the capital; 	<p>Not specified.</p> <p>Call for bids has to grant that essential facilities (to be identified by an explicit act of the transport ministry) are passed on to operators entrusted of the provision of the service. If it is</p>	<p>Exclusion from participation in the award of contracts of operators (and their controlled bodies) who, both in Italy or abroad, are directly awarded public service contract. Call for bids needs to include specific transparency and impartiality provisions in tenders where one of the bidder is shared by the competent authority. Those provisions must be submitted for an</p>

		<p>exceptional alternative to be motivated</p> <p>Mandatory adoption of Price (subsidy) cap, based on “standard costs”.</p> <p>Temporary groupings of local providers (ATI) that win the bids have to be transformed within 60 days into stock option companies.</p> <p>Existing direct awards will expire within 2008 (Buses) or 2010 (rail).</p>	<p>not possible, winners are bestowed a 24-months period to acquire those equipments.</p>	<p>ex ante advice to the Antitrust Authority (AGCM).</p>
<p>Article 23bis of L. 133/2008</p>	<p>Horizontal law for all local public services. A further regulation to be issued by the Government has to fully harmonize the new discipline with the existing sectoral ones.</p>	<ul style="list-style-type: none"> - Competitive tender to private or public operators, whatever form they acquire. - Direct award that respects EU ruling (considered as a derogation to be motivated to the Antitrust authority) <p>It is allowed to entrust the same entity with more services where it can be demonstrated that this option results economically advantageous.</p> <p>A further regulation to be issued by the Government has to establish the expiring data of existing direct awards that do not respect the EU ruling (however within 2010).</p>	<p>Public property of the network.</p> <p>A further regulation to be issued by the Government has to discipline the passing on to the new comer of essential facilities and other assets necessary to provide the services.</p>	<p>Exclusion from participation in the award of contracts of operators who are directly awarded public service contract. The same exclusion apply to operators who manage essential facilities.</p> <p>2 derogations are provided:</p> <ul style="list-style-type: none"> - those operators can take part to the first competitive tender regarding their own basin; - stock option companies quoted in regulated markets <p>A further regulation to be issued by the Government has to discipline the reciprocity clauses regarding foreign operators</p>

3. Planning, regulation and financing of LPT services: state of art and effects of the reform after 10 year

3.1. Market structures and the role of competition

As far as legislative and planning responsibilities are concerned, the implementation of the reform has been characterized by several steps ahead, but even by remarkable gaps.

All the 19 regions + 2 autonomous provinces have issued regional laws to implement the reform and to detail matters left open by the national decrees: tendering

procedures and selection criteria, sub-contracting opportunities, duration and additional contents of service contracts, extent of social clauses, ruling about essential facilities, etc. In some cases, regional laws have introduced contents openly in contrast with national decrees (mainly regarding procedures for the selection of providers and the duration of the transitional period), but the Constitutional Court has generally shielded the national regulation in name of the competition policy and promotion prerogative.

Service planning tasks, based on the identification of “minimum services” and the adoption of “three-year service plans”, have been carried out more barely by regional governments (tab. 1)²⁸. Only six regions have in fact completed both the tasks, and only in two cases (Lombardia and Piemonte) this has concerned equally bus and rail services. The delay accumulated by regional administrations represents a serious obstacle for the reform implementation. Minimum services and three-years service plans are in fact two fundamental prerequisites to carry on the subsequent steps, since they establish the amount of financial resources given to the single transport basin²⁹ and also other qualitative prerogatives which should characterize the awarding of public service contracts by local authorities³⁰.

Table 1. Definition of “minimum services” and adoption of “three-year service plans”

Region	Minimum services			Three-year service plans
	Buses	Railways	Integrated	
Abruzzo	✓		✓	
Basilicata				
Calabria				
Campania				
Emilia R.			✓	
Lazio			✓	
Liguria	✓			✓
Lombardia	✓	✓		✓
Marche	✓			✓
Molise	✓			
Piemonte	✓	✓		✓
Puglia	✓			✓
Toscana	✓			✓
Umbria				
Veneto	✓	✓		
Friuli V.G	✓			
Sardegna				
Sicilia				

Source: RT-ISFORT (2007)

²⁸ Three-year service plans are doomed to better specify and elaborate minimum services on the territory. In particular they define: the network and organization of services, the integration of routes and tariffs, the allocation of resources, the methods for the implementation and revision of contracts, the monitoring system, the determination of fares.

²⁹ Regional authorities normally choose the size of the service area by using the province or municipal jurisdictional boundaries.

³⁰ A further step is generally required at the local level since Provinces or Communes have to elaborate more specific and detailed service requirements, including additional services, before to bid for the provision.

Formal privatization and the adoption of public service contracts have been substantially completed everywhere. Providers are now commonly stock-option companies tied to the competent local authority by a contractual scheme that define the obligations with which they are to comply and the amount of the resulting compensation.

On the other hand, the coverage of regulated competition has been highly incomplete: awarded tenders have been in fact few and geographically concentrated, mainly in the central-northern part of the country (tab. 2). It is estimated (AGCM, 2007) that calls for tender have concerned approximately 1/5 of existing contractual relationships, and that tenders successfully awarded have been about 3/4 of those issued. As a whole, it can be pointed out how the bidding logic has been to a large extent acknowledged (at least formally) in six regions (Valle d'Aosta, Friuli Venezia Giulia, Umbria, Toscana, Lombardia and Emilia Romagna); only partially in some other (Puglia, Basilicata, Liguria, Piemonte, Marche, Campania); and next to nothing in the remaining ones.

Table 2. Competitive tendering procedures: state of art (2007)

Region	N. of calls	<i>of which</i>		
		called by the regional authority ^a	railways services	awarded
Valle d'Aosta ^b	1	1		1
Bolzano				0
Trento				0
Veneto	1	1	1	1
Friuli V.G ^c	4	4		4
Liguria	5	1	1	3
Lombardia	27	3	3	19
Piemonte	3			1
Emilia R.	10	1	1	9
Toscana	11			11
Umbria	2			2
Marche	5			1
Abruzzo	0			
Lazio ^b	2			1
Molise	0			0
Puglia	6	1		6
Basilicata	4			2
Calabria	1			1
Campania	4	1		2
Sardegna	0			0
Sicilia	0			0

^a Regional authorities commonly delegate the responsibility of the detailed organization of services (including tendering) to the local authorities (Provinces or Communes). They however generally keep the responsibility to organize and award regional and short-distance railway services.

^b One only province is present

^c The regional law provides that the regional authority will direct the tendering procedure when the competent local authority is also the owner of one of the bidders.

^d Tenders concern additional transport services in the city of Rome and a small village (Fiuggi)

Source: RT-ISFORT (2007)

Some further information about the content of tenders is provided in Table 3 and 4. Regarding the definition of the single transport basin, it can be remarked that a homogeneous criterion to define the size of the bus service does not emerge³¹. Regional authorities normally choose existing provincial or municipal administrative boundaries, while in few cases they have bundled services at the metropolitan-area level. Tendering procedures do not generally regard single links but large or small networks: especially in small and medium-sized Italian provinces, urban and inter-city routes have been commonly integrated for tender, in order to let the winning firm cross-subsidize the unprofitable urban routes with the more profitable intercity ones (Boitani, Cambini, 2006).

As far as contractual features are concerned, net cost contracts are clearly predominant, whilst contractual duration is on average around 7 years, ranging from a minimum of 3 to a maximum of 10.

The number of bidders has been generally low (1,8 on average) with a maximum of 5 participants in a couple of bids. The incumbent operator has generally been entrusted to provide services, alone or with other partners, with a modest mobility of providers and modest cost saving with respect to the reference price included in the call for bid.

Table 3. Main features of tenders carried out in LPT services (2007)

Average value of tenders ^a	81,2 mil. euro for buses 300,8 mil euro for rail
Average contract duration ^a	6,7 years for buses 7,7 years for rail
Service-area ^b	Municipality 23% Province 59% Metropolitan area 18%
Contractual arrangement ^b	Net cost 85% Gross costs 15%
Average n. of bidders (net of exclusions) ^b	1.76 (min 1; max 5)
Winner ^b	28% incumbent 61,5 % incumbent in partnership 10,5% new entrant
Average reduction with respect to reserve price ^b	1,1% (0 min; max 6%)
Average increase in service supply ^b	1,7% (0 min; 9 max)
^a For the whole contract duration. Sample of 63 tenders for buses and 6 for rail (RT-ISFORT, 2007)	
^b Sample of 39 tenders for buses (Alderighi, Sparacino, 2008)	

³¹ In a sample of 39 tenders for bus-services (Alderighi, Sparacino, 2008) the annual value of tendered services ranges from a minimum of 40.000 euro to a maximum of 47,3 millions euro.

The framework of the 14 largest Italian cities (tab. 4) confirms how the direct management of TPL services by the municipal-owned operator is still the predominant choice. Only three tenders for service provision have been in fact carried out by the end of 2007, while one competitive procedure has concerned the selection of the private partner; more than an half of the current concessions formally expired at the same data and are waiting for a further (definitive ?) term in the framework of the new art. 23bis of the L. 133/2008 (see above).

The formal separation of assets ownership and management from service provision is widely incomplete: it has fully occurred only in three circumstances (Rome, Bologna and Genoa), while in several cases the incumbent operators owns depots and almost always bus services vehicles (except Rome).

Finally, the creation of formally independent regulatory authorities, even not mandatory according to the national law, has been a quite widespread step, even if with varying degrees of autonomy and powers. In Milan, the role of the agency is limited to technical assistance to political bodies involved in planning and operative activities, with no decisional power or management responsibilities. Differently, in Rome and Bologna the two agencies³² develop important functions related to local public transport (definition of service contracts, awarding of tenders, public funds and revenue management, monitoring and control of performances, asset ownership, network planning, information), as well as more general responsibilities regarding the unitary management of urban mobility (parking management and pricing, limited traffic zones, integrated ticketing). The model of agency adopted in other cities (Turin, Genoa) is somehow in the middle with respect the two polar typologies described above. Quite interesting is the case of Turin, where the agency (consortium) has competences regarding the whole metropolitan transport basin (which includes the central municipality and 26 minor communes of the outer belt) and is formed by representatives of the municipalities of the area, and even of the provincial and regional governments.

³² ATAC and SRM are stock option companies originated as a separation from the existing operators.

Table 4. Organization regimes for LPT in main urban areas (2007)

	Entrusting of services	Formal separation assets / service provision	Transport Agency Name Functions
Rome	- In house award ^a to two public-owned companies ^b - 20% of bus services tendered ^c Only municipal borders Expiring data: 2011	Yes The municipality owns networks, depots and rolling stock	Yes ATAC (definition of service contracts and client service charts, awarding of tenders, assets ownership and management, network planning, revenues management, information, parking management)
Milan	Direct award ^d to a single municipal-owned operator Both rail and bus services 87 municipalities served Expiring data: tender	No The incumbent operator owns depots and rolling stock. The rail network is property of the Municipality	Yes (technical assistance to political bodies)
Turin	Direct award ^d to a single municipal owned operator. Both rail and bus services 26 municipalities served by urban buses; 2 by the subway Expiring data: tender	The incumbent operator owns depots and rolling stock. Rail network and rolling stock have to be left for free to the municipality at the end of the concession period	Yes Agenzia Mobilità Metropolitana (definition of service contracts, network planning, resources and revenues management, monitoring and performance control, information)
Bologna	Direct award ^d to a single public-owned operator ^c Bus services only 59 municipalities served Expiring data: tender	Yes SRM owns depots and other equipments. Rolling stock is owned by the incumbent operator	Yes SRM (definition of service contracts, awarding of tenders, assets ownership and management, network planning, revenues management, monitoring and performance control, information)
Brescia	Tender won by a temporary grouping of companies which includes the public-owned incumbent operator and two other partners (SIA and AGI ^f) Only bus services 15 municipalities served Expiring data: 2011	No The incumbent operator owns depots and rolling stock	No
Genoa	Direct award to a mixed company in which the private partner (Transdev, with 41% of the stock) has been selected through a public tender procedure. Both rail and bus services Only municipal borders Expiring data: 31/12/2011	Yes The municipality owns networks and garages and has entrusted their management to AMI. The rolling stock is owned by the operator	Yes AMI (assets management, definition of service contracts, network planning, monitoring and performance control, information)
Firenze	Tender won by a limited liability company which includes the public-owned incumbent operator ^g (83% of the stock) and some private operators Only bus services 13 municipalities served by urban buses Expiring data: march 2010	No The incumbent operator owns depots and rolling stock	No
Trieste	Tender won by a temporary grouping of enterprises including the municipal-owned incumbent operator (60% of the stock ^h) Bus services, sea services and one tram link. Whole provincial boundaries (6 municipalities) Expiring data: 2011	No	No
Venezia	Direct award ^d to a single municipal-owned operator ⁱ . Bus services, sea services 23 municipalities served by urban buses Expiring data: tender	No	No

Napoli	Direct award ^d to three public-owned companies ¹ (on for rail services and two for buses). 19 municipalities served by urban buses Expiring data: tender	<i>No</i> The incumbent operators owns buses depots and rolling stock The rail network and depots are property of the Municipality	<i>No</i>
Palermo	Direct award ^d to a single municipal-owned operator. Bus services and rail (together with the national railways operator) 3 municipalities served by urban buses Expiring data: tender	<i>No</i>	<i>No</i>
Bari	In house award ^a to a single municipal-owned operator Only bus services Only municipal borders Expiring data: 31/12/2012	<i>No^m</i>	<i>No</i>
Catania	Direct award ^d to a single municipal-owned operator. Only bus services 6 municipalities served by urban buses Expiring data: tender	<i>No</i>	<i>No</i>
Cagliari	Direct award ^d to a single municipal-owned operator. Only bus services 8 municipalities served by urban buses Expiring data: tender	<i>No</i>	<i>No</i>

^a According to the law, in-house awards expire at their natural deadline if at least 20% of services are sub-contracted to other operators.

