

## Local authority waste contracts: CMA analysis

November 2017

1. In 2006 the Office of Fair Trading (OFT) published a report on the development of competitive markets in the municipal waste sector, *More Competition, Less Waste*.<sup>1</sup> The report included recommendations in relation to local authority procurement of waste collection services.
2. This brief update report summarises recent analysis done by the Competition and Markets Authority (CMA, the OFT's successor as the UK's competition authority) of local authority spending on municipal waste collection. This update does not cover issues relating to commercial collection, waste treatment or disposal.
3. In summary, the data analysed showed that longer and broader domestic waste collection contracts which can limit competition remain in use by some local authorities and are associated with statistically significantly higher local authority spending.

### The market for municipal waste

4. Overall, the data showed that while local authority spending was broadly stable, recycling rates continued to rise and customer satisfaction remained high. Our analysis focused on data relating to potential competition issues, including those highlighted in the 2006 report.
5. We found no evidence that authorities whose collection services are delivered in-house pay more or less than those who contract the service out, nor that a change of delivery mechanism in either direction is associated with an increase or decrease in costs, although we were less able to assess this latter point.
6. We did find evidence linking both the duration and breadth of domestic collection contracts with higher local authority spending.

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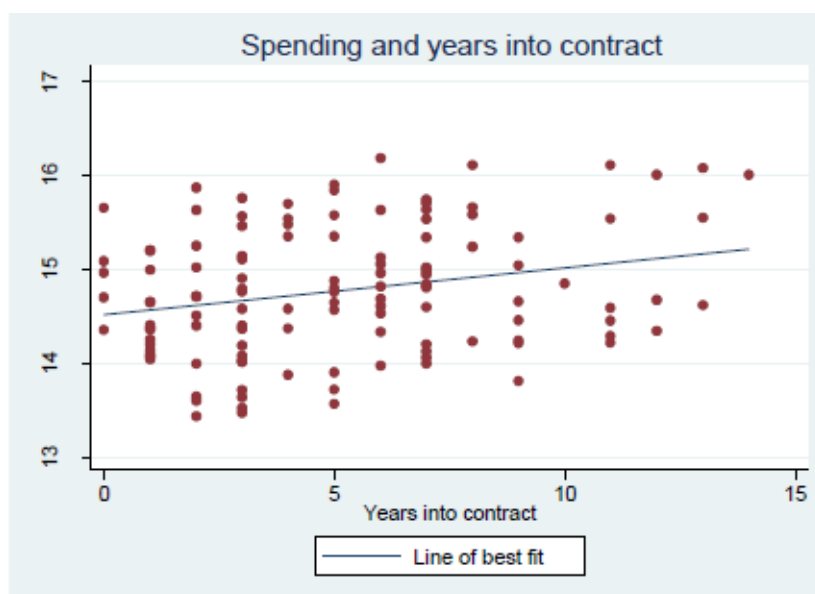
<sup>1</sup> OFT (May 2006), *More competition, less waste*.

## **Contract length**

7. We classified contracts (where data was available online) by the number of years since the contract had begun. Controlling for relevant cost drivers (including volume of waste collected and local wages), local authorities on longer contracts are spending more.

**On average, each year into a contract was associated with 2.7% higher spending than otherwise predicted by our model.**

**Figure 1: Local authority waste contracts, spending and years into contract**



Source: CMA data analysis, see note on data sources and analytical approach.

8. The closer you are to the point of competition the more you might expect to pay the market rate which, if the market is competitive, will reflect efficient costs. This is in line with the 2006 report which found that the longer the contract, the greater the risk of deterring other firms from bidding because the incumbent supplier has a more established position and detailed knowledge of costs. Longer contracts also allowed local authorities less flexibility to adapt to falling costs or changing technology. Contracts should be of a length to enable suppliers to recover any sunk costs but no longer. The 2006 report suggested that five years would be appropriate given typical asset lives, a finding that is not changed by our more recent analysis.

