

parts in order to guarantee the respective areas of autonomy; the planning one of the local body and the productive one of the supplying company.

C. LIBERALIZATION AND PRIVATIZATION OF THE LPT SECTOR

The achievement of the goals peculiar to a service contract effectively oriented around the efficiency incentives is based on the following conditions: first of all, the presence of mechanisms to define subsidies and tariffs that, applying the “price cap” and “transfer cap” formula, include incentives to improve the production efficiency and the service quality⁴⁶; secondly, the creation of adequate control systems regarding the application of the contract content and related punitive sanctions schemes to be applied in the case of performances not conformable to the contract⁴⁷; finally, but certainly not less important, the existence of a context where the interests of the parties are well distinct and equally guaranteed. This last condition occurs in particular:

- when there is no owner relationship between the local body and the firm supplying the transit service. Otherwise there is the objective risk that the company, from one side continues to be conditioned from the direct and special intervention of the commissioning institution, and on the other side could benefit from the ex-post balance of eventual management deficits by the public shareholder;
- when the company producing the service has been selected on the basis of a competitive comparison. Lacking a competitive mechanism (before the issue of the contract, and, in prospect, when this expires) there are again the conditions for an objective mixture of the interests between the local authority and the firm, even without owner relations between them. The consequence would be a reduction of the substantial strengths of the service contract intended as an instrument to separate the roles and responsibilities and also able to orient the parties’ behavior towards higher levels of efficiency and quality.

⁴⁶ It should be underlined that the explicit introduction of the quality in the transfer cap and price cap formulas plays a fundamental role: otherwise the company could balance the binding effects of economic constraints on the remuneration of productive costs with a lower quality of the service, with a consequent damage for the users. For a theoretical discussion of the topic of quality regulation see Petretto (1993, pages 226-228) and Tirole (1988, pages 100-103).

⁴⁷ Generally the schemes of incentive regulation provide that the responsibility concerning controls and sanctions are attributed to a subject independent from the local authority commissioning the public service. This is necessary: both to avoid forms of asymmetry in favor of the local institution, which occur when this last simultaneously covers the roles of contracting party and controller, and to protect the user from service decays that occur whenever the company and the commissioning authority practically exercise the co-management of the contract.