^b One for buses (TRAMBUS) completely owned by the Municipality of Rome, the other (METRO) shared by the Municipality of Rome and the Province of Rome.

^c The three early competitive tendering procedures carried out in Rome in 1999 and 2000 concerned additional transport services. In the first and second tender the local incumbent transport operator (Tramibus) was not allowed to make an offer in order to prompt the entry of new operators. In the third tender Tramibus participated, but the offer of the new entrant was preferred. The price reduction was close to 8% in the first two bids and to 25% in the third. In 2005 a fourth tender has been carried out, joining together the three previous area-services plus some additional ones. Services have been entrusted to a pool of enterprises (Tevere Tpl) lead by SITA (owned by the national railways company) with some local operators (mainly public). The price reduction obtained has been a tiny 0,42% (Boitani, Cambini, 2006).

^d Direct awards are ruled by the transitional regime provided by the Legislative decree no. 422/97 and successive derogations and postponements. This means that they are expired in December 2007 if the postponement opportunities provided by Law 266/05 have not been exploited.

^e Shared by the Municipality of Bologna and the Province of Bologna.

^f SIA (Società Italiana Autoservizi) is part of a group (SAB) totally controlled by the British Arriva: AGI is a family run private operator shared by Transdev (40%); Transdev has handed over its stake at the beginning of 2008.

^g The public-owned incumbent operator is shared mainly by the municipality of Florence 84% a by other 8 Municipalities of the metropolitan area

^h The remaining share is owned by SAB group, controlled by the British Arriva.

ⁱ Shared by the Municipality of Venezia and the Province of Venezia.

¹ Two are owned by the Municipality of Naples, one is shared by the Municipality of Naples and the Province of Naples.

^m A formal separation of assets ownership and management from service management has been established in 2003 with the creation of two separate stock option companies. Yet, the two companies have been merged in 2007.

Source: Own elaborations on RT-ISFORT (2007), CIVICUM (2008) and municipalities web sites.

3.2. Economic results and companies' structures

According to the original aims of the reform the competitive pressure should have entailed higher productivity (and productivity growth) and a downward pressure on production costs and public subsidies.

The complex set of innovation introduced since the beginning of the nineties, even if carried out in a framework of uncertainty and repeated fits and starts and without a

generalized use of competitive tendering, does appear to have produced some initial effects in this direction, though progressively weakened in more recent years.

The economic results of LPT operators have been characterized by some relevant improvements (tab 5 and 6), with the total operating deficit³³ of public-controlled providers in the sector falling from around 600 million euros in 1997 to around 150 million euros in 2002 and 125 in 2006 (Confservizi, 2007), and with an increase in the fares+commercial revenues incomes/operative costs ratio for buses from 22,5% in 1990 to 36,2% in 2000 and 43,4% in 2005 (Ministero dei trasporti, 2007). Tariff increases (see below), and effort directed at the control of labor costs, which have historically represented more than 2/3 of total costs, have been the main levers utilized to get these results (tab. 5). Labor productivity too has experienced a considerable improvement.

It seems clear that in the first years after the reform, the adoption of a tighter budget constraint for sub-national governments through the abolition of the National Transport Fund, strengthened by the adoption of an internal stability pact in 2000, and the threat for the incumbent represented by the perspective of competitive tendering have provided important incentives to reduce the financial burden of services on public budget and to introduce efficiency-enhancing devices in the management of companies. This has been obtained by exploiting the existing discretion of action – aggregations of transport basins, more transparent accounting systems, contractualization of the subsidy through fixed-price schemes, sub-contracting of specific tasks³⁴ to cooperatives and other business entities allowed to pay much less their work-force, wage and time flexibility for new workers employed, management flexibility - and without generating excessive political costs.

Tab. 5. Main economic indicators for urban transport operators^a

	1997	2001	2002	2003	2004	2005	2006
Total costs (mil. current €)		5,127	5,257 (+2,5%)	5,388 (+2,5%)	6,026 (+11,9%)	6,850 (+13,7%)	7,300 (+6,6%)
Labor costs (mil. current €)		2,722	2,779 (+2,1%)	2,845 (+2,4%)	2,992 (+5,2%)	3,177 (+6,2%)	3,320 (+4,5%)
N. employees	80,482	74,014	72,756	72,270	72,631	73,623	75,345
Labor costs/employee (thousand current €)	/	36.8	38.2	39.4	41.2	43.2	44.1
Labor cost/total cost	0,67	0,53	0,53	0,53	0,50	0,46	0,45
Operative Costs/veh km (current €)	3.58	-	3.71	-		4.05	4.18
Veh-km/employee (000)	16.38	18.03	18.83	19.17	19.36	19.31	19.25
Fares and commercial revenues/operative costs							
<i>Bus</i>	30.2 (1995)	39.4	41.5	43.7	43.6	43.4	/
<i>Tram</i>	32.3 (1995)	39.1	42.1	43.5	45	46.8	/
<i>Metro</i>	46.4 (1995)	64.6	76.5	81.7	86.9	92.2	/
Fares revenues/operative costs^b			31.1	31.3	30.8	30.7	30.2

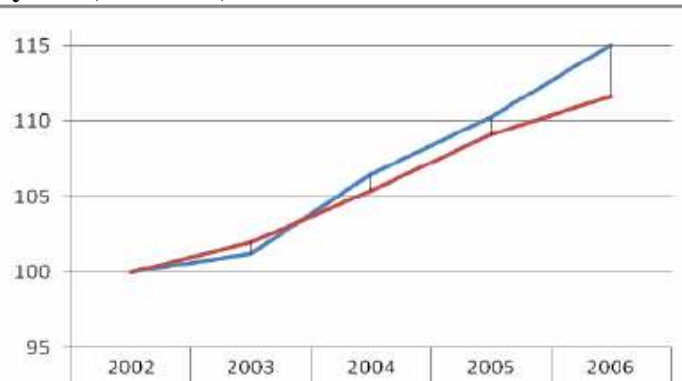
^a Data refer to a large sample of public-controlled operators, which represents more than 70% of the total turnover of the LPT sector.
^b This information refers to a sample of companies non coinciding with that considered in the other lines. The underlining decreasing trend during last years remains however meaningful and consistent with other data.
Source: elaborations on data from Dexia (2007), Confservizi (2007), Ministero dei Trasporti (2007), ISFORT-ASSTRA (2008)

³³ Calculated including subsidies obtained by national and regional sources.

³⁴ As, for example, the controlling of ticketing, cleaning or security services, repairs and maintenance.

Though, the initial momentum of the reform seems to have slowed down and some problematic signals have emerged, even due to the wavering normative evolution and the ensuing uncertainty that has affected market operators. Accordingly, the total number of employees has started to grow again in the period from 2003 to 2006, while both labor productivity and revenues/operative costs ratio have remained substantially stable in the same period (at least in the case of bus services). In particular, costs³⁵ have experienced in the period 2002-2006 a faster growth (+12% in terms of operative costs / veh-km) than fare revenues (+9,6%), only partially compensated by other sources as advertising or rental fees (commercial revenues): a diverging trend (fig. 1) not sustainable in the medium-long run, that requires, to be consistent with the original aim of the reform, new and more effective interventions on both costs and revenues' dynamics³⁶.

Figure 1. Fares incomes (red line) and operative costs (blue line) evolution in recent years (2002=100)



Source: ISFORT-ASSTRA (2008)

Furthermore, the overall Italian situation is characterized by striking territorial disparities (tab. 6): operative costs required to supply 1000 seats-km amount for example to 27 euros in Milan, against 36.2 in Rome and 65 in Naples, while labor productivity in Milan is nearly three times that recorded in Naples; an analogous huge disparity is shown as concerning fares and commercial revenues/operative costs ratio³⁷. A general framework that casts doubts on the possibility of the reform to have an homogeneous and widespread development on the whole country.

³⁵ Main increases experienced by different items in the period 2002-2006 have been: +9% for labor, +26% for raw materials, +35% for services and +14% for allowances.

³⁶ The minimum value required for fares incomes/operative costs ratio (35%) remains in fact still far away.

³⁷ The ratio is on average around 52% in the northern regions, 38% in the central ones and 39% in the southern (Ministero dei Trasporti, 2007).

Table 6. Main economic indicators in largest urban areas^a

	Revenues (€ x1000 seats-km)			Costs (€ x1000 seats-km)		Fares and commercial revenues/operative costs	Productivity 1000 seats-km/employee
	Total (a)	Public subsidy (b)	(b)/(a)	Operative costs (c)	Labor costs (d)		
Genova	42.8	25.9	60.6%	41.7	29.5	40.4% (+3.85)	1,437 (+22.9%)
Firenze	33.6	19.4	57.6%	29.8	24.2	47.8% (+3.3)	1,722 (+16.8%)
Bologna	41.5	22	52.9%	35.6	21.6	55% (+6.5)	1,837 (-2.9%)
Milano	29.6	13.8	46.8%	27.0	16.6	58.2% (+1.4)	2,637 (+3.6%)
Brescia	33.2	19.1	57.3%	29.5	19.2	48.2% (+5.1)	2,174 (+19.1%)
Torino	35.3	20.5	58.2%	28.0	23.7	52.6% (+9.1)	1,721 (+1.1%)
Napoli^b	56.3	45	80.0%	60.1	43.1	18.8% (-0.1)	981 (-11.3%)
Roma^b	36.7	23.4	63.7%	36.2	24.7	36.9% (-1)	1,718 (-0.8%)
Av. 2003	33.2	19.8	58.6	32.4	21.9	43.4%	1,897
Av. 2006	36	21.4	57.8	34.3	23.7	45.6%	1,968 (+3.8%)

^a Data for 2006. Between brackets: difference 2006/2003.
^b Data refer to all the operators of the transport basin.

Source: elaborations on CIVICUM (2008)

As far as companies dimension is concerned, fragmentation still remains the dominant trait. Nearly 1200 undertakings operate in the bus service market³⁸: 285 only at the urban level, 691 in inter-urban services, while 224 supply both kinds of services (Ministero dei Trasporti, 2007). The share of companies with more than 100 employees is only 11% (7.7% in the south), while about 62% has less than 10 employees. No significant concentration process has been detectable at the aggregate level in the last 10 years: both the overall number of operators and the share of companies with more than 100 employees have in fact remained unchanged in the period 1995-2005. In terms of market supply, the five leading providers have a share of 27% of total veh-km, while the same portion is around 60% in the main European countries (AGCM, 2007)³⁹. The major part of companies (around 90%) is mono-utility, i.e they run only local public transport services.

³⁸ 2005 data.

³⁹ In the beginning of 2008, a preliminary agreement aimed at the merging of the municipal-owned operators of Milan and Turin, has been signed. If the merger process will be carried out successfully the new operators will have a global turnover of about 1,200 million euro and a staff of around 14.000 employees, becoming one of the first ten providers in the EU.

Ownership structure has experienced a moderate increase in the presence of private players, but with a limited effect on the overall structure, which remains predominantly public. Public providers, frequently arisen by the transformation of former local “special enterprises” in stock option companies, cover in fact around 2/3 of total veh-km provided, while private undertakings, though being numerous (75-85% of the total number of operators), are sensibly smaller and, all in all, play an ancillary role (AGCM, 2007), generally concentrated on inter-urban routes. An outlook strengthened by the 14 main urban areas previously considered (table 4, above), where completely public owned⁴⁰ companies are entrusted the provision of services in 10 cases, while only in 4 cases private operators have an involvement, though always with a minority share. It is interesting to note how the presence of private suppliers is limited to the transport basins where some forms of competitive tendering has been carried out (Brescia, Genoa, Firenze, Trieste).

The incidence of international operators, which could represent an important device to increase the competitive pressure within the LPT sector, is modest too, and practically limited to some strategic memberships developed by the French operator Transdev (Genova, Brescia, Savona) and the British Arriva (Brescia, Trieste, Cremona, Udine) with the local incumbent operators in the perspective of tenders.

In conclusion, the LPT sector in Italy, ten years after the launch of the reform, is characterized by a myriad of small and very small companies, firmly bound to the territory and to the institutional framework they have traditionally served, while aggregations as well as the mobility of providers, which should have represented one of the primary outcomes of the reform, have been rare exceptions during the decade.

3.3. Critical issues and future opportunities

In the framework described above, the opportunity to once again move down the road of reform can be schematically related to some critical issues and opportunities.

Adequate financial resources – Operative costs of LPT services are currently covered by four main sources:

- national grants, mainly going to railways services of “regional and local interest” and the renewal of the LPT-staff contracts; generally, national funds contribute also to cover the budget deficit of LPT operators;
- regional funds, fed by a revenue sharing on the national petrol excise duty, which should support the provision of the so-called minimum services within each transport basin;

⁴⁰ The reference shareholder is always the Municipality of the main city, in some cases in partnership with other communes of the belt or with the provincial administration.

- provincial and municipal funds, which can finance additional services with respect to minimum services;
- fares and other commercial revenues.

