



Case study for competitive neutrality

6 February 2023

This information paper presents a case study that shows how all the elements of the revised competitive neutrality policy proposed in our Draft Report would be applied.^a The conclusions drawn are based on the factors described in the case study, some of which have been deliberately simplified. We are not suggesting that the same outcomes would always apply to similar businesses or situations.

1 Case study – provision of secure parking services

A business owned by a council in NSW offers secure parking in a multi-storey carpark in its CBD and is currently reviewing its prices. Figure 1.1 presents the key information about the service.

Figure 1.1 Key information about council-run parking building



^a Section 4 of this paper provides more information on what competitive neutrality is and why we are reviewing NSW's competitive neutrality policies.

IPART acknowledges the Traditional Custodians of the lands where we work and live. We pay respect to Elders both past and present. We recognise the unique cultural and spiritual relationship and celebrate the contributions of First Nations peoples.

The council is concerned that construction in the CBD is causing people to go elsewhere for leisure. The average occupancy of carpark in the council building is down and local businesses have noticed a drop in customers. Because of this, the council is reviewing its carpark prices.

The council advertises its secure parking service through posters hung in main streets of the CBD. It is planning to use this advertisement to encourage people to visit the CBD.

1.1 Does competitive neutrality apply?

Competitive neutrality applies to significant government business activities, as defined by our 3 proposed tests.



The secure parking service passes the government ownership test

The activity is run by a business owned by the council, which is a general government sector entity.



The secure parking service passes the business activity test

The activity involves the supply of services (secure parking) that a private trader could undertake. Management has a degree of independence over the supply of the service and the price at which it is provided and the council advertises the services. It therefore has a commercial character.

The activity is undertaken with system and regularity (at all times).



The secure parking service passes the significance test

The activity is significant as none of the significance test exemptions (based on turnover, market impact, or statutory monopoly) apply. Each of these elements is explored further below.

Turnover

A government activity is not significant if the annual turnover from the business activity is less than \$3.7 million (to be indexed in the policy). To be exempt based on low turnover, the business needs to ensure that its turnover would be under the threshold if its products/services are priced in line with non-government providers in the same or similar area.

The projected turnover based on the current price of \$3 an hour would be less than \$3.7 million. However, if the average market price for secure parking in the CBD of \$4 per hour was used to calculate turnover instead of the current council fee,^b the turnover would exceed the \$3.7 million threshold for the significance test (see Table 1.1).

Table 1.1 Turnover assessment for significance test

	Current price	Market price
Total projected turnover	\$3,285,000	\$4,380,000

Note: projected turnover is based on an occupancy of 6 hour per carpark per day, observed from data collected in the previous year.

Market review

The council has conducted a recent market review that concluded the activity has a significant impact on the market. The template used for the market review is shown in Table 1.2.

Table 1.2 Overview of market-based assessment for council secure parking

Question	Answer	Significance determination
1. Does the business activity have market share greater than 10% in the relevant market?	Yes, the council holds around 34.5% of market share (500 out of 1450 parking spaces)	If yes, continue to Question 2. If no, the business activity is not significant.
2. Is the market share of the business activity (based on turnover or customer numbers) larger than or comparable to its private competitors?	Yes, the two largest non-government competitors offer 500 and 350 spaces respectively	If yes, the business activity is significant. If no, continue to Question 3.
3. Is there evidence that the business activity has a significant influence or competitive impact in the relevant market?	Significance already established in question 2. In any case, the evidence demonstrates that the business activity has a significant influence or competitive impact in the relevant market.	If yes, the business activity is significant. If no, the business activity is not significant.

Statutory monopoly

There is no legislation specifying that the council is the exclusive provider of secure parking. It is not a statutory monopoly and this exemption does not apply.



As the secure parking service passes all three tests, it is a significant government business activity and competitive neutrality principles apply.

^b The market price was established by assessing the price for 3 hours of parking at the non-government secure parking buildings in the CBD. These averaged out to \$12 for 3 hours.

1.2 Establishing the competitively neutral price

As the council has assessed that competitive neutrality principles apply, it is required to estimate the competitively neutral price. Firstly, the council would undertake a cost assessment as set out in Figure 1.4.

Figure 1.2 Steps to cost assessment

- 01** **Select costing approach and assess cost base**

The council should use fully distributed costs as the cost approach because the secure parking service is operated by a stand-alone business that does not share costs with another entity.

- 02** **Account for cost-based advantages and disadvantages**

 - Advantage: The building that the secure parking service operates from is owned by the council and is leased to the carpark business at below-market rates.
 - Advantage: The parking service has access to the council insurance scheme, which gives it access to lower insurance rates compared to non-government competitors.
 - Council did not find any notable competitive disadvantages.

