Overview of Approach to Benchmarking Costs

Background

Benchmarking of Neighbourhood Services (NS) costs is required to provide the Highways Maintenance Scrutiny Committee with information. It is also required to assist in examining the proposals to continue the further provision of these services via NS using a service level agreement (subject to a decision by Members).

Obtaining reliable cost comparisons is known to be difficult and this overview report demonstrates the lengths that officers have gone to, to try to obtain this information.

Comparison of costs using the 2005 procurement

As part of the procurement approach, recommended by the Best Value Review, NS took part in an exercise to benchmark their costs in July 2005. The exercise produced indicative costs from 5 external short listed organisations, as well as NS. A total of 24 items were priced and the comparison shows that when all the relevant factors are taken into consideration, NS was competitive and there was no financial advantage in moving from NS to a different provider for these particular services. More information is provided at **(1)**.

Examination of performance indicators available from the National Highways Benchmarking Club (NHMBC)

This benchmarking club has 38 members and includes local authorities as well as a range contracting organisations working for local authorities. A wide range of performance indicator information exists but it is focussed on satisfaction with quality and predictability of price rather than on maintaining a database of typical costs for individual rates.

Discussions with the benchmarking club representatives took place to try to determine if their data could be used for our specific benchmarking purposes but with no success. Club members use the information to build up an ongoing profile of their performance against others in the club and as such it does help to indicate when performance against others is not positive. The club does not believe that costs can be reliably compared and therefore doesn't see the benefit of trying to do so when contract arrangements vary so much these days. Partnership contracts and open book accounting no longer result in priced bills of quantities to the same extent as in the past. There are also wide geographical variations as well as the uncertainties in the way overheads have been included etc.

Whilst membership of the NHBMC may be something to consider it will not result in direct cost comparisons and could not be used in this benchmarking exercise.

Benchmarking survey with a number of local authorities in the Yorkshire and the Humber region

A list of 23 items for benchmarking was jointly agreed between City Strategy (CS) and NS and this was circulated to nine local authorities that we have regular contact with via highway asset management in the Yorkshire and Humber region.

Two authorities showed an interest in benchmarking with us but in the end, despite repeat requests for information, nothing was forthcoming. It was unfortunate that within a short space of time of sending out the request, the late June and early July flooding events affected many parts of the region and it is likely that staff had more important things to deal with than our request for information. Evidence from a similar exercise that NS attempted a little while ago, in a different subject area, resulted in a similar lack of response.

The end result is that despite attempts we were not able to benchmark locally using this approach.

Benchmarking using Accord

Accord is a contracting organisation supplying a wide range of services to central and local government. Accord was approached, through contacts at the NHMBC, to carry out a simple low cost exercise to benchmark NS in terms of typical outputs that should be expected for each of the items of work.

These outputs produce unit rates and when these were compared against those in current use with NS, the comparison showed that the rates in use are lower than those derived from the output quantities in most cases. In other words NS rates appear to be competitive in terms of their efficiencies as a result of this benchmarking exercise.

Accord has also supplied some indicative unit costs for our assistance but did this as a separate exercise to the report they produced. Accord was keen to stress that these costs should be used carefully for comparison purposes, as they may not be representative of the situation in York. Further information on this benchmarking exercise is included in **(2)** but the exercise showed that the rates used by NS are close to those supplied, and generally are slightly less expensive; confirming the view from the 'output' comparison, that the NS rates are competitive.

Benchmarking with the two local authorities adjacent to City of York Council

One of the variables that can affect benchmarking of costs is the peculiarities of any given locality. To try to overcome this factor a more personal approach was made to the two local authorities on our boundary, namely, North Yorkshire County Council (NYCC) and East Riding of Yorkshire Council (ERYC). Representatives from both authorities agreed to meet to discuss benchmarking. These meetings have taken place the discussions indicated that costs were similar, although differences in the item coverage for the rates being compared complicated matters. Both authorities agreed to carry out further benchmarking.

In the case of NYCC, the representative agreed to price up a footway resurfacing scheme to enable a sample of the small scale R&R programme to be benchmarked for costs. In the case of ERYC the representative agreed to look further at benchmarking the routine maintenance rates. It is unlikely that the outcome of this further work will be available for the meeting but a verbal report will be provided. More information on the benchmarking with NYCC and ERYC is included in **(3)**.

Outcome of the various benchmarking exercises

Benchmarking is difficult to carry out but the work undertaken does demonstrate that costs charged by NS are competitive when compared to both external contracting organisations and other local authority in-house suppliers. There is also evidence that the efficiencies being achieved are competitive.

(1) Comparison of rates supplied by Neighbourhood Services as part of the procurement exercise in 2005

The procurement was split into two parts, with the works traditionally undertaken by Neighbourhood Services (NS) included in Part B of the contract. Part A included works not traditionally carried out by NS, mainly street lighting, carriageway R&R schemes, surface dressing, footway slurry sealing etc.

The costing exercise in the tender was essentially to obtain indicative costs, as the contract was intended to be outcome based, using open book accounting with a financial incentive system to share 'pain' and 'gain'.

There were five external organisations in this tender process and they were all interested in obtaining Part A and Part B works. The indicative costs were based on the fact they would be awarded work in one of the following ways:

- Part A only
- Part A + B

When the external organisations provided indicative costs for Part B it is certain that some of the overheads would already have been covered in Part A and this could therefore appear to make NS indicative costs look more expensive (as NS was providing costs as a means to benchmark its services but without the facility to offset some overheads into Part A works).

The results of this exercise are as follows:

Comparison of the rates submitted by NS, to those rates in use at the time in connection with the ongoing term maintenance contract, showed a very close similarity. As a result of this, the exercise produces an indication of the value for money of costs at that time when compared to the rates submitted by external organisations.