The availability of adequate and stable resources coming from upper levels of government⁴¹ (national and regional) represents a key requisite for local authorities to effectively support the collective role of services. From this point of view, resources granted to local governments to finance “minimum services” have increased in the period 1996-2006 by only 9%, against the 27% rise in the general price index, so that in real terms they have experienced a reduction by 18%. The need to exploit new margins of maneuvering just to guarantee the same level of services was accrued by the fact that subsidies attributed to companies through contracts are subject to VAT since 1997. A recent study on this topic (Dell’Aringa, 2006) shows that companies have mainly taken up the major burden due to VAT introduction, without translating it on consumers through higher tariffs, so that the net amount to perform services was further eroded⁴².

In this framework, local authorities may increasingly suffer by severe financial problems to finance public urban transport. Though some margins to keep the supply stable or even to increase it (see below), consistently with the strategic environmental role given to collective means, can be exploited through gains in productivity and cuts in unit operative costs, as actually occurred in the last decade, these are not infinite and the lack of resources can become a serious obstacle to carry out the reform. This seems to be true even in view of a correct implementation of competitive procedures, since auctions which provide for too low unitary compensations and/or for excessive quantitative and qualitative requirements (in terms of fleet renewal, veh-km supplied, blocked tariffs) can void⁴³ or, even worse, distort the selection in favor of the local incumbent (public provider), which can rely on softer budget constraints with respect to other competitors.

Resource reliability and adequacy are therefore at the basis of financial accountability and of the possibility for the competent authority to perform regulation in an effective way. Two relevant measures have been recently adopted in this direction which could help to improve the ongoing situation. The first, instituted by the Financial Law for 2008 (L. 244/2007), introduces for regional authorities a new revenue sharing on the national diesel excise duty⁴⁴, with the aim of “supporting the role of local public transport, and granting the financial resource necessary to safeguard the existing level of services, taking into account the inflation rates experienced in the previous years”;

⁴¹ In 2007, funds granted to local services are provided by regional governments for a share of 54%, and by the national state for a share of 46% (ISFORT, 2008).

⁴² According to this study (Dell’Aringa 2006), in the period 1995-2004 fare revenues x passenger increased by about 15% against an increase by 21.8% of the consumer price index.

⁴³ As occurred in the recent tender for the inter-urban services of the Province of Cuneo, where the 23 incumbent companies, associated in a Consortium, have applied to the Regional Administrative Court (TAR) because of the too low level of the compensation.

⁴⁴ Proportioned to the effective consumes recorded in each Region.

this revenue source acquires a structural and automatic nature, so that local governments should rely for the future years on a more stable financial framework. The second, introduced as well by the Financial Law for 2008, establishes a 19% allowance for the costs born by systematic users to buy an annual LPT pass in 2008⁴⁵ and can represent an useful impulse to increase fare revenues, at least in the short run.

Adequate capacity to manage contracts - Contractualization has been intended as the tool for putting into practice the principle of separation between the politically competent body and the operators, in order to define reciprocal commitments in a more effective and transparent way. Regardless of the form adopted to award contracts (directly or through bidding), the ability to design and manage contracts thus represents a turning point of the reform. Even if a formal respect of the norm has progressively emerged, so that public service contracts are generally adopted, this role seems to be carried on by local authorities with few guarantees since, for the most part, they do not have the technical capacities to properly state the conditions that the contractor has to comply with in services provision (Bognetti, Robotti, 2003). Regarding contents, for example, a survey by the Italian Court of Auditors (Corte dei Conti, 2003) has shown how contracts have substantially re-proposed those included in previous concessions, focusing mainly on subsidy determination and on the volume of supply. Less developed are precise rules on the execution of controls, on the management of customer satisfaction, and on the dynamic definition of tariffs; nearly absent are provisions for sanctions or rewarding mechanisms. The outcome is even more discouraging concerning the ex-post evaluation of contracts, since the Court mentions “an almost complete absence of monitoring and control mechanisms”: the verification of results is, in fact, left to a formal check of documents and data presented by operators (budgets, revenues, supply, patronage, customer satisfaction survey) that normally has not been supplemented by autonomous surveys, possibly carried out by third parties.

Even if an endogenous process of learning can be expected on this point, along a continuous experience curve, two structural problems seem to emerge. On the one hand, the transformation of municipal enterprises into separate joint stock companies, with the further prospect of privatization, has transferred a large part of technical competences to the provider, leaving the political authority without adequate evaluation capacity and know how. This circumstance is even more problematic with franchising, where proposals have to be compared to each other and where the old incumbent can be only one of the potential bidders. On the other hand, the incentive to effectively manage contractual arrangements can be strongly weakened by the confusion of roles between the controller and the controlled, typical of a situation where the former is still the owner of the latter. The lack of independence, in fact, exacerbates the risk of capture by the regulate firms and, at the same time, the risk for

⁴⁵ The maximum amount of the pass is 250€, so that the maximum tax relief is of 47.5 €.

the regulated firms to be driven by politically motivated authority⁴⁶. In other words, the binding nature of contracts⁴⁷, which characterizes normal market relationships, is scarcely credible in this circumstance: it is unlikely that local governments will let their companies go bankrupt or even go to court against them, while for electoral reasons politicians may require additional services (higher frequency, network extension) after the signing of the contract, determining a softening of budget constraints.

The main attempt to overcome this pitfall has been developed, at least in some cases, by the creation of transport agencies. Those agencies, above all when arising from the ashes of existing providers, as in the case of the ATAC in Rome and the SRM in Bologna, can allow public authorities to maintain the technical competences and know how accumulated over many years in the special enterprises; at the same time, when they acquire a separate legal and operative form, they can guarantee more credibility in the management of contractual relations and in the awarding procedures. From this last point of view, the collocation of agencies in the multilevel government remains an open question and even a critical issue. Regional agencies can exploit scope and scale economies and provide for a higher level of autonomy and independence with respect to local interests: they are thus better suited to competences related to the preparation and management of tenders, thereby reducing the risk of capture, above all when local authorities still own the transport company. Agencies positioned at the municipal level, as in the case of Rome, have a direct link with the territory and can be preferable when they are assigned a more complex set of competences (asset ownership, awarding, mobility management, network planning) which can hardly be carried out by a single regional body. An intermediate solution provides for provincial or metropolitan agencies, which could combine the positive elements of both of the previous solutions. The agency created in the Turin (see above) represents an arrangement which could provide for an adequate knowledge of the territory and even for a certain degree of autonomy with respect to the transport company controlled by the main municipality.

Enhancing the role of competition - Until now, the contributions made by competition to the original aims of the reform have been minimal, not only because of the normative uncertainty, but also because of the substantial lack of essential requirements to make the market really function. As described above, in fact, awarded tenders have been few and geographically concentrated, with quite disappointing results: the number of participants has been small (and in some cases

⁴⁶ In a recent assessment carried out by the National Antitrust Authority (AGCM, 2007), one of the involved company – APM, a stock option company shared by the Province and the Commune of Perugia – has declared that it has been forced by the public shareholder to participate to the tendering procedure, even if the reserve price was economically unsustainable.

⁴⁷ Regulation 1370/2007 defines *public service contract* as “one or more legally binding acts confirming the agreement between a competent authority and a public service operator to entrust to that public service operator the management and operation of public passenger transport services subject to public service obligations”.

zero) and incumbent publicly-owned companies have generally been entrusted to provide services, with a modest mobility of providers and modest cost savings. Obstacles to an enhanced role of competition can be found both in the implementation mechanisms and rules adopted to carry out tendering procedures and in the room for manoeuvre left to operators to organize productive inputs and to gain productive efficiency.

From the first point of view, the too local approach to regulation, frequently influenced by the strict existing relationship between the buyer/regulator and the incumbent provider (the former special enterprise transformed into a stock option company), has undermined the credibility of auctions, making difficult for most efficient operators to expand beyond their regional (and even national) borders.

The definition of low compensations for public service obligations (see above), the decisions adopted on asset ownership, and the significant weight given to qualitative elements in awarding mechanisms have further reduced the degree of competition and distorted the selection in favor of existing public operators. In some cases, for example, calls for tender have required participants to provide essential instrumental goods (depots, vehicles, stations, rolling stock, shelters), tailoring the qualifying requisites to the incumbent and reducing the number of competitors. The national law establishes that call for bids has to grant that essential facilities are placed at the disposal of operators entrusted of the provision of the service, but this provision doesn't emerge as decisive. On the one hand, in fact, the evaluation of these capital goods is extremely complex, due to the information asymmetry between the incumbent and the local authority, and can lead to the application of an unfair price for the new comer. On the other, the exact identification of what is considered an "essential facility" is questioned and has until now caused uncertainty and even conflicting reading⁴⁸. An opportunity to avoid the obstacle is to establish that all principal assets could be held by the organizing authority, or a separate independent organization, which could then allocate them to providers: this is the choice adopted by the city of Rome, where the local transport agency (ATAC) is responsible for the majority of instrumental assets (underground network, depots, vehicles, information, stations, equipment), and even by some regional Laws (eg. Lombardy and Emilia Romagna). Alternatively, the new draft Law approved by the Council of minister on the 23 of November 2007 (see above) leaves to the entrusted operator a 24 months period to get (even through location or leasing contracts) the capital goods non included by the bid among "essential facilities".

Furthermore, the adoption of multidimensional tenders, based on the scheme of the *most economically advantageous tender* provided by the regulations, can permit a higher level of discretion to the franchiser in selecting bids, above all when the

⁴⁸ The main criticalities concern rolling stock. While, in fact, the availability of trains and buses can represent a serious barrier for potential new entrants, since it could be difficult for bidders to buy on the market new means to provide the service, the national Antitrust Authority has established (AGCM, 2003) that trains and buses cannot be considered as "not reproducible at sustainable social costs" so that the obligation to transfer them to the potential new operator does not apply.

weight given to qualitative parameters is high. The likely result is a greater opportunity to protect the local company and scant room for productivity gains. This seems to be the direction taken during the first Italian experience with tendering in 1998, in the Tuscany region, where the awarding of nine interurban lines, completely based on quantitative parameters (subsidy cap and veh-km supplied), was characterized by the selection of eight new operators (especially private consortia) and by relevant rebates (from 30 to 40%). Yet awards were annulled, following an application by the incumbents⁴⁹, and the new model adopted for entrusting services has substantially modified the original approach, attributing strong relevance to qualitative elements (70%). According to the original aims of the reform, which recognized the great importance of cost saving, it can be considered appropriate to reduce the multidimensionality of awarding procedures by fixing minimum standards on quality factors (climate control, video surveillance, service reliability targets, customer satisfaction, passenger safety, etc.) and subjecting the final phase of tenders to quantitative parameters. A stimulus to maintain or even enhance performances can be given in this case by the adoption of contractual schemes which, as in the case of net cost contracts, assign commercial risks mainly on the operators and introduce a sort of automatic incentive to meet customer expectations. In light of the inability of public authorities to clearly identify quality standards and to enforce contracts, net cost contracts can therefore be seen as a tool to reduce the information requirements of the regulators and even the need for ex-post control on the behavior of operators. From the point of view of the supply of services, market competition can be enhanced by the presence of a sufficient number of operators equipped with adequate technical and financial capacities and with concrete opportunities to improve the cost-effectiveness of service provisions. An initial key element in this direction, considering the high share of operative costs represented by labor costs, is the possibility to improve staff efficiency through greater productivity, wage re-negotiation and flexibility. Even if some maneuvering room has been introduced in this direction by the increased flexibility recently given in Italy to labor relationships, the general approach adopted by regional Laws has been to give the existing staff the right to a job and under the same contractual conditions even in the case of the awarding of services to a new operator. It is widely recognized that social clauses of this kind can seriously reduce the probability of the turnover of providers⁵⁰ and the opportunity to obtain significant gains in production costs: it is in fact difficult for a potential entrant to bid at advantageous conditions when the largest share of operative costs (ie. labor costs) is bound to the level previously experienced. The case of the three tenders awarded in Rome from 1999 to 2001 seems to confirm this conviction: the entrance of new providers and the relevant reduction of unitary costs can in fact

⁴⁹ The application was based on the lack of provisions regarding staff and asset transfers, the lack of qualitative elements in selection mechanisms, and the inadequate criteria used for pre-qualification procedures.

⁵⁰ It is worth noting how this can discourage companies to take over situations characterized by high labor costs, since this can also influence the wage claims of existing workers.

be explained (at least partially) by the fact that the services awarded were additional and that no social clause had been imposed. There are various opportunities to overcome this barrier without imposing excessive social costs. A first step can be to allow companies to re-negotiate contracts for new employees, for example, by applying the same conditions of their own staff; an alternative step is to extend the use of welfare support provisions (as a redundancy fund) to transport operators, recognizing the transition from an approach typical of the public sector to one governed by normal market instruments; a third opportunity, included in the new draft law on transports, is to avoid imposing an absolute constraint on the subject, whilst providing within tendering procedures an additional score for bids which guarantee the same occupational level and working conditions as before.

To help achieve a more flexible labor force management, and taking a wider perspective, the objective should be to progressively weaken the firm bonds existing between the single provider and a given territory, thereby promoting the development of a restricted number of operators on a National/European scale who can even lose a part of their market without giving up their activities. Efforts to encourage aggregations and mergers among transport companies can thus be rational not only to exploit scale economies and to permit the awarding of large basins without curbing competition, but also as a means to fully establish the private nature of the contractual relation between competent authorities and operators.

A recent investigation by the National Antitrust Authority (AGCM, 2007)⁵¹ has clearly stated that, until now, initiatives carried out by transport operators in this direction have been mainly defensive, with the creation of agreements and groupings among local providers, which have served mainly as a collusive device to divide up the territory – according to the rule of the predominance of the incumbent provider on its historical basin - and to avoid price competition, rather than strategic alliances to gain productivity and efficiency through scale and scope economies. The main findings to support this thesis are:

- the birth of pools of companies without operative tasks, but exclusively aimed at coordinating and concerting the activities of the component members in the context of controlled competition;
- the modest number of long term agreements and of structural mergers;
- the absence of a true interest by the companies taking part within a group to a competitive tender to contribute – both from a technical and commercial point of view - to the management of the service, which is generally left to the historical local operator.

