



Benchmarking and comparing costs in waste and recycling

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1. Benchmarking and comparing costs in waste and recycling: why is it so complex?

It is not easy to compare any service on a direct like-for-like basis, but benchmarking costs in waste management is a notoriously difficult thing to do and WIN has heard many times from councils who feel it is very hard to compare costs with other councils. There are three main reasons for this:

- a) Councils have traditionally compared either collection cost per household or disposal cost per tonne – but ***it is really only total system costs comparisons (i.e. collection, sorting, treatment, disposal, communications, etc.) that are meaningful nowadays*** because the cost of each of these components is closely linked to the others (most importantly, disposal costs are avoided through recycling).

Some components of the service costs are often not seen as part of the cost of delivery, notably communications and enforcement, however spending more on these services may reduce the overall service cost, and need to be included when measuring 'total' cost and outcomes (including when comparing costs between councils in waste partnerships).

- b) ***Councils deliver their services in different ways which means it is difficult to compare on a like-for-like basis.*** This is particularly the case for collection services. In the past this may have been because one council was delivering a recycling service when another council was not, for example. Nowadays, the biggest factor explaining variation in costs between councils is differing collection policies – this includes everything from frequency of collection, to size of bin, to charging policies (free or charged green waste, free or charged new bins, etc), to 'no-side-waste' policies etc. This doesn't mean you can't compare costs though! RATHER, it is a good reason to consider whether you may want to change policies and save money (without compromising your service, of course).
- c) ***Councils often allocate the same costs in different ways for accounting purposes*** (or allocate proportions of costs in different ways). For example, different councils might allocate the same cost in whole or in part to:
- the service
 - the council generally (the 'centre')
 - overheads
 - the cost of democracy (i.e. contributing to the cost of managing Committees, Members etc.)

The various different ways that overheads in particular are accounted has made comparing costs very difficult, though often the different treatment of other elements of the service costs also makes comparison difficult.

2. What is the primary reason for your council wanting to compare costs?

Councils want to benchmark costs for a number of reasons, but **depending on what is your prime driver, more or less detailed comparison may be needed**. So first ask what is your prime driver e.g. are you benchmarking...

- before starting an efficiency review to deliver improved services or savings for either a Direct Service Organisation (DSO) or contracted out service;
- to look at the implications of delivering a new service or a change in service such as introducing food waste collections or moving from weekly to alternate weekly collections;
- as a pre-cursor to procurement, to establish cost benchmarks to assess tenders (i.e. not as part of an efficiency review – although our advice would be that it would be a very good idea to conduct an efficiency review in the run up to procurement anyway);
- to understand where best to invest in the waste management system (i.e. in collection, treatment or disposal) to achieve best value for money; or
- to support a move to joint working in a number of ways but especially procuring a joint contract or contracts for waste recycling, handling or disposal, collection and often streetscene services or joining DSOs across more than one council.

3. Efficiency reviews – is benchmarking necessary?

If you want to deliver efficiencies, it is less important that you are able to compare costs directly with other councils – the most important things are:

- to review the efficiency of your current operations by looking to eliminate unproductive time etc (see WIN's *More for Less* guidance in the Focus pages of www.win.org.uk under Services). *Weight collected per vehicle or per crew member* (include drivers and loaders) can be used to benchmark internally i.e. for an inward looking efficiency review. It often holds as the best single measure of productivity for both residual and recycling collections. You can then measure cost per unit of weight collected; and
- to consider the cost implications of your council's policies e.g. do you replace lost or stolen wheelie bins free of charge, and if so at what cost? What size bin do you provide? What frequency of collection do you

provide? Do you operate a side-waste policy etc. See WIN's Waste Policy Checklist for more.

This can be done without detailed comparison although it is always wise to do some basic benchmarking.

4. Differing collection policies – the main factor explaining cost variation

The main factor explaining variation in costs between councils is different collection policies – i.e. everything from frequency of collection, to size of bin, to charging policies (free or charged green waste, free or charged new bins, etc), to 'no-side-waste' policies etc.

