URBAN MOBILITY IN ITALY: TIME TO GET GOING AGAIN

Maria Elena Perretti¹

Keywords: Mobility, Public Services, Transport, Liberalisation, Growth

Abstract: The development of a widespread public transport system is not only a necessity for an higher quality of life in urban centers, but also an exceptional opportunity for growth: funding the investments needed to bridge the mobility gap in Italian cities and bringing them into line with the level of their European counterparts would generate approximately €17.5 billion in value added and 465,000 new jobs. To achieve this goal, action must be taken in terms of regulation and governance: after 16 years since the passing of the Burlando Decree, the sector often remains characterised by inefficient management, to the detriment of public finances and the overall quality of life.

1 URBAN MOBILITY: A KEY ISSUE FOR GROWTH

The tertiarisation of the economy has resulted in the emergence of an urban-centric model of economic development in terms of urban population and wealth production. In 2012, 68.4% of the Italian population lived in urban areas – with a prospective raise to 78.7% by 2050 (United Nations, World Urbanization Prospect, 2013) – and 43% of Italy’s GDP is produced by Italy’s top 10 municipalities in terms of population. The increasing demand and the wealth structure, therefore, contribute to underline that urban mobility cannot be regarded as a merely local issue, but as a national priority.

On the supply side, in the same period, local public transport (LPT) generated a production value of almost €13 billion, employing around 130,000 people (1% of the Italian workforce) with a passenger volume of 6.3 billion on the different transport systems. Nevertheless, according to the Ministry of Infrastructure and Transport, Italy bears congestion-related costs of €11 billion in 2011, partly because of an inadequate public transport system.

High levels of congestion are extremely relevant in the large urban centres. In Milan and in Rome, for instance, each inhabitant loses respectively 72.6 and 47.6 hours a year on average stuck in traffic: an evidence which assigns to the previous cities the 1st and the 7th places in the ranking of the most congested municipalities in Europe.² Moreover, the journey times have risen by an average of 20-35% over the last ten years in the areas of highest population density and productive activity. During peak times, the average travelling speed is now 7-8 km per hour, similar to that observed in 1700 (Confcommercio, 2012).

LPT also weigh heavily on the public and private purse. In terms of public finance,

¹ Cassa Depositi e Prestiti
² INRIX Traffic Scorecard, 2012-2013
transport is the second-largest expenditure for the Regions (after healthcare) and the costs of the public-owned LPT companies have relevant spill over on the budgets of the reference local authorities. In terms of private finance, inadequate mobility in urban and peri-urban areas results in citizens having to bear additional costs. In medium-to-large Italian cities the greater use of cars for journeys represents an extra cost for Italian families, generating an inefficient “mobility spread” in comparison to the European average estimated at around €6 billion per year (E. Cascetta, 2013).

2 THE CURRENT STATE OF AFFAIRS

Despite the sector’s difficulties and a service level far below European standards (e.g., underground network: 180 km in Italy vs. 552 km in UK), in the face of a general fall in demand for mobility, spending on LPT has been rising since the start of the economic crisis. The recession, in fact, has reduced the need for travelling and has increased the budget constraint of the households, shifting their choices to the less expensive option represented by the public transport, traditionally intended – at least in Italy – as an “inferior good”. Unlike other local public services, in fact, LPT has a clear substitute in the form of private car. In normal conditions, each consumer (with the exception of one segment of the demand which does not have the possibility to choose due to income levels or other constraints) could decide to satisfy his demand for mobility using public means (LPT) or private means (car). The number of cars in Italy, however, seems to outline a preference for the private means of transportation (motorization index in Italy 60,6 motor vehicles per 100 people vs. 47,3 in EU27), mainly because of the inefficiency of LPT. The present circumstance of “generated demand”, however, represents an important opportunity for increasing competitiveness of the LPT with respect to private transport and letting it becomes, at least, a “normal good”.

Increased use of public transport for urban travel, moreover, is an important objective for the greater good, not only because of the expected economic benefits, but also because of the positive impact that less “car-centric” mobility would have on the environment, human health and efficient use of energy resources.