It is therefore necessary that this kind of alliances will move towards less occasional and more structural partnering models, of a size enabling themselves as serious competitors on the European business market. The preliminary technical agreements

⁵¹ The investigation has led the Authority to inflict pecuniary sanctions to fifteen companies at the end of 2007.

reached in the beginning of 2008 to carry on a merge among the municipally-owned transport companies of Turin and Milan, which could bring into being an operator with a turnover of about 1260 mill. €, can represent an important step in this direction.

Privatization - Apart from the controversial issue regarding the internal efficiency of private undertakings vs. that of public ones, the close interrelation between companies and public bodies has been widely criticized by the promoters of competition. According to the Antitrust Authority (AGCM, 2007), in fact, the persistence of ownership relations has until now discouraged local governments from selecting providers different by the incumbent and, furthermore, has strongly influenced the managerial autonomy of the companies. In this regard, the privatization of former monopolistic providers could be a necessary step once competition for the market has been chosen as the compulsory selective mechanism. Private ownership, in fact, strengthens the separation of roles and interests between regulators and providers and therefore contributes to the credibility of service contracts and budget constraints. This becomes particularly relevant for tenders, since privatization can guarantee the full independence of the awarding authorities and even favor the emergence of providers from the narrow local context where they are now confined.

Italian law has introduced formal privatization but it does not make substantial privatization compulsory, even if it offers incentives to local authorities to sell their shareholdings, above all in terms of the extension of the transitory period. Even some regional laws have taken steps in the same direction, introducing financial incentives and more binding requirements regarding the transfer of the majority of shares.

In the short run, the absolute predominance of municipally-owned operators certainly requires that awarding procedures initially admit their participation⁵², since their exclusion would excessively impoverish the range of competitors; but after an adequate transitional period, a more definitive step toward their privatization could be taken.

4. Accessibility and quality of services

The main aim of this section is to evaluate if the important changes undergone in the last years in terms of organizational forms and decreasing public subsidies directed to cover operative costs can be considered coherent with the implementation of public interest, i.e with the need to guarantee a gamut of transport services accessible - both physically and economically - and qualitatively suitable.

⁵² In this perspective, the new draft Law on transport provides that in cases where the competent public authority holds a share of one of the competitors, the call for bid has to be sent to the Antitrust Authority for a mandatory advice in order to safeguard transparency and impartiality.

4.1. General accessibility

The extreme complexity and fragmentation of local transport services makes it difficult to have fixed quantitative parameters through which the accessibility to services can be evaluated. Some studies explore accessibility measuring the people living within a certain distance from the closest LPT station or stop, but these studies are at present conducted as pilot projects only, and no systematic surveys on this issue is available. However, since LPT services are commonly considered to be a basic right, it is important to obtain information on the concrete ability of services to satisfy consumers and to play the social role generally attributed to it.

A possible way to investigate general accessibility and relative recent trends can be through users' perceptions, as exposed in tab. 7.

Table 7. General accessibility to LPT services* : opinion by consumers (%)

	Easy				Difficult				No access			
	2000	2002	2004	2006	2000	2002	2004	2006	2000	2002	2004	2006
EU average	75	68	71	80	14	17	17	13	4	6	7	4
Italy	70		67	69	17	23	16	18	6		9	8

* Answers refer to transport services within towns/cities

Source: European Commission, *Services of General Interest*, Special Eurobarometer 260– July 2007.

Consumers' answers included into the cross-country Eurobarometer survey show a quite disappointing picture for Italy, characterized by an increase in the period 2000-2006 of the level of dissatisfaction (non accessibility + difficult accessibility) from 23% to 26%, although with a partial recover in the latest years (2004-2006). Italian values of dissatisfaction are well above the EU average (26% against 17% in 2006), with the gap that has clearly enlarged in the monitored period (+4%). The figure is substantially coherent with the findings of another single-country survey carried out in Italy (ISFORT, ASSTRA 2008) which shows an increase in the % of “non accessibility” to LPT services from 14.6% in 2003 to 20% in 2005, and a limited improvement in 2006 (18%) and 2007 (17,1%)⁵³.

Results indicate at the same time that users perception of general accessibility/non accessibility is differentiated according specific characteristics of the persons approached: age⁵⁴, level of income and (above all) location, and confirm that certain forms of limitations exist above all for senior citizens, low income groups and

⁵³ This survey is relative only to people who expressly do not use LPT service, and this explains the difference as far the level of “non accessibility” is concerned with respect the Eurobarometer survey.

⁵⁴ From a socio-demographic standpoint, younger people declare they have easier access to urban transport: 80% for 15-24 year old versus 68% for 55 and over (source: European Commission, *Services of General Interest*, Special Eurobarometer 219– October 2005).

inhabitants of rural areas. For example, as might be anticipated, easy access to local transport networks is widely claimed at the EU level by people living in large towns (94% of affirmative answers) compared with 67% of those living in rural villages; accordingly, Italian data for 2007 (ISFORT, ASSTRA 2008) show a level of non accessibility of 7.5% for cities > 250.00.000 inhabitants and of 19.2 % for cities < 100,000 inhabitants (against a total average of 17,1%).

Some further indications as to the level of coverage of services and their effective ability to meet people's needs may be inferred by supply and demand data.

Table 8. Supply and demand of LPT services: some recent trends

		SUPPLY		DEMAND	
		Variation % of seats x km 1995/1990	Variation % of seats x km 2005/1995	Variation % of pax x km 1995/1990	Variation % of pax x km 2005/1995
National data	Buses	-2.1	+4.4	-6.7	+9.5
	<i>Of which</i>				
	<i>Urban buses</i>	-8.8	+10.5	-10.9	+12.3
	<i>Interurban buses</i>	+4.6	-1.5	-3.9	+7.8
	Tram^a	-5.2	-11.8	-27.4	-7.3
	Metro^{bc}	29	16.3	+58.3	+21.8
Case studies		Variation % of veh x km 2006/2003		Variation % of pax x km 2006/2003	
Genoa	Total	-5.1		+4.5	
	<i>Urban</i>	-5.1			
	<i>Extra-urban</i>	-			
	Surface services	-5.7			
	Buses	-6.6			
	Tram or similar	+13.3			
	Metro	+158.3			
Florence	Total	+27.4		+5.2	
	<i>Urban</i>	n.a			
	<i>Extra-urban</i>	n.a			
	Surface services	+27.4			
	Buses	+27.4			
	Tram or similar	-			
	Metro	-			
Bologna	Total	-1.0		+2	
	<i>Urban</i>	n.a			
	<i>Extra-urban</i>	n.a			
	Surface services	-1.0			
	Buses	-1.0			
	Tram or similar	-			
	Metro	-			
Milan	Total	+4.1		+1.4	
	<i>Urban</i>	+4.0			
	<i>Extra-urban</i>	+4.3			
	Surface services	+2			
	Buses	n.a			
	Tram or similar	n.a			
	Metro	7.2			

Brescia	Total	+24.5	+17.4
	<i>Urban</i>	n.a	
	<i>Extra-urban</i>	n.a	
	Surface services	+24.5	
	Buses	+24.5	
	Tram or similar	-	
	Metro	-	
Turin^c	Total	+8	+5.3
	<i>Urban</i>	+10.1	
	<i>Extra-urban</i>	+1.8	
	Surface services	+8.5	
	Buses	+1.1	
	Tram or similar	+8.2	
	Metro	n.c	
Rome	Total	+3.5	+3.1
	<i>Urban</i>	+3.5	
	<i>Extra-urban</i>	+8.2	
	Surface services	n.a	
	Buses	n.a	
	Tram or similar	n.a	
	Metro	+0.6	
Naples	Total	-12.8	-0.1
	<i>Urban</i>	n.a	
	<i>Extra-urban</i>	n.a	
	Surface services	-15.7	
	Buses	n.a.	
	Tram or similar	n.a.	
	Metro	3.1	
All case studies	Total	+3.8	n.a
	<i>Urban</i>		
	<i>Extra-urban</i>		
	Surface services		
	Buses	+2.1	
	Tram or similar	+8	
	Metro	+11.5%	

^a Tramways or similar plants are presents in the cities of Turin, Milan, Roma, Naples, Genoa and Trieste.

^b Metro systems are present in the cities of Milan, Roma, Naples, Genoa and Catania.

^c A new metro-line has been opened in 2006 in the city of Turin, and has supplied around 4.5 million veh-km.

Source: Ministero dei trasporti (2007) for national data; and CIVICUM (2008) for case studies

The overall national picture shows that, even in a period of restraints in public spending and of selectivity in the field of intervention, there is no overall evidence of public authorities withdrawing from the provision of LPT; on the contrary, in the decade involved by the reform, a moderate increase in supply, which has reversed the trend previously experienced, can be observed for both buses (concentrated in urban buses) and metro. This result is verified even by the eight case studies considered, although with a mixed underlying shape. In some circumstances in fact (Genoa, Bologna, Naples) the reduction of bus services, which represent the predominant component of the supply, has caused a negative overall outcome. Great importance is

everywhere given to the development of services with protected lines (above all metro-lines), until now strongly under-dimensioned with respect other European urban areas⁵⁵, which may, as clearly shown by numerous studies at the European level⁵⁶, be the most competitive alternative to the private car. In fact, the construction of new routes or the upgrading of existing ones now characterize several Italian cities both in large metropolitan areas (Milan, Turin, Rome, Genoa, Naples) and in medium-sized cities (Padova, Brescia, Parma, Cagliari).

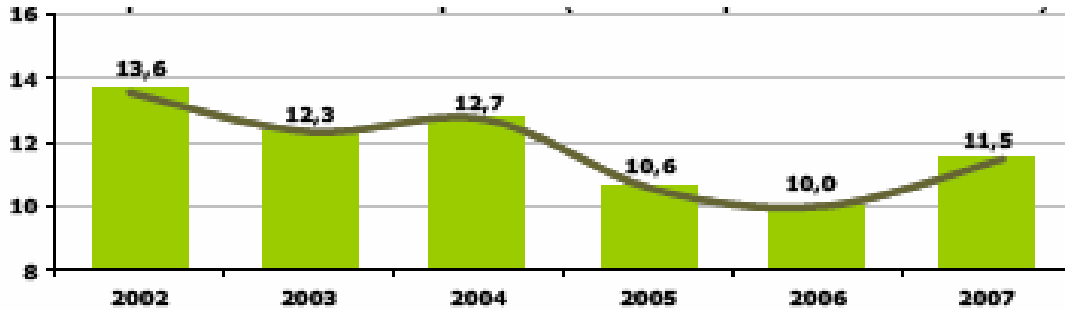
Even demand trends show some encouraging signals, with a clear-cut turnabout in pax-km in the decade 1995-2005 with respect the previous period (tab. 8), mainly due to the positive results obtained by urban buses and metro systems. In all the eight case studies (but Naples) pax-km have increased too in the four years period 2003-2006. Yet, positive results obtained have non been enough to bring about a recovery in modal split by LPT (fig.2), so that the predominance of private modes still emerges as a remarkable trait of the Italian situation. In particular, collective services keep their role nearly stable in large and medium-sized cities, while they continuously loose ground in cities with less than 100.000, where their present function results little more than ancillary.

⁵⁵ It is enough to record that the total length of metro lines in Italy in 2004 (nearly 130 km.) is lower of that of the only city of Berlin.

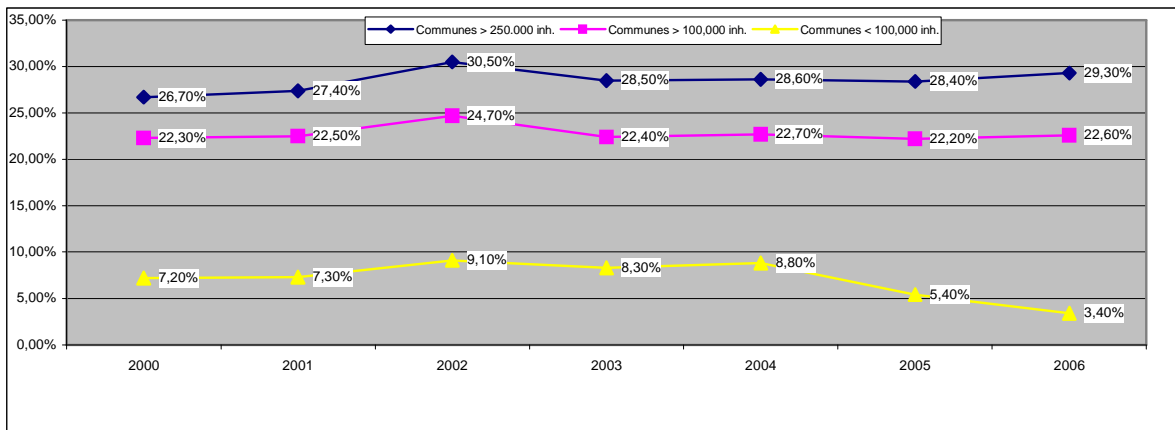
⁵⁶ See for example: European Commission, *Aiuto – Assessment of innovative urban transport options*, Transport Research, Fourth Framework Programme, Urban Transport, Transport DG VII – 53, Luxembourg, 1999; European Commission, *Sesame - Derivation of the relationship between land use behaviour patterns and travel demand for political and investment decisions*, Transport Research, Fourth Framework Programme, Urban Transport, Transport DG VII – 98, Luxembourg, 1999; European Commission, *Urban Transport Benchmarking Initiative-Year Three Final Report*, July 2006; EMTA, *EMTA Barometer of public transport in European metropolita areas (2004)*, July, Madrid.

