

# **The relevance of benchmarking as a policy instrument in the Italian context**

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# Outline

1. Benchmarking in a broader public policy perspective
2. Benchmarking and the role of ART
3. Where benchmarking can be more urgent and effective In Italy
4. Looking at future empirical research

# **1. Benchmarking in a broader public policy perspective**

# **Benchmarking as a tool within an efficiency enhancing strategy**

- Benchmarking is one of the instruments available to policy makers to improve efficiency and promote an effective use of public resources. In the absence of effective competition, either in or for the market, incentive-wise schemes based on yardstick competition may be used to avoid excessive prices/low quality for users and/or unjustified public expenditures, depending on how the funding of the sector is organised
- Benchmarking supports public policy in several ways: it can be used to improve the information basis of public decision makers, to set incentive targets so as to increase productive efficiency, for contract design e.g. defining the optimal dimension of service areas, to assess the pros and cons of horizontal and vertical integration

## **2. Benchmarking and the role of ART**

# **Importance of the independence and of the powers of the Authority**

- The status of independent administrative authority ensures that ART supports public policy by exercising its regulatory powers on the basis of the law and technical expertise and by using its advocacy powers acting at arm's length with respect to all undertakings, either state-owned or privately-owned
- The Authority is empowered to collect the relevant data needed for the fulfilment of its institutional tasks, to promote efficiency in the transport sector, including by means of benchmarking, and to use such data either for the adoption of regulatory measures or in the exercise of its advocacy powers

# **ART tasks for which benchmarking is important**

- ensuring fair and non discriminatory **access conditions to rail, port, airport and highway infrastructures**, by methods encouraging competition, productive efficiency and cost-containment
- defining **criteria for the establishment of tariffs** etc. for transport services when justified, ensuring the economic equilibrium of undertakings, productive efficiency and cost containment
- for public transport services provided on an exclusive basis, defining **schemes for tender calls and for service contracts**; establishing objective criteria for exceptions to the principle of division into small lots; defining the schemes of service contracts also for in house or direct awards in local public transport
- for **highways**, defining toll schemes based on price cap regulation and schemes for tender calls and contracts for new concessions; defining optimal management areas so as to promote competition by comparison
- defining models for the adoption of **airport charges**

### **3. Where benchmarking can be more urgent and effective in Italy**



# Market studies and the assessment of competition

- An efficiency enhancing strategy should be based on market studies: competition by comparison only when competition in the market or for the market is not efficient. Thus, the regulatory authority and the competition authority should play a role in competition advocacy, in support of public decision-makers
  - The importance of benchmarking as a policy instrument depends on whether, in the light of competition conditions, public policy has to introduce efficiency-enhancing incentives and more generally for the design of public contracts
  - i.e.
  - -natural monopolies/exclusive rights
  - -design of tenders
  - -contract design
- ⇒ Thus, currently in Italy....

# For toll highways

Benchmarking is relevant for:

- Definition of optimal management areas, so as to promote yardstick competition
- Design of tenders
- Contract design, also for in house awards

Public policy should:

- support more uniform and efficiency-enhancing regulatory methods
- monitor the maintenance and investment costs also of non toll highways and roads to enlarge the information basis for the entire sector

# For rail and local public transport (1)

- The ART should promote international benchmarking for the rail infrastructure (investment and operating costs), taking the quality dimension into account
- For medium-long distance and regional passenger rail transport services subject to public service obligations (PSO) and local public transport by bus, benchmarking should be included in a broader efficiency enhancing strategy (see the following slide)

## **For rail and local public transport (2)**

An efficiency enhancing strategy should include:

- addressing the issue of each transport mode within an overall programming strategy including all alternatives
  - reassessing on a regular basis whether the boundaries for PSO and the way in which they are financed are still justified
- and then
- defining the optimal dimension which should be considered in the award of contracts and in benchmarking exercises (different for rail and for bus services)
  - ensuring that the decision whether to award contracts directly or via public tenders is justified
  - establishing the content of contracts, both for tenders and for direct awards, so as to ensure efficiency enhancing incentives, making an effort to go beyond the current approach to standard costs

# **For seaports and airports**

Market studies are needed to understand the market evolution and how it affects the need for regulatory intervention. Main challenges:

- promoting efficiency-enhancing conditions of access to port areas and infrastructures which contribute to the maintenance and development of infrastructures and the provision of services
- ensuring that the choices of the competent authorities with respect to authorizations and franchises for the provision of services in the port area make the most of the possibilities for competition in the market or for the market; information on minimum efficient scale for the different services in support of pro-competitive franchise policies;
- requiring efficiency-enhancing regulatory measures for the provision of services only when necessary and proportionate
- promoting a common approach to accounting, admissible costs etc. to promote transparency, comparability and spread of best practices
- for airports, benchmarking to improve efficiency-enhancing models for airport charges

## **4. Looking at future empirical research**

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## 4.1. Efficient dimensions or minimum efficient dimensions?

- Efficient dimensions are in general defined above a definite threshold, where economies of scale tend to become irrelevant or very weak. Much rarer is the case where evident diseconomies of scale appear (see the work of ART on the highway system)
- If the risk of “political clout”, elaborated by the public choice school, is not explicitly introduced, it is sufficient to guarantee that the dimension does not exceed the upper level of the efficient dimensions range. If it is considered, smaller efficient dimensions may be preferable, also to ensure the effectiveness of other regulatory tools
- The need to ensure arm’s length relations with companies is one of the reasons for setting up independent authorities
- Further research may be useful on this concept, and on other concepts derived from the above-mentioned approach, i.e. “capture”, “hidden agendas”, etc.

## **4.2. PSO are outside the scope of ART, but their technical contents are not**

- Social objectives are definitely within the sphere of the political choices, while efficiency is the mission of ART. But they are far from totally separated. Social objectives may well hide situations of severe inefficiency (think of overstaffing, generic environmental or distributive objectives, etc.)
- But at present there are solid and less and less expensive simulation tools and models to quantify the results of public policies in terms both of the description of the related realities, the costs of achieving definite social goals, and the level of their achievement
- Therefore, without any direct interference with political objectives, ART with benchmarking and modelling activity may support the relative efficiency of the public social action in PSO, showing techniques, best cases, alternative strategies for the environment, the distributive goals etc., entering in particular in the LPT tariffs field