The experience of other European countries is significant in this regard. In all the countries with the highest levels of per-capita income, citizens can rely on an efficient system of public transport and the historical evolution of LPT highlights three steps: from “inferior good” to “normal good”, and, finally, to “merit good”, subject of ad hoc policies to encourage its use. Italy has now the opportunity to move in this direction, too.

Adequate development of collective mobility requires targeted actions, relate to the operators themselves and to the context where they operate (i.e. the legal and regulatory framework,

3 Cities with more than 250,000 inhabitants.
the complex structure of institutional governance and the service planning).

Local public transport in Italy is suffering from the effects produced by an inadequate structure with regard both to “institutional governance” and to corporate governance. The local authorities often have potentially conflicting functions, performing the simultaneous roles of policy-maker, market regulator, employer and/or controller of the service and sole or majority shareholder of the local public transport companies. As well as producing serious conflicts of interest, this situation has repercussions on the management of the companies, which in many cases is opaque and inefficient. In addition, for more than a decade the operators have been acting within a constantly changing legal and regulatory framework, characterised by complex and incomplete regulatory reforms which often have not been consistent.

The attempts to open up the market have been severely limited both by repeated extensions of transitional periods – which have resulted in maintaining the status quo – and by alternating bouts of regulatory amendments and repeals. As a consequence, the process of transforming the former public service companies into commercial corporations has not produced the desired results in terms of efficiency and industrialisation. Moreover, while the Italian legislator intervened with a rapid succession of changes, a series of regulatory interventions was also made at European level, with a focus on the principle of market competition as the ultimate aim for the reorganisation of public network services.

Moving to the analysis of the business structure of the local public transport companies, it emerges clearly a weak control over revenues and operating costs.

LPT is still heavily subsidised: more than half of the companies’ revenues come from public subsidies. In this time of economic uncertainty and fiscal consolidation, LPT companies have therefore been thrown into serious crisis by the decrease, albeit partial, of its main sources of income: subsidies decrease more than 4 percentage points from 2009 to 2013. Moreover, the determination of the second-largest income item, namely fares, remains firmly in the hands of the public decision-makers: the local public transport companies are allowed to update fares only with the approval of the public authorities. Due to the previous situation, fares reflect essentially a social and a political nature and lose any economic or financial meaning in terms of price. In a sector characterised by uncertain and falling public subsidies and by the de facto inability to use pricing as a lever, the LPT companies’ room for manoeuvre on the revenue side is severely constrained, being limited to the recovery of fare evasion and the identification of additional commercial services. To date, however, we are not seeing any effective action by the companies on either of these fronts.

On the expenses side, labour costs – a crucial factor in a such a labour-intensive sector such as LPT – are defined at national level, and fuel costs – another significant item of the companies’ operating costs – represent an
exogenous variable characterized by a high degree of volatility.

The lack of financial and managerial autonomy also undermines the companies’ ability to make investments, which are extremely important in a sector characterised by obsolete infrastructural assets and inadequate maintenance. The inability to invest implies a reduction in the service quality and an increase in operating cost (the average maintenance cost of a 15-year old bus, for instance, is 6 times higher than that of a new bus), with a decrease in revenues and an additional reduction of the disposable resources, which lead to a further reduction of service quality. Thus, leading to a decrease in the demand.

The effects of the vicious circle alimented by the soft budget constraint and a poor incentive scheme are plain to see: companies are often disconnected from any sense of responsibility for operating results, poor service quality and chaotic mobility.

The instability of the regulatory context, the complex governance situation and the difficulties faced by the companies in controlling their revenues and the main factors of production substantially compromise the ability to involve private capital in support of LPT. The sector’s high need for resources is not currently being met either by the troubled public purse or by private finance, which is discouraged from entering the sector given the uncertainty with regard to available resources, expected cash flows, management of employment contracts, etc.

3 HOW TO GET GOING AGAIN?

The “diagnosis” of the LPT sector reveals a complex situation to disentangle without a coordinated intervention, able to generate a shock. The Burlando Decree adopted a method along these lines, since it also considered aspects relating to planning, incentives to efficiency and a new market and governance design. However, during the phases of implementation, this holistic approach has gradually petered out, weakening the scope of the reform.