Figure 2. LPT modal share within motorized displacements

Whole population



According to city dimension



Source: ISFORT-ASSTRA (2007 and 2008)

LPT has clearly acquired in the last decades the typical development of an inferior good, whose (relative) demand decreases when the consumers income rises in favour of private means, for which the opposite is observed. In this regard, the major challenge to be faced for a significant re-launching of collective modes seems not (or not only) the general availability of services⁵⁷, but largely their effective ability to meet users needs and offer a (qualitatively) valid alternative to the car⁵⁸, on the one hand, and, the actual aptitude of local governments to adopt demand management

⁵⁷ An argument clearly supported by the Special Eurobarometer survey 260 “Services of General Interest” (july 2007) where it is shown how only two thirds (65%) of EU25 citizens make use of local transport networks although they are accessible, with a much lower than average figure seen in Italy (53%).

⁵⁸ A “quality challenge” we will discuss further in par. 4.4.

measures aimed at controlling private car use and influencing mobility patterns and modal split, on the other. The combination of “pull and push actions”⁵⁹ is in fact to be seen as a necessary feature for urban transport policies to be effective and, at the same time, acceptable (European Commission, 1999).

The need of a new course in policy intervention emerges as an indispensable step in particular for Italian urban areas, where the considerable expansion of the gravitational area of passenger mobility⁶⁰ has brought about in last decades an increasing car-dependence, witnessed by the highest motorization index (590 cars x 1000 inhabitants in 2005) in the EU25 (after Luxembourg)⁶¹, and a continuous loss of market share for non-motorized and collective means. This progressive, never-ending, increase in mobility, together with the parallel continuous shift towards private motorised transport modes, in a context of compact, narrow and usually ancient cities, makes the overall problem dramatically serious.

Urban authorities trying to tackle the challenge have gradually introduced measures as traffic bans, limited traffic zones⁶² (ZTL) and, more recently, parking and road pricing, with the aim to reduce congestion and air pollution, while stimulating the use of more environmentally friendly alternatives. The general picture remains however mixed (tab. 9) and, as shown in fig. 2, efforts until now developed have obtained some results only in large cities, where they have led at least to a stabilization of modal shares, while the overall trend sees a clear predominance of private modes, which cover a share of 90% of motorised displacements. A major effort is therefore required to bring about more incisive and widespread results and to mutually reinforce the initiatives taken to increase LPT attractiveness (pull measures).

⁵⁹ Where “pulling” means that the main aim is to encourage non-private modes (incentive measures), while “pushing” refers to measures or packages mainly aimed to discourage the use of the private car mode (disincentive measures) (European Commission, 1999).

⁶⁰ A process which seems not yet completed: a recent survey on urban mobility patterns (ISFORT, 2008) has in fact shown that the share of short run displacements (< 5 kilometres) in urban areas decreased by nearly 11% in the period 2001-2007, while that of medium run displacements (> of 5 and < 50 kilometres) increased by nearly 10%.

⁶¹ The average motorization index in the 110 Italian provincial capitals is around 615, while the same index calculated on a sample of 41 European cities results around 440. Source: ISFORT (2007).

⁶² Such limited traffic zones are areas of towns, generally concentrated in the old centres, where the use of cars without specific permits is banned during certain periods. In Italy, they were first introduced in large urban areas (Milan, Turin, Florence, Bologna) and then progressively extended to medium and small sized cities: according to a recent survey (Legambiente, 2007) they are now implemented in more than 90% of all provincial capitals, with an average extension of 4 square metres/inh. and a maximum value of 45.61 in the city of Bergamo.

Table 9. Traffic demand measures in the largest Italian cities

City	ZTL		Parking pricing			Road pricing
	Dimension (% of municipal land coverage)	Hours of restricted access	Total charged spaces		Inhabitants/ charged spaces	
			2001	2006	2006	
Milan	0.2 km ² (0.11%)	24	13,330	47,509	13.8	Area licensing scheme (Ecopass) applied to the central area called "Cerchia dei Bastioni": 8.2 km ² (4.5% of the city area) and 77,000 residents (6% of the total urban population). Daily charging levels vary from 3 to 10 euros according to vehicles' environmental qualities. Free entrance for LPG, methane, electric, hybrid, petrol cars and vans euro III and IV; diesel euro IV with homologated particulate filters. Residents pay an annual pass from 50 to 250 euros according to vehicles' environmental qualities.
Turin		3	58,436	65,453	27.4	Area licensing scheme applied to the central ZTL (1.1 km ²). The standard cost of a two-year permit is 50 euros + administrative costs. Lower tariffs for residents and a few other categories.
Genoa^c	0.64 km ² (0.26%)	24	3,333	13,555	44.6	No
Venice	0.27 km ² (0.20%)	24	5,665 (2003)	12,884	21.1	No
Trieste	0.15 km ² (0.18%)	24		4,604	45	No
Bologna	3.7 km ² (2.63%)	13 24	24,551	35,868	10.4	Since May 2006, all categories previously excluded from the central ZTL have been able to buy a one-day permit costing 5 euros, or a four-day permit costing 12 euros. A maximum threshold of 800 accesses x day is established. Free permits are issued to residents, taxis, government services, and delivery or construction firms with business within the ZTL. Around 70,000 permits have been issued and give rise to about 40,000 daily accesses to the ZTL. Since August 2006, commercial services have had to pay for a permit (previously free of charge); the cost of the permit is 25 euros if it is valid only for a single number-plate and reaches 300 euros for permits valid for any plate.
Florence	3.7 km ² (3.61%)	12	7,935	30,549	12	Area licensing scheme applied to the central ZTL (3.7 km ²). The standard cost of a yearly permit is 65 euros + administrative costs (about 70 euros/one off). Residents and taxis pay only administrative costs. Disabled people enter free of charge. One-day permits cost 5 euros for selected categories.

Rome	5.81 km ² (0.45%)	11	51,710	86,750	29.4	An Area licensing scheme has been applied since 1998 to the central ZTL: an area of nearly 4.8 km ² with around 40,000 residents (1.5% of the total urban population). The scheme was initially based on annual paper permits, but since 2001 it has been managed through 23 automatic gates and motorway tolling technology (Telepass). From Monday to Friday (6.30 am to 6 pm) and on Saturday (2 pm to 6 pm) only permit holders are allowed to enter the restricted zone. The standard cost of a yearly permit, which can be obtained only by selected categories, is 550 euros; 200 euros for retailers and school boys parents; 55 euro for craftsmen (only 1 permit), doctors, and commuters to the Vatican. Residents pay 55 euros for a five-year permit (only the first car), 300 euros for a five-year permit for the second car, and the standard annual rate for the third (and beyond). Permits are granted free of charge to disabled people, public transport vehicles and taxis; motorbikes enter for free. From 2008 daily permits for special purposes can be obtained on request at the cost of 20 €. Revenues: 8 million € in 2006.
Cagliari	0.79 km ² (0.92%)	4 1/2		7,144	22.6	No
Naples	3.44 km ² (2.93%)	11/12/14	25,463 (2003)	31,758	31.3	No
Catania	0.21 km ² (0.11%)	24	3,100	8,000		No

Source: our calculations on ISFORT-ASSTRA (2007) data.

As a whole, it can be concluded that the enhancement of economic sustainability pursued in the last two decades has been obtained without a substantial cut in the supply of services and with a partial recovery in the demand. Labor productivity enhancement and efforts directed at the control of operative costs, in a context where the initial degree of inefficiency was particularly high, have in fact allowed to meet (at least partially) the financial objectives without compromising the collective commitment of services. Yet, the recent trend has not been sufficient to guarantee LPT to become really competitive with respect to private means, so that new and more radical initiatives are required. The consolidation of the contents of the reform, the definition of a more stable financial framework by national and regional governments, and the widespread adoption of traffic demand management measures represent the three pillars of a future strategy to be hoped for.

4.2. Affordability and social accessibility

The availability of LPT services at reasonable prices can be an important instrument for guaranteeing access to many different activities (job, health, public services,

leisure) and enhancing the quality of urban social life⁶³. Accordingly, the level and the evolution of public transport fares represent both an environmental issue, which can favor a higher level of competitiveness with respect to private cars, and a social accessibility issue, since low-income households tend to spend a higher share of their outgoings on network industries services and are likely to be most affected by price changes. This last circumstance can be particularly significant when the less-favoured are located (forced) in the outskirts and have to commute to and from work each day. At the same time, tariffs evolution influences financial sustainability and the availability of adequate resources to provide more attractive and competitive services.

The ability to balance this potential trade-off between the social role of LPT and the burden charged on public finances represents one of the main challenge to that public authorities are required to tackle in the field of transport regulation.

In Italy, the decision making process regarding fares is mainly devolved to regional and local competent authorities, which are given by the recent organizational and financial development a high degree of freedom, though they have (or should have) to keep the minimum ratio fare income/operative costs (35%) into consideration as an exogenous constraint.

In this scenario, price movements have shown a quite controversial evolution, with the two main available surveys showing noticeably dissimilar results (tab. 10). Leaving aside the methodological assumptions below the two studies, it can be deemed likely (Dell'Aringa, 2006) that tariffs have actually experienced an intermediate course between the two recorded, with the average prices⁶⁴ that have followed a trend very close to that experienced by the consumer price index⁶⁵: a trend generated by the faster increase of single tickets and by a more measured course of monthly and annual passes. It is furthermore generally recognized (ISFORT-ASSTRA, 2008; Unioncamere, 2008) that LPT nominal prices' increase has been significantly lower with respect to that experienced by other services of general economic interests (water and waste, road charges, gas)⁶⁶, for whom the need of a full cost-recovery by tariffs has been generally pursued.

⁶³ According to the words of the Green Paper on urban mobility (European Commission, 2007a p. 13): "Social aspects of mobility in towns and cities present a challenge. Urban transport needs to be affordable, also for people with low incomes. Citizens with reduced mobility and senior citizens expect increased and higher quality mobility. Personal mobility is key to independence".

⁶⁴ Calculated as a weighted average of single ticket and pass.

⁶⁵ This confirms the idea already expressed in section 3.2 that TPL operators have mainly taken up the major burden due to VAT introduction.

⁶⁶ According to ISFORT (2008) the annual average increase of LPT prices in the period 1996-2006 has been around 1.7%, against 5.3% for water, 7.6% for wastes, 5% for gas, 4.1% for gasoline, and 3.3% for road charges.

Table 10. Price evolution in LPT services

	Single ticket	Pass	Average	Consumer price
1996-2005 (ISTAT)^a – 1996=100	139.1	128.5	132.8	124
1996-2005 (ASSTRA)^b - 1996=100	128	113.5	120.4	124
2002-2007 (ISFORT-ASSTRA)^b 2002=100	117.5 113.61 ^c	113.63		110.3

^a Data from the National Institute of Statistics (ISTAT) on a sample of 80 cities

^b Data from the National Association of Local transport companies (ASSTRA) on a sample of 50 cities

^c Value obtained considering also the different time duration of tickets

Data on price evolution show therefore that the process and the need to improve the financial sustainability of services have not worsen the general affordability of collective means. At the same time, the controlled trend experienced by season tickets and the widespread availability of exemptions and rebates (tab. 11) have operated as an important tool to safeguard frequent users and disadvantaged categories, preventing more acute forms of social exclusion. A circumstance strengthened by the 19% allowance established by the Financial Law for 2008 for the costs born by systematic users to buy an annual LPT pass.

Table 11. LPT prices in selected case studies (January, 2008)

	Single ticket		Pass		Exemptions and rebates
	<i>Nominal price</i>	<i>Hourly cost</i>	<i>Monthly</i>	<i>Yearly</i>	
Genoa	1.2	0.8	36	335	Rebates for young people (<26 years), old people (>65 years), unemployed, low income people, employees ^a . Exemptions for disabled, low income retired people.
Florence	1.2	0.8	34	310	Rebates for students, old people, employees ^a , low income.
Bologna	1	1	32	270	Rebates for students, families, old people, employees ^a
Milan	1	0.8	30	300	Rebates for students, old people, employees ^a , disabled
Brescia	1	0.8	37	230	Rebates for students, old people, employees ^a , low income retired people
Turin	1	0.86	32	290	Rebates for students, old people, unemployed, disabled.

Rome	1	0.8	30	230	Rebates for young people (<20), students, old people, unemployed, families, disabled. Exemptions for low income retired people and long term unemployed.
Naples	1.1	0.67	35.6	244.1	Rebates for students, old people, low income people
Palermo	1	0.5	48	459.4	Rebates for employees, students, old people, unemployed, low income retired people
NATIONAL AVERAGE		0.78	31.15		In 94% of cases is available a pass for students; in 66% for old people, in 30% for disabled. The cost of a monthly pass for old people is on average around 15 € and for students around 18.

^a Companies can buy a carnet of annual passes (above a minimum threshold) for their employees at a discounted rate.

Source: our calculations on ISFORT-ASTRA (2008) and municipalities' web sites.

The overall positive assessment on affordability is confirmed by consumers' opinion. According to the Eurobarometer Survey on Services of general interest (European Commission, 2007), in fact, a large and increasing majority (82% in 2006 against an EU25 average of 78%) of Italian LPT users considers services within towns to be affordable, while only 11% of them says that prices are excessive. An analogous finding is obtained by a national survey (ISFORT, ASSTRA 2008), where it is highlighted that prices are at present considered the second most satisfactory characteristic of LPT services (after staff behavior), reaching an average evaluation above 6 (in a scale from 0 to 10), well above those of other attributes as frequencies, information, personal security, punctuality, comfort and cleanness.