Costs were obtained for a sample of 24 well used items. This information allowed costs to be estimated for a significant proportion of the services in part B of the contract.

NS was positioned 4th out of 6 and their costs were the closest of any organisation to the average figure, even when the least and most expensive were removed from the exercise. NS was 4.0% more expensive than the average cost.

This showed that NS were in the same price range as a sample of 5 good quality external organisations and were in fact less expensive than 2 of them.

Other factors

Had the exercise been taken further then it would have been necessary to introduce other factors into the financial assessment to obtain the greatest understanding of the implications of potential outsourcing of the civil engineering section of NS. This assessment would have considered loss of profit to the council, under recovery of central and departmental overheads, costs associated with TUPE and pensions as well as the impact on other services such as the vehicle fleet maintenance contract, Street Scene and Street Environment etc.

Whilst this exercise was never brought to a detailed conclusion, it was clear from the work undertaken that there was little to be gained, financially, from alterations to the present arrangements of the works in Part B of the contract. The main savings were in Part A and this was later confirmed again through the savings obtained in the following year (2006) with the R&R surfacing contract being awarded to Tarmac on a much improved financial basis from the Council's point of view.

(2) Benchmarking of Neighbourhood Services costs by Accord

Background to Accord

Accord provides an extensive range of highways and structures maintenance and improvement services, working for a number of local authorities, Transport for London and the Highways Agency.

Highways services represents a core area of business for Accord and it is one the top suppliers of term maintenance services to county councils and the Highways Agency. The Accord service offering has been developed with the aim of providing single-point responsibility for a wide range of activities.

Service offering includes:
- Carriageway and footway surfacing and construction
- Network management
- 24 hour incident support
- Footway maintenance and construction
- Maintenance and construction of bridges and structures

- Surface dressing
- Road marking
- Safety fencing
- Traffic signs
- Drainage works
- Gully emptying
- Grass cutting
- Weed control
- Grounds maintenance
- Winter maintenance e.g. snow clearance and precautionary salting
- Fleet management and maintenance
- Co-ordinated passenger transportation
- Asset management

Current clients include:
- Anglesey County Council
- Caerphilly County Borough Council
- Cardiff Council
- Crawley Borough Council
- Highways Agency
- London Borough of Camden
- London Borough of Harrow
- London Borough of Hillingdon
- Newport City Council
- Oxfordshire County Council
- Shropshire County Council
- Southampton University
- Staffordshire County Council
- Telford & Wrekin Council
- Transport for London
- Torfaen County Borough Council
- Vale of Glamorgan Council
- Warrington Borough Council
- West Sussex County Council

Benchmarking approach

The Divisional Director involved with this project arranged for the Accord estimating department to produce the typical outputs they would expect a competitive organisation to deliver, in terms of the quantities of labour, items of plant and all the different materials, for each of the 23 items supplied to them. This information can then be used to input costs and determine whether or not the rates are in line with those currently being used, and by implication in line with the output productivity that should be expected from a competitive organisation.

The information obtained from this exercise showed that overall the existing NS costs are lower than those produced using the typical outputs, provided by Accord, for a competitive organisation. Using the 16 most comparable rates this indicates that NS average costs are 10.4% lower than those calculated from the outputs. This should be taken as an indication that NS costs are competitive, rather than the extent to which they are competitive due to the assumptions in the calculations.

Accord was keen to point out that any approach to benchmarking costs needs to carry a significant warning that comparisons can be misleading. Contractors build up their costs in different ways, taking into consideration different levels of overhead provisions. Other factors play an important part such as the availability of skilled labour, the local cost of labour, plant and materials and the life of the project over which set-up costs can be spread.

With this in mind Accord did not feel it appropriate to provide typical costs for the 23 items in their report but they did agree to verbally provide this information, based on 'normal' overheads, providing the 'health warning' about cost variations was applied to it.

This showed that a small number of the rate comparisons were clearly not based on the same things and not comparable. An overall comparison of 20 costs indicates that NS existing costs are very similar to the typical costs provided by Accord being 4.7% less expensive. However, based on the basket of 16 rates that are suitable for comparison of Outputs, NS is 1.3% more expensive than Accord's typical costs.

(3) Benchmarking with the two local authorities adjacent to City of York Council

Representatives from NYCC and ERYC agreed to meet with CYC officers to discuss benchmarking and their approach to service delivery.

Comparison with NYCC

NYCC outsourced its consultancy and its Direct Service Organisation some years ago and has term maintenance contract arrangements for these services. It needs to operate a relatively large client base, partly because of the contract arrangements in place and partly because of the geographical nature of North Yorkshire.

Comparison of basic maintenance costs proved to be difficult because of the way these were built up and the uncertainties that like-for-like comparisons were being made.

Bearing in mind that the Accord exercise had produced comparisons for a reasonable number of typical basic maintenance items, it was agreed that a more sensible approach to benchmarking would be to price up a small footway R&R scheme to see how costs compared on specific scheme. A scheme in this years programme has been sent for indicative pricing and the results are awaited. If an update is available it will be provided verbally at the meeting.

Comparison with ERYC

ERYC do not have a ‘client’, ‘contractor’ split and as a result officers adopt a ‘twin-hatted’ approach. They still have an in-house supply capability for routine highway maintenance but it is fairly limited and is enhanced as necessary from a framework contract for labour. ERYC favour the framework contract arrangement and also use it to obtain contractors for their R&R schemes.

Routine maintenance tends to be provided on a dayworks basis, as the works are small scale and usually undertaken in less than a two day period. The labour rate is a critical element in dayworks and a comparison of CYC and ERYC labour rates revealed that they were almost identical.

ERYC agreed to carry out some further works on benchmarking of routine maintenance items but the results are not expected prior to the meeting.