Today, the economic and financial conditions of the local public transport companies, the changes that have occurred in public finance, the changing in mobility needs of the users and the increasing role of the city as a driver for development, require effective measures to support the sector. The experience of the last 15 years, on the other hand, has clearly shown that the rise of the sector cannot be achieved only by legislative reforms, but also a strong effort carried by all the operators is needed.

A first step should be to emphasize the “market” nature of the companies, which must be key player with full responsibility for the process of industrialising the sector. According to this process, the priority is to go beyond the criterion of maintaining historical levels, with reference both to the structure of the supply and to the allocation of resources.

To address the former aspect, it is necessary to establish a level of supply that is geared towards cost-effectiveness and the satisfaction of demand, rationalising any services that exceed the actual mobility needs and
simultaneously increasing the quality and quantity of services in those areas where demand for transport is high. In other words, services must be tailored according to demand. This approach must be adopted both in the definition of service levels and in the identification of infrastructural interventions to be made. This will make it possible to ensure “quality” public spending – always an important consideration, but particularly crucial at a time of scarce resources.

On the resource allocation, it must be sustained the progressive abandonment of the “historical cost” criterion. Use of the “standard cost” criterion, properly determined, would introduce “internal” efficiency parameters within the companies, providing mechanisms for encouraging the adoption of virtuous behaviour, such as incentives for companies that make investments. A quantification of standard costs that takes proper account of all production factors and provides for their adequate remuneration would contribute to the efficiency of the sector by progressively assigning full responsibility and autonomy to the companies. Actions along these lines would also, de facto, enhance efficient management through mechanisms that are endogenous to the system rather than through the setting of highly ambitious but scarcely credible targets.

Profound changes demand an appropriate degree of gradual implementation. The transition from a historical cost approach to mechanisms that incorporate an incentive scheme requires the companies to have made steps forwards towards efficiency and the achievement of economic and financial equilibrium. A good compromise could be starting with the introduction of a pricing systems based around a price-cap mechanism.

The use of pricing as an element of corporate policy and as an instrument of transport policy, appears to be modest in Italy. On the one hand, the mechanisms used for determining fares, being aimed at preserving the nature of LPT as an instrument of welfare, do not allow the companies to use pricing as an economic variable. On the other hand, the Administrations do not use pricing to achieve public interest objectives. Indeed, the tariffs are not only very low compared with the European average (e.g. a single ticket in London or Berlin is about €2.5-€2.4, the same in Rome is €1.50), but also vary relatively little according to the type of user or type of traffic. Intermodality could also benefit from greater integration between the tariff systems of the different operators, through the use of pricing to encourage the use of different means of public transport.

Additionally, LPT as a whole should be considered as a key issue in a wider context of urban policies supporting mobility. The efficiency of the sector is not gauged exclusively by the companies’ ability to offer a quality service, but is also strongly influenced by exogenous aspects concerning the “quality of urban mobility” in general.

This variable, which can be usefully represented by considering the commercial speed of the means of transport used, is key both for the user – since an efficient public transport service is, first and foremost, able to offer competitive travel times even compared
with the use of private vehicles – and for the companies, since faster means of travel can allow higher turnover among drivers, thus increasing the productivity per employee (an increase of just one km per hour in the average commercial speed allows a reduction of approximately 1% in production costs ASSTRA, 2013).

As for the age-old question of the structure of the market and the adoption of service contracting models aimed at strengthening competition for the market, it should be noted that the debate has progressively intensified over the years, pitting supporters of competition “at any cost” against those who propose a substantial maintenance of the status quo.

Against this background, although in the full conviction that – including in the light of the measures taken at European level – the local public transport market will hopefully complete the liberalisation process embarked upon, it must be emphasised that it is essential, as of now, to lay the foundations for this process to be virtuous and as “non-traumatic” as possible, particularly with regard to the employment aspects.

In this regard, the industrial nature of the LPT companies must be strengthened and the Public Administration must exercise its functions as shareholder with a clear separation from its role as concession entity and regulator. Furthermore, stakeholders must be adequately involved in industrial choices, in order to maximise the efficiency of the service and the profitability of the companies.