In this perspective, local governments seem to have some margin of manoeuvre to recover through tariffs' increase new resources on the revenue side (as partially occurred in the last five years), to be directed to the qualitative improvement of services, without compromising attractiveness and economic accessibility. An opportunity strengthened by the fact that the potential regressive effect of user fees is commonly estimated to be lower in the transport sector than in other cases as gas or electricity (Dexia, 2007).

A second essential factor of social accessibility is represented by the access to services for people with disabilities. In this field, the increasing quota of population

with problems in accessing to LPT⁶⁷ has led to a nearly single case of positive legislative intervention at EU level, which has defined, through the so-called Bus and Coaches Directive (2001/85), a sort of basic “European right” of access to means of transport for all persons with reduced mobility traveling in the European territory⁶⁸.

Evolutions on this subject in last decade are to be considered encouraging (tab. 12), since several improvements have actually started off, even before the implementation of the EU directive into national law, and a positive trend to enhance physical accessibility along with fleet renewal and the building of new infrastructures has been progressively experienced. Generally, it is however recognized that this positive trend in vehicle accessibility is frequently counteracted by other deficiencies in the transport chain, as the configuration of pavements and road crossings, the inadequate design of stops, or their occupation by private cars, which can seriously undermine their effectiveness⁶⁹.

Yet, municipalities are progressively developing interventions also to tackle these pitfalls, mainly through three kinds of interventions:

- a stronger control of bus stops to protect them by private-car intrusion: in many Italian cities, for example, bus drivers are empowered to fine cars occupying bus stops;
- a better design of on-street stops to take into consideration the specific needs of disabled people;
- the development of specialized and dedicate door to door services (tab. 12) that meet the need of all disabled people, guaranteeing a more secure and caring service.

⁶⁷ Esteemed to be around around 20% of population. Source: European Commission, DG Transport and Energy, Working Group Accessibility, *Benchmarking the special Needs of Different Users Group in Public Transport*, Citizens Network Benchmarking Initiative, 2002.

Percentage of people over 65 (80) in OECD countries is also continuously growing: 10,6 (2,3) in 1990, 13,1 (2,6) in 2000, 14,6 (3,7) in 2010. Source: ECMT, *Transport and Ageing of the Population*, February 2002.

⁶⁸ The directive 2001/85 establishes that new vehicles designed to provide scheduled urban and interurban services shall be low-floor or be fitted with a kneeling system or ramp or lift. Wheelchair restraint systems to warrant the stability of wheelchairs must also be provided. The directive has been transposed in the Italian case by the Decree 20/6/2003 of the Ministry of transport and infrastructures.

⁶⁹ In a recent report by the Agency demanded to control the quality of transport services in Rome, it is found that nearly 20/25% of bus stops are characterized by some kinds of obstruction which hinders their full accessibility. The highest share of them (>50%) is represented by cars and motorbikes.

Table 12. Physical accessibility in selected case studies

	% of vehicles "wheelchair accessible"		<i>Door-to-door services for special groups</i>
	2003	2006	
Genoa	42.6%	60.9	The bus service operator (AMT) manages a dial-a-ride service offering a daily door-to-door travel for mobility impaired (recorded on a specific list kept by the municipality) from 7.00 am to 8.30 pm. The service is on payment.
Florence	-	77.6	The bus service operator (ATAF) manages since 1986 a dial-a-ride service offering a door-to-door travel for mobility impaired.
Bologna	41.0	60.4	-
Milan^a	51.4-16.0	68.5-39.1	The bus service operator (ATM) manages a dial-a-ride service offering a door-to-door travel for mobility impaired.
Brescia	-	58.0	The bus service operator (Brescia Trasporti) manages a dial-a-ride service offering a door-to-door travel for mobility impaired (to be certified by the municipality). The service is on payment.
Turin	-	67.0	The bus service operator (GTT) manages dial-a-ride daily service offering a door-to-door travel for mobility impaired. The service is on payment.
Rome <i>Metro</i> <i>Trambus</i>		82.7 67.6	The bus service operator (Trambus) manages a dial-a-ride service offering a door-to-door services for mobility impaired people in working days from 6.30 am to 10.00 pm. The service is free of charge. Trambus manages also in four urban districts a door-to-door services for old people (> 65) in working days from 6.30 am to 4.30 pm. The service is for free for movements within each single district and costs 2 € for travelling outside.
Naples^b	47.3	55.2	

^a Data refer to urban and interurban services respectively.

^b Data refer to buses

Source: Our calculations on CIVICUM (2008)

In terms of social accessibility, it is finally interesting to note the role that can be played by other forms of innovative services, such as car sharing, making occasional use of the vehicle possible and affordable, even for low-income households and for large families, while also providing an incentive to minimize unnecessary journeys and turn instead to alternative travel options as much as possible. Car sharing may help to provide basic mobility also for disabled, when stations and vehicles are adequately designed, without making it necessary to fit each private car with expensive devices.

In Italy (tab. 13), an increasing interest towards car sharing schemes has progressively emerged, even if the development of the instrument is still at its embryonic phase. The total number of citizens registered to some forms of car sharing is in fact fairly small (around 9.500 at the end of 2007) and leave space to further initiatives by local authorities to spur its growth⁷⁰.

⁷⁰ As in the case of those cities (Turin, Genoa, Venice, Bologna, Rome) which grants free parking for vehicles taking part in a car-sharing scheme.

Table 13. Car-Sharing experiences in Italy (beginning of 2007)

	<i>Starting data</i>	<i>Users</i>	<i>Vehicles</i>	<i>Parking facilities</i>
Turin	November 2002	1,293	94	56
Genoa	July 2004	1,240	49	33
Florence	April 2005	606	22	18
Bologna	August 2002	1350	36	19
Milan (1)	September 2001	1,017	36	16
Milan (2)	April 2005	na	66	20
Bolzano	October 2002	40	2	1
Modena	April 2003	223	17	13
Palermo	2003	40	20	2
Venice	August 2002	1,916	41	9
Modena	April 2003	223	17	13
Rimini	March 2003	37	5	4
Parma	February 2007	na	10	9

Source: ISFORT- ASSTRA (2007)

4.3. Territorial and spatial accessibility

Considering the pivotal role of cities, and above all of core cities of metropolitan areas, for many economic and social activities (jobs, recreational facilities, public services), territorial accessibility is important in guaranteeing that interconnections with peripheral and outer areas are possible at reasonable conditions (in term of time and costs, above all) and do not create forms of discrimination for their inhabitants. The widespread process of delocalization of residential and commercial settlements towards outer communes over the last decades has made territorial accessibility problems more acute, generating increasing dependence on cars and increasing the social role of adequate LPT services for people living in the outskirts (comparatively low-income, young families), often penalized by a lower access to private vehicles and by the introduction of new forms of protection to the inner city (traffic limitations, bans on non-local traffic, parking pricing, road pricing).

The development or even the simple preservation of existing LPT services, together with important accompanying measures (spatial integration of service planning with urban planning, tariff and information integration, inter-modal infrastructures, development of on-demand services) are, in this context, a fundamental instrument to avoid this kind of negative implication and to meet their social role in all respects.

In Italy, although the general figure exposed in section 4.1 provides evidence of a moderate increase in supply for both buses and metro, some problematic signals seem to emerge as far as peripheral and weak areas are concerned. The level on non accessibility + difficult accessibility to services recorded by consumers' survey is in fact increasing (tab. 7), and, meanwhile, the modal share covered by collective means in small and middle villages is continuously declining: it has reached in 2006 a share of 2.2% in villages with less than 5,000 inhabitants and of 2.5% in those with less than 25,000 (ISFORT- ASSTRA, 2007), making possible to speak about a “nearly

disappearance of collective mobility not only in very small villages, but even in middle-sized ones” (*ibidem* p. 22).

In this perspective, it is not easy to detect how the reformatory process has affected the ongoing trend. The territorial accessibility of LPT, in fact, is commonly investigated using indicators referred to the density of lines and services (tab. 14), but these data are not always available in an exhaustive way and, furthermore, cannot be treated as completely comparable and reliable.

Firstly, the ability of alternative LPT modes to meet user needs in a satisfactory way is very differentiated: a new kilometer of metro-lane can provide a level of services (in terms of speed and traffic flows) which cannot be compared with that of buses. From this point of view the recent trend to reduce surface and/or not reserved lanes with more reliable and rapid ones can surely increase the overall accessibility level, even if the effect on the total density of lanes can be opposite⁷¹.

Secondly, density values do not furnish indications on the frequency and the spatial distribution of routes, which are fundamental elements to ensure an effective and reliable coverage of the entire urban territory. Accordingly, the opportunity to concentrate LPT services above all on more busy routes and the further pressure to suppress low demand courses, due to the increased financial constraints requested in the management of service, constitute an important threat for the social role of LPT and its ability to ensure a satisfactory level of land coverage⁷².

On this last point, some evidences have been found in the Italian experience. The overall increase in bus services shown in tab. 8 (+4.4% in the decade 1995-2005) is for example concentrated in urban buses (+10%), while inter-urban services have experienced a reduction (-1.5% in the same period). Even among case studies considered (tab. 14), there are several circumstances where LPT routes density decreased in more recent years (Genova, Brescia, Milano, Firenze), while bus stops density and passengers’ demand commonly experienced an opposite course (except in Genoa). Accordingly, both national aggregate results and those recorded in selected urban areas show that demand increase has resulted generally higher than that experienced in terms of supply⁷³.

Even if these trends have to be monitored on a wider time scale and should be investigated by more specific analysis on the spatial distribution of services, they

⁷¹ From this point of view, values of LPT density regarding cities with important metro network (as in the case of Milan) result undoubtedly underestimated.

⁷² This is shown for example by a study carried on in the city of Florence (cfr. Comune di Firenze, *PGTU, Piano Generale del Traffico Urbano 2002*, Cap. 4; <http://www.comune.firenze.it>) which shows important deficiencies in internal links covered by LPT services:

- among all inter-zonal links considered (the urban area has been divided in 116 zones) only 20% are covered by direct services, while 80% with one or more interchange;
- connections served with high reliability service (frequency ≤ 5 minutes) are less than 10%.
- 20% of connections are covered with services acceptable only in absence of other movement opportunity (frequency ≥ 20 minutes and/or one or more interchange);
- accessibility indexes are characterized by a high level of variability: with areas with values of 180-200 (mean of the urban area = 100) and other with value of 10-20.

⁷³ In the eight case studies of table 14, seats-km offered increased by 2% in the last four years, while pax-km nearly by 4.5%.

support the supposition that the need to improve the financial sustainability of LPT, which represents one of the main aims of the reform, has brought about in the last decade a spur to the rationalization of services, favoring their concentration on more profitable routes and penalizing marginal and/or off-peak links.

Table 14. Density of LPT lanes in selected case studies

	Area covered (km ²)	LPT routes (km)		Density (Km of LPT routes per km ²)		LPT stops	
		2003	2006	2003	2006	2003	2006
Genoa	240	933	906	3,8875	3,775	2496	2535
Naples (bus)	440	523	530	1,19	1,204545455	2700	2844
Rome (bus)	1300	2001	2217	1,54	1,705384615	8007	8284
Rome (metro)	1300	36,6	36,6	0,028153846	0,028153846	48	48
Florence	795	488	647	1	0,813836478	na	na
Bologna	3700	3988	3976	1,077837838	1,074594595	6447	6483
Milano	1075	1354	1370	1,287072243	1,274418605	na	na
Brescia	282	293	292	1,039007092	1,035460993	1614	1773
Turin	na	4320	4569	na	na	na	7250

Source: Our calculations on CIVICUM (2008)

In this regard, it is however interesting to notice how local authorities are exploring different channels to face the challenge of combining a high level of territorial accessibility together with financial sustainability.

Firstly, some cities are trying to overcome through the introduction of Demand Responsive Transport Systems (DRTs), which can be particularly important not only for disadvantaged categories (as already considered for persons with disabilities and the elderly), but also in the coverage of peripheral and less densely populated areas (and/or in off-peak and off-season period), where maintaining an adequate bus network is increasingly difficult and costly. It is worth to note how, until now on demand solutions have been commonly managed by the same operator of traditional services (tab. 15): a circumstance that helps to minimize duplications and to guarantee a better complementarity with regular services⁷⁴. It is therefore important that the future evolution of the reform provides for organizational and entrusting models that safeguard the opportunity to include DRTs in a integrated and coherent urban mobility design.

All in all, although DTRs can be considered still at their embryonic stage and currently play an ancillary role in urban mobility, the development and consolidation of earliest applications have concretely demonstrated the possibility of making them available without excessive administrative and financial burden, paving the way to their extension to an increasing number of routes and cities.

⁷⁴ As in the cases of Parma and Livorno where some routes are served by on-demand services in the summer time and by scheduled buses in the rest of the year.