- 03** **Account for non-cost advantages and disadvantages**

No non-cost advantages or disadvantages identified.

Table 1.3 below shows the actual calculated costs and the resulting estimated competitively neutral price.

Table 1.3 Cost assessment for council secure parking service

Cost	Amount
Direct costs (equipment, staff, land lease, advertisement, maintenance, and ticketing system)	\$3,400,000
Adjustments (lower lease, lower insurance rates)	\$145,000
Total	\$3,545,000
Resulting competitively neutral price (per hour based on expected 6 hours of occupancy per day, rounded to the nearest 5 cents)	\$3.25

1.3 Public interest test

A public interest assessment is required to charge below the competitively neutral price. As the council is currently investigating its fee options, it can apply the public interest test to help it determine which approach to take. The public interest test for the subsidy could be carried out as shown in Figure 1.5.

Figure 1.3 Summary of public interest test findings

01	<p>Define what is being proposed</p> <p>Subsidised prices for parking in secure council parking building, to encourage people to visit the CBD during ongoing construction. Prices to remain at \$3 per hour or be further discounted to stimulate demand.</p>
02	<p>Assess benefits of proposed option</p> <p>The council expects cheaper parking to attract more people to the CBD, which means a higher number of customers for local businesses.</p>
03	<p>Assess costs of proposed option</p> <p>The council undertook a brief modelling exercise to estimate the cost of the subsidy if parking fees remain at \$3 an hour, concluding that it would cost around \$270,000 to administer for a year.</p> <p>Provision of subsidies to users of the council-run parking building discriminates against other providers, which may impact competition for secure parking services in the area. In the longer term this could impact the choice and quality of services for consumers.</p>
04	<p>Do the benefits outweigh the costs?</p> <p>The council considers it highly important to support local businesses, to ensure that the CBD continues to meet the needs of the community.</p> <p>However, a price increase of \$0.25 per hour in line with the competitively neutral price is considered to have a minor impact on customers, who on average would pay an additional 75 cents, especially considering this price is still lower than competitors.</p> <p>The council also noted a subsidy that only applies to some parking in the CBD may not be effective enough compared to a subsidy also applied to non-government parking buildings (which would be a costlier subsidy).</p> <p>The council has concluded that the benefit will not outweigh the impact on the private business' services, consumers and the cost of the subsidy.</p>
05	<p>Are there less costly means of achieving the objective?</p> <p>An alternative is not applying a subsidy at all, which is less costly and still results in a relatively affordable price.</p> <p>Another option is to introduce a free parking period that would reduce parking costs for people who spend money at local businesses while they are parked. Customers who spend money at a local business could validate their ticket with the business to receive their first half hour of parking free. At the same time, the council could raise hourly parking rates for customers who do not validate their ticket. There is strong support for this option amongst local retailers. Initial studies suggest this would be more costly to implement but the council is investigating further.</p>
06	<p>Conclusion</p> <p>The council has concluded the subsidy is not in the public interest.</p>

As the council has concluded the subsidy is not in the public interest test, it has decided to raise its fee to \$3.25 per hour.

2 Further information

See our [review page](#) for further information and resources about competitive neutrality, including:

- terms of reference for the review
- Issues Paper
- Draft Report
- other information papers.

3 We want to hear from you

We want to hear about your experiences with the NSW competitive neutrality policies and processes, and your views on our draft recommendations. Hearing the views of a wide group of stakeholders is very important to us.

We have provided a short list of questions for you to respond to below. You can respond to these questions and/or the broader list of questions in the Draft Report, which provides further information on the issues raised here. We are interested in any feedback you can provide. You don't need to answer every question or stick to the questions asked.



Are there other case studies we should consider?

What other elements would be helpful to demonstrate how to apply the proposed revised policy?

Have your say

Your input is critical to our review process.

[Submit feedback »](#)

You can get involved by making a submission, submitting feedback or attending a public hearing.

[Contact the review team »](#)

[Attend the public hearing »](#)

We are accepting written submissions on our Draft Report until 24 February 2023 and are holding a public hearing on 13 February 2023. You can express your interest in attending our public hearing on our website. If you have any questions regarding the review, are interested in meeting with us or would like to speak to the review team, please contact [Ineke Ogilvy](#).

4 Background

We are reviewing NSW's competitive neutrality policies and processes. Our review is identifying issues and concerns with current competitive neutrality policies and analysing opportunities to improve them. We have considered how the policies compare to best practice and recommend potential improvements in our Draft Report.

Competitive neutrality policies and processes aim to ensure that government businesses do not have a competitive advantage over other businesses because of their government ownership

Government businesses might compete across a range of industries, including in manufacturing, laundry services, construction (including roads), waste disposal, gyms and fitness, tourism services, printing, childcare and aged care.