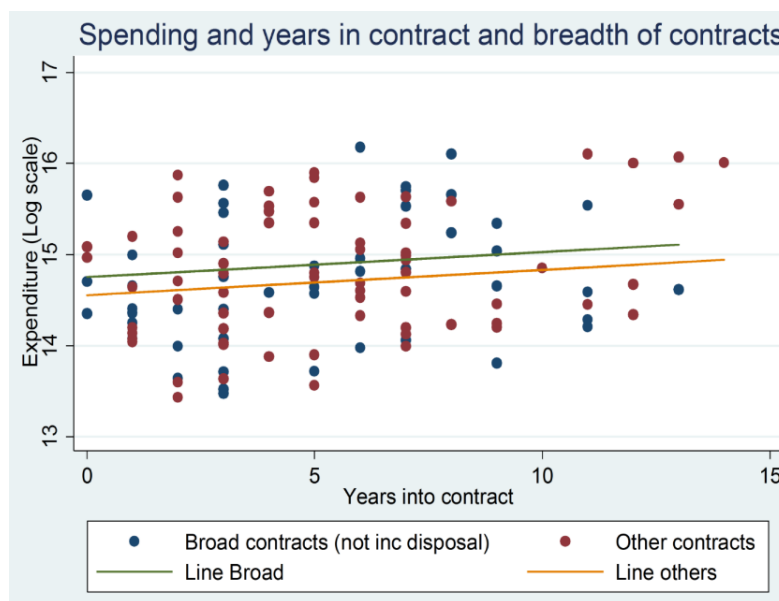
## **Contract breadth**

9. We classified domestic residual waste collection contracts (where data was available online) into three categories:

- Narrow: just residual waste and/or recycling collection.
- Broad (excluding disposal): including street sweeping, parks maintenance and similar services, but not disposal.
- Board (including disposal): including disposal and street sweeping and similar services.

**Controlling for relevant cost drivers, we found that – in addition to the association with time into contract (as above) – broad contracts without disposal were on average associated with around 20% greater spending on the residual waste collection elements than narrow contracts.**

**Figure 2: Spending and years into contract and breadth of contracts**



Source: CMA data analysis, see note on data sources and analytical approach.

10. Broad contracts that included disposal were not associated with higher spending on residual waste collection.
11. The 2006 report found no evidence of significant cost savings from broad contracts, and advised local authorities to consider carefully what services are aggregated. Broader contracts might significantly restrict the number and type of bidders.

## Conclusions

12. Competition can help procurement professionals get value for money for service users and taxpayers. The way in which goods and services are procured can help ensure competition drives providers to compete on innovation and service quality.

13. In order to make the most of the potential benefits of competition, local authorities should:
- limit the length of contracts tendered out to no longer than is necessary; and
  - tender services separately wherever possible to take advantage of competition.

### ***Bid-rigging***

14. The data available did not allow this analysis to assess the level of potential bid-rigging in the market. The presence of a cartel can raise prices by 30% or more. Local authorities should always be alert to this kind of behaviour. Advice on what to look out for and what to do if you suspect bid-rigging or other types of cartel behaviour can be found on the CMA website.<sup>2</sup>

### **A note on data sources and analytical approach**

15. Data sources used in our analysis included:
- DCLG, Defra, and ONS data on gross current expenditure (on running expenses and employees) on domestic residual waste collection by all local authorities in England, on the volume and characteristics of waste collected, and other relevant characteristics of local authorities such as local wages and population density.
  - WRAP data on local authority waste contracts available, including whether they were in-house or out-sourced, and how frequent collections were.
  - Information from publicly available contract descriptions on local authority websites, Contracts Finder and other procurement websites.
16. The available academic literature included papers evaluating waste spending using multivariate regression, or econometrics.<sup>3</sup> These studies were either in other countries or were in the UK setting but 20 years old. WRAP used similar statistical techniques to analyse drivers of recycling rates in the UK, controlling for differences in the characteristics of local authorities.
17. The CMA's approach was to look for any patterns between the things we were interested in such as local authority spending, contract design and market

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<sup>2</sup> [Bid-rigging: advice for public sector procurers](#).

<sup>3</sup> Bel and Costas (2006), Dijkgraaf and Gradus (2007) and Szymanski (1996).

concentration while taking into account the differences in local authority size and other characteristics.<sup>4</sup>

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<sup>4</sup> To be more precise, using the standard econometric (statistical) approaches in the academic papers and WRAP study, we decided to look for any robust relationship between 324 English local authorities' gross operating expenditure on domestic residual waste collection in 2014/15 and the things we are interested in, while controlling for other factors such as volume of waste collected, local authority wages, population density, and frequency of collection.