Table 15. Demand Responsive Transport Systems in some case studies

Milan	Milan has introduced (2001) in some peripheral areas a door-to-door collective taxi service on demand (Radiobus), active in the night hours (from 8.00 pm to 2,00 am), when normal services are inexistent. Ticket fares are 1,5/3 € higher than the normal fares. From 2003 the service covers the whole municipal territory. The service is managed by the LPT operator.
Florence	2 services on demand (personal bus) are operative to link peripheral communes of the urban area on fixed routes. One of these municipalities (Campi Bisenzio) has represented the first case (1986) of a public transport supply based on a demand responsive system. Ticket fares are the same of the normal courses. The service is managed by the LPT operator
Bologna	5 lines on demand are operative to link peripheral areas and communes of the urban area on fixed routes. Ticket fares are the same of the normal courses. The service is managed by the LPT operator.
Parma	Parma has introduced (2001) on the whole urban territory a collective taxi service on demand on fixed routes (more than 1.000) active in the night hours (from 8.00 pm to 1,00 am). Ticket costs 2 € for 1 hour and 2.5 euros for the whole night. The service has been extended to cover in daily time a group of communes of the city crown: the extra-urban service is door-to-door and costs from 1.5 to 3 euros depending on the distance traveled. The service is managed by the LPT operator.
Modena	An on demand service (prontobus) is operative to link peripheral areas to the city centre on fixed routes. Prontobus is operative all working days from 8.30 am to 12.30 am and from 2.00 pm to 6.30 pm. Ticket fares are the same of the normal courses. A door-to door service is active since 2003 even in some mountain communes of the province. All services are managed by the LPT operator.
Livorno	The service is operative in the daytime; the temporal coverage varies according to the zone. 3 lines are operative only in the summer. 1 further line is active in the night hours (from 5.00 am to 6,00 am and from 8.30 pm to 12.00 pm) on the whole urban territory on fixed routes. Ticket fares are the same of the normal courses. The service is managed by the LPT operator.
Genova	Genoa has introduced (2002) in some peripheral areas a door-to-door collective taxi service on demand (Drin bus) active in day hours from 6.00 am to 7,00 pm; the service has been extended to other portions of the city in 2004. The service has partially replaced the existing regular ones. Ticket fares are 1 € higher than the normal fares. The service is managed by the LPT operator.

Source: calculation on municipalities' web sites

A second opportunity to reduce discontinuity and increase accessibility to urban areas is represented by the different forms of integration which may appreciably cut deprivation and loss of time throughout the transport chain. This element appears important both for territorial accessibility - since, as shown by several studies (European Commission, 1996; ISFORT-ASSTRA, 2008), in big conurbations the proportion of passengers changing one or more means of transport is continuously growing - as for affordability, since integrated tickets and infrastructures can make travel more affordable, reducing the total costs of movements.

Fare integration is actually becoming a widespread reality in the Italian context: in 2006 it involves around 78% of urban areas⁷⁵ (ISFORT, ASSTRA, 2007), with a rapid positive trend with respect 2004, when the same share was only 42%. All eight case studies considered have effectively developed some form of tariff integration (tab. 16), in terms of both multi-modal and multi-area tickets. In many circumstances (Florence, Rome, Naples) the number of operators involved and the territory covered are extremely wide, giving users an impression of complete unity of the LPT system on the whole regional area; other experiences are less advanced, even if a positive trend is discernable everywhere. Increasing is also the use of electronic smart card as a mean of payment.

⁷⁵ 85% in cities with more than 250.000 inhabitants.

Table 16. Fare integration in case studies

	Fare integration	Electronic smart cards
Milan	Surface transport, metro, urban and regional railway, park and ride facilities	Yes
Florence	Whole regional LPT network (Pegaso Pass)	Yes
Bologna	Urban and inter-urban network, car sharing.	No
Roma	Whole regional LPT network (Metrebus)	Yes
Napoli	Whole regional LPT network (Unico)	No
Genova	Whole provincial LPT network (Volocard)	No
Turin	Surface transport, metro, regional railways. Territorial integration with the city crown communes. A regional integrated system is under development.	Yes
Brescia	Territorial integration with 11 communes of the city crown.	Yes

More spotted is the situation of park-and-ride places (tab. 17), which represent an important instrument to facilitate intermodal change and access to city centres without using private cars. Even if the overall trend is certainly positive, with situations (Milan and Rome) in which car drivers coming from outer routes can dispose of accessible and low-cost parking spots in the outskirts of the cities, with efficient interchanges with mass transit services⁷⁶, there are still several cases in which this result has not yet been sufficiently achieved (as in the case of Turin and Naples) and shall be further pursued.

Encouraging signals are emerging even in the field of bike-sharing programs, which can complement more common forms of public transit, private motorized transportation, and pedestrian activity in increasing access and mobility, providing to commuters and visitors a different (and cheap) option to travel within the city and to diminish the need for the use of their automobiles. Two national networks, which comprise nearly 50 cities, are at present active in Italy⁷⁷ and make possible to rent a bike in each of the members taking part to the initiative. Cities involved are mainly medium and small sized and applications are until now characterized by a modest number of means, but the new initiatives taking off in Turin, Milan and Rome can provide (if successful) a decisive spur to the widespread diffusion of this instrument. As far as the management of intermodal opportunities is concerned, it seems important that the future development of market organization can preserve the strict interdependency (both physical and economic) among the different available alternatives. At present, this requisite is generally guaranteed (Milan, Bologna, Turin, Palermo) by the management of parking spots by the same provider of LPT services:

⁷⁶ In Milan P&R facilities are directly managed by the PLT operators; in Rome they are managed by the transport agency and are for free for users who own a LPT pass.

⁷⁷ The first, Bicincittà, includes 15 cities (among which some Capitals of Province: Bari, Cuneo, Novara, Parma) and operates through magnetic cards. The second, Centro in bici, includes 36 cities (among which some Capitals of Province as: Alessandria, Aosta, Bologna, Brescia, Ferrara, Lodi, Modena, Oristano, Padova, Piacenza, Pordenone, Ravenna, Rovigo, Trento, Vercelli, Verona, Vicenza).

a choice which can assure tariff integration and a preferential access to LPT users⁷⁸, but, at the same time, can represent an obstacle for the future development of competition; in other situations, as in the case of Rome⁷⁹, the service is entrusted to an external (third) operator, and it is a task of the transport agency (ATAC) to coordinate the strategies and actions of different actors. The main challenge, in this regard, appears once more the capacity to safeguard the unity and the consistency of the whole transport chain, without introducing conditions that can reduce the contendibility of the LPT basin. The definitive launch of metropolitan transport agencies can probably represent an important step to face this challenge.

Table 17. Intermodal opportunities in case studies

	Park and ride (spaces for 1.000 inh.)	Bike-sharing systems
Milan	12.4 (Directly managed by the LPT operator)	<i>To be started in 2008</i> (1200 bikes divided into 80 locations)
Florence	2.3 (Managed by a stock option companies owned by the municipality)	
Bologna	3.6 (Managed by the LPT operator)	<i>Yes</i> (60 bikes divided into 4 locations)
Roma	5.7 (Managed by a private operator selected and regulated by the transport agency (ATAC))	<i>To be started in 2008</i> (250 bikes divided into 22 locations)
Napoli	1.9 na	
Genova	2.2 (Managed by a stock option company owned by the municipality)	
Turin	1.4 (Managed by the LPT operator)	<i>To be started in 2008</i> (1300 bikes divided into 130 locations)
Brescia	N.a. (Managed by a stock option company owned by the municipality; the same company controls also the LPT operator)	Introduced in 1998 and stopped in 2005 because of a lack of funds
Palermo	2.7 (Managed by the LPT operator)	
Catania	1.6 n.a.	
Bari	5.3 (Managed by the LPT operator)	45 bikes divided into 5 locations

Source: calculations on data from AIPARK (2007) and municipalities' web sites.

⁷⁸ In Bologna, Rome, and Bari, for example, owners of LPT passes park for free in intermodal facilities. In Milan, LPT users use the magnetic card to pay park-and-ride and (in the future) even for bike-sharing.

⁷⁹ And commonly, in the case of bike-sharing programs.

It's finally necessary to underline how different forms of integrations should be supported by an institutional setting which could favor and stimulate an adequate coordination among different sectorial and territorial authorities involved⁸⁰.

In this direction, the Law 142/90 has provided for the creation of a new level of institutionalised government - metropolitan cities - which should have responsibilities for tasks of a supra-municipal character⁸¹ and those which must be performed in a coordinated form. Even if the establishment and the role of metropolitan cities have been confirmed by the Constitutional reform of 2001 (Law 3/2001), they have not yet been implemented so that the development of an area-wide governance is actually left only to voluntary cooperation.

Yet, as far as the transport sector is concerned, the Italian Transport Masterplan of 2001 has introduced a new planning instrument for urban areas called PUM (Urban Mobility Plan), the purpose being to stimulate local governments belonging to the same conurbation to undertake common planning and organisation of the transport system (inter-municipal cooperation); and to integrate decisions on the overall level and distribution of new developments with transport, thereby reducing dependence on motorised movements and improving accessibility through collective services. Results obtained to date are however still unsatisfactory. Only 14 out of 103 Capitals of Italian Provinces (2005 data) have formally adopted the instrument and the degree of coordination until now carried out is still scant, both sectorally and spatially (ISFORT- ASSTRA, 2007). Table 4 shows for example how there are cases where the LPT basin has actually acquired a metropolitan dimension (eg. Milan: 87 municipalities integrated; Bologna: 56; Turin: 26), but even important situations (Rome, Genoa, Bari) where only one commune is served by the LPT network. A major effort in this direction represents therefore a turning point for the future advance of a more sustainable urban management scheme.

4.4 Quality of provision

In section 4.1 it has been remarked how only about 50% of Italian citizens uses LPT services, even when the network is considered accessible. This evidence throws doubts on their effective ability to meet users needs and to offer a valid alternative to the car, and renders the “quality challenge” a key issue for the future development of services. Only, in fact, with efficient and competitive services will it be possible to

⁸⁰ The concept is clearly stated by the Green paper on urban mobility of the European Commission (2007, p. 15): “coordination between authorities could help tackle the challenges of urban mobility. Furthermore, urban mobility could benefit from integrating several policy sectors, such as urban planning, economic and social affairs, transport, etc.

Mobility plans integrating the wider metropolitan conurbations, covering both passengers and freight transport in the city or town and in its surrounding region, also form a sound basis for efficient urban mobility planning. Stakeholders have emphasized that appropriate organisational structures need to be established to facilitate the development and implementation of these plans”.

⁸¹ Essentially those characterized by economies of scale and externalities.

attract users away from private transportation means and to satisfy needs of people without car, without imposing on them excessive sacrifices in term of personal welfare.

Quality is a composite concept, influenced both by tangible and subjective factors. The qualitative performances of LPT services can be investigated through three main typologies of information: indicators derived from consumers views; quantitative indicators related to specific features (commercial speed and frequency, safety, comfort, information, etc); governance indicators, i.e those describing the management and organizational tools (development contracts, quality control charts, complaint-handling systems, certifications, etc) which can support the improvement of both the previous two aspects.

The assessment of user satisfaction and perception of quality of service is a first important opportunity, since it may be representative of the willingness of users to remain in or to be captured by collective services. In this regard, the general picture for Italy is not positive. In an European framework (EU25) where urban and extra-urban transports are the services with which consumers are, in general, more critical, the percentage of satisfied Italian LPT consumers⁸² (33.7% for urban services) is in fact well below the average (44.5%) and represents the fifth lowest in absolute (IPSOS INRA, 2007). Furthermore, the more recent trend is clearly negative (tab. 18) and gives evidence of the generalized “bad reputation” suffered by surface mass transit, while only metro systems have been able to maintain their quite satisfactory performance.

Table 18. Percentage of satisfied consumers in urban transport (% of ratings 6-10)

	2007	2006	2005	2004	2003	2002
Surface transport	62.1	69.4	68.3	75.1	76.9	76.1
Metro	83.5	83.2	81.1	78.7	83.4	84.0

Source : ISFORT- ASSTRA (2008)

The national picture covers, even in this case, deep territorial differences (tab. 19), which enlighten once more the difficulties to read the Italian experience concerning services of general interest within a single interpretative framework.

Table 19. Average satisfaction concerning urban transport services in different areas (ratings 1-10; 2007)

	Surface transport	Metro
North-East	6.71	-
North-West	6.21	7.55
Centre	5.71	6.68
South and Isles	5.46	7.19
<i>Total</i>	<i>5.96</i>	<i>6.25</i>

Source : ISFORT- ASSTRA (2008)

⁸² Those who have rated services 8-10 on a scale 1-10.

Also the analysis of motivations which bring citizens not to use, even if available, public transit provides some useful insights. Accessibility/flexibility⁸³ and time reliability are indicated as the prevailing factors: the first is in fact considered relevant by around 70% of consumers and the second by around 42% (ISFORT, ASSTRA 2008)⁸⁴; while comfort of means (4.8%) and prices (1.8%) are non seen as significant obstacles for an eventual modal shift towards collective services.

Performance indicators demonstrate shadows and lights as well.

The renewal of vehicles and other facilities, largely supported by national funds⁸⁵, has in fact contributed in the last decade to bring about a relevant reduction in the fleet average age and a consequential improvement in comfort and in the environmental performance of means (tab. 20). Even if margins of manoeuvre are still ample in this regard, the ongoing trend is certainly positive and witnesses the major attention given by operators to the qualitative outcome of provision.

Table 20. Fleet characteristics and evolution in recent years

	Bus fleet average age			Clean bus fleets ^a (% on the total)			Average yearly rate of bus fleet renewal	Air conditioning (% of buses)	
	1998	2002	2006	1998	2003	2006	2006/2002	2003	2006
National	12.1	9.7	7,94	-	9.4	14	5.1		
Genoa		9.2	9.0			6.9	5.9		37
Florence		8.8	7.1			32.7	6.3		47
Bologna		11.5	8.5			22.0	6.7	35	60
Milan		na	na			42.1	na	44	62
Brescia			8.6			35.6	5.3	20	40
Turin		10.4	8.7			28.4	5.9	40	75
Naples		8.7	9.1			18	4.1	51	56
Rome		7.3	6.8			15.1	6.6		71

^a Data refer to options alternative to diesel fuel.