In the path towards the transformation of LPT into a proper industrial sector, the decision-making and control processes have a crucial influence on any intervention to improve the efficiency of the companies and of the service. Of particular importance in this regard are the service contracts, which are tools for regulating relations between the Public Administration and the companies, and whose formulation must have as its ultimate goal the offering of a quality service at a reasonable cost.

The service contracts represent a formidable instrument for improving efficiency and regulating the market, but their scope is limited by the excessive degree of variability in their content and in the discretionality of the parties. It would therefore be desirable to have greater standardisation at national level, as well as more effective integration of incentivising elements.

4 CONCLUDING REMARKS

LPT will develop all its potentiality and support the national economy only if, alongside the regulation and governance tools, it will benefit by a strong commitment to the quality of mobility from the Public Administrations.

Moreover: i) the local public transport companies must be able to rely on continuity of funding to ensure an adequate level of service, and to meet the necessary requirements to support their operations and take full control of their own management levers; ii) it must be possible to find resources for the implementation of investments aimed at
achieving a level of service and infrastructure in line with the European averages; iii) a process must be undertaken for improving the efficiency of LPT that allows the recovery of resources currently diverted from the core business or used incorrectly.

At present, therefore, the process of industrialising LPT appears both indispensable and yet to come. Despite the numerous attempts made by the legislator to introduce elements of efficiency and competition into the sector, public transport continues to be characterised by significant critical issues in regulatory, economic and industrial terms.

There is an urgent need for decisive action in relation to the companies, which must regain control of their own revenue levers and assume full management responsibility.

The cost of “non-intervention” is too high. Slowing down the process of change and putting the brakes on the investments needed in the LPT sector would mean giving up around €17.5 billion in value added and 465,000 new jobs. These are important figures, particularly in the current economic climate, which take on a unique significance by making the sector the driver of the country’s growth.4

---

4 Perretti M.E., Urban mobility in Italy: time to get going again. DOI: 10.12870/iar-10199
REFERENCES


ASSTRA, I benefici del trasporto pubblico (2008)

ASSTRA, Livello delle tariffe e le strutture tariffarie nel trasporto pubblico locale (2010)


ASSTRA, Annuario delle imprese associate ad ASSTRA, 2011-2012 (2012)

ASSTRA, Autobus e investimenti. Indagine statistica circa gli autobus adibiti al trasporto pubblico locale delle Aziende Associate ad ASSTRA (2012b)

ASSTRA, Un modello di calcolo del costo standard per il trasporto pubblico locale e regionale automobilistico (2012c)

ASSTRA, Piazza Grande. Radiografia del TPL (2013)

ASTRID, Proposte di politiche pubbliche per il governo del Paese. I trasporti, di Sebastia ni M., Spirito P. (2013)


ATAC, Meccanismi e strumenti di governance nel trasporto pubblico locale (2013)

ATAC, Oltre l’automobile: scenari di cambiamento nelle preferenze di mobilità e impatto sulle politiche urbane dei trasporti (2013)

Bain & Company, La produttività come leva per il miglioramento delle performance nel TPL. Elementi di analisi e riflessione per una nuova politica industriale (2007)

Bain & Company, Piano industriale di evoluzione del settore del trasporto pubblico locale in Italia (2013)


Boitani A., Cambini C., Regolazione incentivante per i servizi di trasporto locale (2001)


European Commission, Action plan on urban mobility (2009)

European Commission, White Paper, Roadmap to a single European transport area. Towards a competitive and resource efficient transport system (2011)


Confcommercio, Verso un Libro Bianco sui trasporti in Italia (2012)


ISFORT, *Osservatorio sulle politiche per la mobilità urbana sostenibile* (2011)


Santos, *Constructing SAMs from the SNA – Working Paper 18/2011, ISEG (School of Economics and Management)/UTL (Technical University of Lisbon)* (2011)


Università di Roma La Sapienza, Dipartimento di Ingegneria Informatica, Automatica e Gestionale, *La determinazione del costo standard nei servizi di trasporto pubblico locale su autobus: aspetti metodologici e prime esperienze applicative* (2013)

UTPF, *Partenariato Pubblico Privato per la realizzazione di opere pubbliche: L’impatto sulla contabilità nazionale e sul debito pubblico* (2011)