In many cases the policy structure that lies behind the services has very significant impact on the actual cost of delivery. Where working in partnership towards joint contracting, as well as comparing costs between councils the policies operating need to be reviewed as well.

This doesn't mean you cannot compare costs though! RATHER, it is a good reason to consider whether you could change policies and save money.

Note on partnership working, collection policies and cost comparison Where councils are looking to work in partnership, it is these policy factors which are usually the biggest consideration in cost comparisons.

5. Basic benchmarking / basic costs or component costs comparisons: useful pointers

Here are some useful pointers which could help you to do some basic but useful benchmarking. If your service is contracted out, it is always possible to work with the contractor to analyse costs (see WIN's *More for Less* guidance – section on contracted out services).

- By analysing total cost (collection + disposal) per household – even if your council is in a county/district grouping, you can ensure collection*, sorting, treatment, disposal and communications/education costs are all included in total system costs – enabling you to properly undertake cost-benefit analysis and **make effective decisions on where to invest** to deliver value for money. It is no longer meaningful to compare costs just for collection, because the collection system will have a direct impact on disposal costs (i.e. because recycling leads to avoided disposal costs).

(*including income from charged services such as bulky and green waste collections and materials sales)

For **WIN's combined collection + disposal costs spreadsheet** (using 2007/8 data) for all councils in England, see WIN's section on *KPIs and efficiency* (see *Value for money / efficiency* section), accessed from WIN's front page www.win.org.uk.

You could also look at total cost (collection + disposal) per household per 1% recycling – as this seems to stand up to some scrutiny as a value for money measure. (WIN's spreadsheet gives these figures also.)

- Break down the direct costs budget into its components to make sure that areas that are seen as 'waste' are clearly accounted for – for example is the waste communications, education and prevention budget included or separate? (An investment of £1 per household per year on communications could have a major impact on your recycling rate, with a consequent major saving on disposal costs, so the separated costs and the interrelationship between costs will need to be clear.)
- Most of your costs are in staff (drivers / loaders), vehicles and gate fees* so you should be able to benchmark directly the key component costs and link with the cost of weight collected – see above.

*Where there is a gate fee, whether for disposal, treatment, sorting, composting etc, make sure you are comparing like for like i.e. if the council you are comparing with does not use a MRF because it operates kerbside sort, then be clear where the MRF costs should be accounted in order to make a sensible comparison.

Keep it simple

In collection and recycling the level of detail usually held by a DSO is very considerable. However, often for out-sourced services this is minimal. Instead of looking at all the individual lines of expenditure, focus on the key ones, where available:

- Salaries & wages, Overtime, On-costs
- Vehicles
- Repairs / maintenance / insurances etc
- Fuel

If this is not possible, councils can benchmark themselves with others by measuring the use of the physical inputs being employed to deliver the service. This could be a simple expression of the number of:

- Employees per X households
- Vehicles per X households
- Supervisors per X operatives
- Overheads per X households

- Collection cost per household is unlikely to tell you much nowadays about how you are performing in value for money terms but it is a useful starting point. Although councils dislike using the old BVPI data (because of differences in the services provided, differences in how overheads are accounted, etc.) it could give you a feel for where you are in the spectrum. You could then create a small benchmarking club with other similar councils to compare costs on a slightly more detailed basis (as above), though of course you will need to be clear which components of the total system you are including in, or excluding from, 'collection' (e.g. is the communications budget included, or income from materials, sorting costs, composting gate fees etc) and more generally whether you are comparing like-for-like or not.

6. Comparing costs in more detail

If you are for example

- working with a neighbouring council, for example towards a joint collection service, or
- comparing the differences in DSO vs out-sourced costs in the run up to procurement

... you will probably need to go into more detail on both costs and policies.

For councils moving to joint working – sometimes one or other party's costs can look more or less expensive than they should look, because of the different service policies or because of ways councils account costs, and if misunderstandings arise because of these, it can unsettle negotiations.

Here are some guidelines:

- Identify those costs that will not be affected whatever course of action is taken and 'discount' them from the comparisons.
- Agree the treatment of support overheads – treatment of overheads is done differently in different councils and this can create confusion for cost comparisons generally and can be a real sticking point for partnerships.