Source: calculations on ISFORT- ASSTRA (2008), CIVICUM (2008).

As perceived by users, the main problem still influencing LPT seems to be the low and generally decreasing speed of services (tab. 21), directly influenced by the insufficient degree of priority given to mass transit. The road network of Italian cities

⁸³ Represented by the need to change one or more means, the long distance to the stop/station, and the inadequate scheduling of services.

⁸⁴ Consumers could provide two answers to the question.

⁸⁵ In a survey concerning the period 2001-2003, it is observed that the rate of self-financing by local operators in the bus-fleet renewal investments has been around 34%, being the rest covered by upper levels of government (ISFORT, 2005).

The Financial Law for 2007 has instituted two new Funds to support the renewal of vehicles used in LPT. The first Fund amounts to yearly 100 million euros (for three year) and covers until 75% of investment costs. The second one amounts to 270 million euros for the period 2007-2009 and is directed to finance a wide gamut of interventions for sustainable mobility (public fleet renewal, park and ride facilities, biking infrastructures, information technologies, etc..).

and the general structure of urban mobility, in fact, generally afford the private motorized traveler a faster journey than the surface public transport system (on average 25 km/h against 15), while only metro services appear to be really competitive with private traffic. This finding appears to advocate the need to carry out further and more resolute initiatives to improve the rapidity of public transport (new metro lines, major protection of surface services, priorities to junctions) together with greater demand management measures directed to private motorized modes.

Table 21. LPT speed and protection in Italian urban areas

	Average LPT speed (km/h)		Reserved lanes (% of surface lanes)	
	2001	2007		2005
National survey	15.6 (24 for private means)	14.1 (25.3 for private means)		na
	2003	2006		
Genoa	15	15		2.7
Naples				
Bus	12.2	13		2.1
Metro		33.1		
Florence	na	na		4.9
Bologna		15		na
Milan	na	na		6.2
Brescia	17.4	17.6		2.4
Turin	17.2	17		6.1
Rome				
Bus	15.8	13.9		4.7
Metro		33.1		
Catania	12.2	13.3		7.5
Palermo	14.1	14.7		5.8
Verona	15.2	15.2		4.9

Source: calculations on ISFORT- ASSTRA (2008), CIVICUM (2008), APAT (2008)

A general positive trend is finally detectable as far as the implementation of quality management instruments is concerned (tab. 22). The development of a better system of governance for LPT services certainly represents an important tool to tackle the quality challenge in an effective way, contributing to ensure an ex ante definition of responsibilities and to make providers (and also local authorities) accountable for the predefined quality target.

In this regard, the use of public service contract has rapidly become the key instrument to clarify the reciprocal obligations between the planning authorities and the operational ones in terms of: duration, level of the supply, tariff definition, level of the subsidy, allocations of revenues, quality standards, controls and sanctions, etc. On the other hand, client service charts, services for complaints, and different forms of certification and reporting initiatives have been increasingly introduced by

operators to enhance transparency and their accountability towards users and the local community.

Table 22. Quality management instruments in LPT operators

	Client service charter	Quality certification (ISO 9001)	Environmental certification (ISO 14001)	Social/Environmental/Sustainability Reporting
National survey^a	40% of cases	na	na	12% of cases
Genoa	Yes	Yes	No	No
Naples				
Bus	Yes	Yes	Yes	Yes
Metro	Yes	Yes	No	No
Florence	Yes	Yes	Yes	Yes
Bologna	Yes	Yes	Yes	No
Milan	Yes	Yes	Yes	Yes
Brescia	Yes	Yes	No	Yes
Turin	Yes	Yes	Yes	Yes
Rome				
Bus	Yes	Yes	Yes	Yes
Metro	Yes			Yes

^a Survey carried out in the 110 Capitals of Italian provinces

Source: calculations on CIVICUM (2008)

The effective ability of different instruments to improve the final outcome of provisions is however strongly influenced by their implementation practices.

For example, it has been observed in section 3.2 how, though the formal respect of the norm is established, so that public service contracts are generally adopted, the concrete capacities of local authorities to state and control the conditions that the contractor has to comply with are widely questioned, in particular as far as ex post evaluation is concerned⁸⁶.

Even for service charters, there are not binding targets to comply with, so that the documents include an heterogeneous variety of indicators and parameters, often hardly comparable. Furthermore, the lack of a third party who can assure the content of the charter (and of reporting initiatives), and the generalized absence in contractual

⁸⁶ An interesting attempt to strengthen the monitoring and evaluation activity has been carry out in Rome where a specific Agency (Agenzia per il controllo e la qualità dei servizi pubblici locali) has been created in 2002. The Agency has the role to constantly monitor the performance of the wide range of operators of local services of general interests (transport, wastes, water, energy, social services, cultural services) and to provide periodical reports to the public authority and to the general public. The Agency is supposed to act as a third party between the competent authority and the numerous subjects (generally public owned stock options companies) that provide SGI in the Capital City. In the transport sector, the Agency reports both on the results obtained by the three service providers and on those obtained by the Agency (ATAC) that manages assets, provides information to the users and the technical assistance to the political authority.

relations of feedback mechanisms which can reward or punish providers according to the performances obtained, can seriously undermine their overall influence.

In this direction, the Financial Law for 2008 (L. 244/2007) has established some interesting innovations, which can contribute to increase their effectiveness: a) service charters have been made compulsory for all SGEIs operators according to some minimum contents (inclusion of the same performance indicators included in the service contract, modes of access to information, modes of complaints and settlement of disputes); b) consumers' associations have to be involved both in the elaboration of the charter and in the successive monitoring and evaluation process; c) an annual formal meeting among the three parties involved (provider, competent authorities and consumers) has to be introduced to assess the functioning of services and to handle complaints and suggestions presented⁸⁷.

All things considered, the organizational structure that emerges from this set of provisions is based on a triangular relationship between local authorities, providers and consumers (citizens), where the firsts have the fundamental role to interpret and to formalizes the preferences and the requests of the latter and to ensure, through service contracts and ex post monitoring, that operators will provide services quantitatively and qualitatively appropriate to these needs. A scheme that, to be truly coherent and credible, has to rely on a effective independence and managerial autonomy of the supplier from the local municipality.

The future steps of the reform have therefore to guarantee that this independence will be concretely accomplished.

5. Conclusions

Given their specific nature, LPT services can be the object of a potential conflict between the need to foster competitiveness and to guarantee an equal treatment to all potential providers and that of safeguarding the principle of subsidiarity, which requires decision making and management options characterized by strong local commitments and freedom of choice. In the European context, the new regulation (1370/2007) on public transport services has clearly gone in the latter direction, giving local authorities the opportunity to choose whether to provide local transport themselves or to entrust it to an external operator through a tender procedure.

The Italian experience during the last fifteen years may represent an important term of reference in this field, since it has been characterized by some relevant distinguishing features. Schematically, the overall organizational and regulatory model designed by the reform is based on there major pillars.

⁸⁷ This provision could be fruitfully integrated with art. 7 of the EU regulation 1370/2007 which establishes that each competent authority shall make once an year an aggregated report on the public service obligations for which it is responsible, in order to allow the performance, utility and financing of the public transport network to be monitored and assessed.

The first is represented by public initiative: public administrations are in fact in charge of providing public passenger transport services, which are interpreted as being elementary services of public interest and a key factor in sustainable development of urban areas, which require adequate forms of planning and regulation (price, quality, quantity, access, environmental, etc.) by the competent authority.

The second is subsidiarity, i.e the delegation of planning and financial responsibilities to regional and local authorities in order to better adapt services to specific territorial needs.

The third, which somehow balances and confines the previous one, is represented by the upholding by the national State of important prerogatives in defining some of the main features of the regulatory model: the configuration of the market in which SGEI are supplied, the formal structure of the operators, and the financial scheme to be implemented to cover production costs. This prerogative has led to the introduction of the so called “regulated competition” as the general mechanism to award services, to the mandatory adoption of private-law status for companies (formal privatization) and to the definition of a minimum ratio of 35% for coverage of operative costs through fare income. The main aim of the complex set of measures has been the recovery of production efficiency and the increase in the attractiveness of collective services with respect to private means, without increasing the burden on public finance.

Ten years after the definitive launch of the reform, through the National Decrees, stocktaking shows some positive outcomes, but even several shadows (tab. 23).

Table 23. The reform of LPT ten years after: a schematic appraisal

Positive outcomes	Weakness
Diffusion of more transparent accounting and regulative devices: service contracts, independent agencies, separation of assets, service charters	Legal uncertainty
Higher visibility of production costs	Weak planning and programming capacity by regional and local authorities
Moderate productivity enhancement	Lack of financial resources
Higher management accountability and flexibility	Inadequate capacity of local authorities to play the role of regulator
Moderate increase in overall supply and in passengers transported	Lack of true independence in the relationship competent authority ↔ provider
Moderate tariff increase	Ineffective and incomplete implementation of regulated competition
	Fragmentation of operators
Development of innovative and flexible solutions (Car sharing, door-to-door and on demand services)	Territorial mobility of providers nearly absent
Improvement of inter-modality and of territorial integration	Scant room for manoeuvre left to operators to organize production inputs (above all labor)
Higher attention to quality and to the user as a client	Loss of market share for LPT, due to the incapacity to represent a valid alternative to the overwhelming use of private cars
	Low performance in terms of accessibility and user satisfaction
	Low performance in terms of flexibility and commercial speed
	Strong territorial divide

Legal uncertainty and wavering have certainly represented one of the major obstacles for the development of the reform, and have contributed to generate confusion and to slacken the implementation process. The definitive stabilization of the normative framework represents therefore a necessary prerequisite to improve results until now obtained and to give a clear direction to public authorities and market operators involved in the planning and provision of LPT services.

Two main alternative courses can be assumed in this regard.

The first is based on the fully acknowledgement, through the national law, of the “economic”⁸⁸ nature of LPT services, ie. of the possibility/opportunity of buying

⁸⁸ The relevance of the market relationship in the identification of the economic nature of services, independently from who is the buyer, is clearly stated by the European Commission: “As regards the distinction between services of an economic nature and services of a non-economic nature, any activity consisting in offering goods and services on a given market is an economic activity. Thus, economic and non-economic services can co-exist within the same sector and sometimes even be provided by the same organisation. Furthermore, while there may be no market for the provision of particular services to the public, there may nevertheless be an upstream market where undertakings contract with the public authorities to provide these services. The internal market, competition and

them on a market even if these services are intended to meet a general interest. This course relies, as provided by the national decrees n.422/97 and 400/1999, on the definitive establishment of tendering procedures as the key option to entrust the provision of services.

This choice, though not mandatory in the European framework, seems to rely on relevant strong points. Firstly, it is in fact coherent with the main sectorial objectives defined in the European White Paper on transport⁸⁹ and even in the so-called Lisbon Process, where the introduction of competitive elements in the transport sector is seen as an important tool to gain efficiency and attractiveness; secondly, it appears to be the best solution for meeting the requirements of the EU Court's ruling on compensation for public services⁹⁰, since the assessment of the "Altmark criteria", and even of those defined for direct awards in the new regulation (1370/2007), can be particularly problematic and create widespread administrative controversies; finally, it better suits one of the original aims of the reform: the clear-cut separation of planning and operational responsibilities.

The adoption of this "market based" approach has however to be founded on a set of consistent choices and actions. It requires in fact a notable improvement of the regulatory skills of competent public authorities and the provision for wider responsibilities and, at the same time, room for manoeuvre for operators in order to carry out productivity gains and cost savings (wage incentives and flexibility, welfare support provision for workers, net costs contracts, frequent repetition of auctions, ownership separation of main tangible and intangible assets). Furthermore, the persisting close relationship between companies and public authorities at the local level has to be overcome in order to make normal market relationships (contracts, mobility, claims, bankruptcy, takeovers, etc) to be effective and binding. In this regard, the privatization of operators could be seen as a coherent option once competition for the market has been chosen as the compulsory selective mechanism. On the contrary, if the trust in the market forces remains feeble and the economic nature of LPT is not completely recognized, the second possible way is to give course to the new article 23bis of the Law n.133/2008 (section 2.1), that, largely in

state aid rules apply to such upstream markets" (European commission, 2003, p. 14); and even: *"economic activity, i.e. any activity which consists in providing services, goods, or carrying out works in a market, even if these services, goods or works are intended to provide a "public service", as defined by a Member State"* (European Commission, 2004, note 7); or, more recently: *"For a given service to qualify as an economic activity under the internal market rules (free movement of services and freedom of establishment), the essential characteristic of a service is that it must be provided for remuneration. The service does not, however, necessarily have to be paid by those benefiting from it. The economic nature of a service does not depend on the legal status of the service provider (such as a non-profit making body) or on the nature of service, but rather on the way a given activity is actually provided, organised and financed. In practice, apart from activities in relation to the exercise of public authority, to which internal market rules do not apply by virtue of Article 45 of the EC Treaty, it follows that the vast majority of services can be considered as "economic activities" within the meaning of EC Treaty rules on the internal market (Articles 43 and 49)"* (European Commission 2007b, p. 5).

⁸⁹ COM(2001)370 final.

⁹⁰ See the Altmark Judgment of 24 July 2003 in Case C-280/00.

accordance with the new EU regulation on passengers transport, leaves freedom to local authorities to choose for a fully public organizational form, whenever they think that the public service mission could be undermined by the outsourcing.

In both scenarios, it is crucial that local authorities are made fully responsible of their own initiatives and that (eventual) wrong or bad choices are not passed through to upper levels of governments.

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