Remember that outsourcing from a DSO position will not remove the council's central overheads (HR, IT etc): the council will retain its central overheads but no longer be able to recharge the DSO i.e. the central services will lose 'income'. Don't overstate the removal of overheads if scoping the costs of an outsourcing exercise or you will artificially inflate the projected savings.

- Staff 'overheads' i.e. senior management. One of the key tasks is to establish how much time senior staff spend on the service. This is usually established by the service head with support from HR.

When you're considering out-sourcing a service, the whole cost of an employee moves if they spend more than (normally) 50% of their time on the service, or stays if it's less. There may be a smaller saving than you thought because a 'rump' of employees can still remain with the Council. In other words, you need to identify residual costs left behind.

- Treatment of income. Some authorities use income from the services (e.g. sales of new bins, charged garden waste, shared overheads with commercial / trade waste etc.) to support the service, so the income sits in the service or is retained by the contractor to 'reduce' the net cost to the council. Others don't and it just goes into the general pot. Partnerships need to know not just how it works currently, but what will happen in the future i.e. if a charged service is introduced.
- The treatment of income from renting out assets creates the same problem. Where the service pays overheads for an asset e.g. the cost of a depot – any income from sublet can either go to service or main pot. Check how this is treated now and agree an approach in the future.
- Cross subsidy of waste management, streetscene and grounds maintenance etc services. Whether in-house or contracted out, it can be complex to establish which costs are attributable to which service. This is particularly important to establish if one service is to be contracted out but others remain as DSOs, or e.g. if one of the services is to transfer to a partnership / joint contract but others stay with the individual councils i.e. not all of the services are transferring across.

Also look out for interrelationships between service costs e.g. a 'black bag' household waste collection service may have costly street cleansing implications etc. Another good example is where trade waste is not properly charged to customers and inflates the cost of household waste management.

- Accounting for the repayment of capital Again, authorities often do this differently. Some services pay back just the capital; some capital plus interest; some do not 'repay' capital at all. Be sure to understand how this is dealt with in contracted out services, for example if wheeled bins have been rolled out as part of the contract and the purchase and supply is included in the contract – is it a one off payment or rolled into the annual charges as revenue? Have vehicles been purchased with or without servicing / maintenance agreements? Etc.

Understanding costs for an out-sourced service is in some ways simpler than for a DSO because you will know what the service is delivering (especially if it is an open book arrangement) and you can see immediately how much it costs the council (ensuring of course that procurement and contract management costs are included). Understanding if the contracted-out service is cost-effective is a different issue however. This can be approached by benchmarking (as above) and – more importantly – through conducting efficiency reviews of the contracted out service at appropriate intervals and, if looking at joint contracting, in the run up to the end of the contract (the timing of reviews, and the manner in which they are conducted, would ideally be stipulated in the contract: see WIN’s productivity guidance ‘More for Less’ – for more on this).

7. General advice

- Be realistic – obtaining exact comparison will be difficult The ease with which costs can be obtained will vary considerably between councils. It can be further complicated if Councils have externalised their services as the ‘transparency’ between inputs and cost can be lost in broad headings of the Bill of Quantities on which payment is made. This can lead to only relatively high-level analysis being possible without entering into a more detailed efficiency review with your contractor (see WIN’s More for Less guidance).

A related issue is that the contractor may not have accurately reflected the actual costs of a part of the service in the Bill of Quantities price i.e. it may be being cross-subsidised from other areas.

Bill of Quantities In a contract there will be a schedule at the back which details the basis upon which the client pays: this is the schedule that drives the pricing in a contract.

- Use an accountant It is also important that costs are collected and compared by individuals competent to do so. It is often best to use an accountant and an operations manager who, together, can make informed comparisons.
- Baseline and establish an open book approach Above all, if councils are looking to work together in partnership or towards joint contracting, a base-lining exercise is essential and this requires an ‘open-book’ approach i.e. councils commit to being open about costs with one another, so that the real costs of services can be assessed.