

Health and Safety Executive

**Review of reasonableness of charge-out rates
– final report**

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1. INTRODUCTION

Introduction

- 1.1 The Government's 1997 Quinquennial Review of the Health and Safety Commission/Executive (HSC/E) recommended that HSE should investigate introducing charging for its permissioning, safety case, regimes. A feasibility study was completed and charging regimes were introduced for COMAH from April 1999 and for Rail, Gas Transportation and Offshore from October 1999.
- 1.2 Because of concerns about the introduction of charging raised by the Commission, Ministers agreed with the Commission's recommendation that a review of each charging scheme should be conducted after two years of operation.
- 1.3 The overall purpose of the review is to establish the:
 - effectiveness of the financial and administrative arrangements for the charging schemes;
 - effects of the introduction of charging on HSE's relationship with industry;
 - impact of charging, in each industry, on HSE's effectiveness and, in the case of COMAH, on the effectiveness of the Environment Agency (EA) and the Scottish Environment Protection Agency (SEPA).

As part of the planning for this review we were asked to carry out one discrete strand of work reviewing the reasonableness of charge-out rates. This request was made because it was expected that one of the issues that would be raised during the consultation with industry would be concern about the level of charge-out rates. It was agreed that the method for this review of reasonableness would be a benchmarking approach comparing HSE's charge-out rates with a small number of agreed comparators from the public and private sector. The product description from the PID is shown in Appendix 7.

- 1.4 We have structured this report as follows:
 - Section 2 discusses the rates used in this review;
 - Section 3 reviews trends in the comparators' charge-out rates;
 - Section 4 adjusts the rates of comparator organisations for differences in cost bases to enable greater comparability;
 - Section 5 presents the key findings and conclusions from the comparison of HSE rates with the comparators;
 - Appendices 1-7 include supporting data and analysis.

Methodology

- 1.5 The organisations compared were originally suggested by HSE as the most appropriate comparators based on a variety of factors including the industry they operate in, and the nature of work they perform. Deloitte & Touche accepted these as appropriate comparators.
- 1.6 In our discussions with the comparator organisations we have sought to select the charge-out rates which relate to the service lines and teams which perform work similar to that of HSE, both in terms of industry sectors and the nature of the work performed.
- 1.7 We have obtained details of the hourly rates of a small number of comparator organisations from the public and private sectors. We have established the key differences between the rates and where possible made suitable adjustments to the rates to improve comparability. We have made these adjustments as the differences undermine conclusions on the reasonableness of the underlying cost bases. Our conclusion on the reasonableness of the rates used by HSE is based on how HSE's rates (which are required to reflect costs) compare with those of the comparator organisations. Detailed analysis of the main cost components of the individual rates is in Appendix 5.
- 1.8 In the public sector, the rates are intended to recover the full costs of the service. Within the private sector, the rates charged do not precisely equal the costs, as they are generally driven by market demand and therefore derived on a 'going-rate' basis, rather than a 'cost-plus' basis. We have referred to the difference between the rate charged and the costs as the 'market margin'. Costs in the private sector include a minimum rate of return to shareholders which will be greater than the cost of capital for public sector organisations. This margin may be attributed to a number of factors including:
- market imperfections which allow the private sector comparators to command a premium over their competitors. For example they may be in a quasi-monopolistic position which enables them to charge a higher rate. This may reflect the fact that the company has a good reputation and operators are willing to pay a premium for its services;
 - relatively more efficient operations allowing them to generate a higher return than other operators, perhaps arising from better management or economies of scale.
- 1.9 There are economics arguments as to whether or not this margin should be included within the cost comparison. Some of the margin may be used to cover costs (for example by cross-subsidising services or building reserves for times when market rates are less favourable) and should therefore be included within costs. However, some of the margin may relate to 'pure' profit, which is in excess of minimum required returns and should therefore be excluded, as there is no equivalent in the public sector. We have discussed the alternative treatments with economists both at HSE and in academia who agree with this distinction. Because it has not been possible for us to distinguish the elements of market margin, which are used to cover costs, from the elements which relate to 'pure' profit (as this will vary from year to year and requires disclosure of commercially sensitive information), we have taken a

conservative approach and not adjusted the private sector rate for this in our analysis in Section 4. We consider that this approach 'conservative' because any element which relates to 'pure' profit should be adjusted for. Adjusting for 'pure' profit would increase the difference between private and public sector rates.

- 1.10 In order to preserve market sensitive information and the anonymity of responses from the private sector, the data collected from the private sector has been combined to form a representative private sector rate. A number of rates have been obtained from each organisation which represent a cross-section of different industries including Railways and Offshore. The private sector organisations consulted are important players in the health and safety industry.
- 1.11 The main review has focussed on the rates used for the year 2000/2001 as HSE and some of the comparator organisations did not have finalised rates for 2001/2002 at the time this work was started. As explained in Section 3, HSE rates increased by up to 15% in 2001/2002 as some initial rates had been fixed too low to recover costs (although costs not recovered are not built into rates in subsequent years). We have adjusted the rates we have compared accordingly in our analysis in Section 4.

Limitations of the Analysis

- 1.12 We would like to draw the reader's attention to the inherent limitations of any benchmarking analysis. All organisations are unique and the results of benchmarking should always be interpreted carefully. This is particularly important where the organisation being benchmarked against is the equivalent of a monopoly supplier and has no direct "competitors". This is the case with HSE. EA, SEPA and MCA were suggested, and used as public sector comparators as they all enforce legislation on industry. The private sector companies were selected as they operate in related fields to HSE and are similarly high-profile organisations. However despite this careful sample selection, each of the organisations has different characteristics which affect the underlying cost structure and the bases of cost allocation within the organisations.
- 1.13 The following differences are likely to have a significant impact on costs and hence charge-out rates:
 - organisational structure;
 - organisations objectives which drive how charges are set (and includes pricing strategy in the private sector);
 - operational activities;
 - level of qualification, experience, salary levels, and grade of staff involved;
 - method of deriving the charge-out rate;
 - type of charge-out rate used - whether it is a full-recovery rate or a partial recovery rate;
 - the time base used for deriving the hourly rate (and whether travel time is included or excluded from the rate);
 - whether all trainee inspector time is recovered by the rate;

- average productivity of individuals in the organisations compared.
- 1.14 We have where possible and appropriate made adjustments to the rates used to increase the confidence with which reasonable comparisons and conclusions can be made. These are detailed in Section 4. Although we have adjusted for some factors, there are a number of others for which we have not been able to adjust due to insufficient reliable data. These include some of the factors referred to in paragraph 1.13. Specifically, although we have adjusted for the time available to be productive (base hours) our analysis does not take into account the productivity of individuals in the organisations consulted as it is not possible to measure this on a comparable basis. We have also not adjusted for differences in pay levels in the comparator organisations owing to difficulties in obtaining comparable data on salary levels. Since salaries account for the significant component of the charge-out rate, we would expect differences in salary levels to have an impact on the overall charge-out rate.
- 1.15 It has not been within the scope of this project for Deloitte & Touche to audit the information and explanations provided by HSE or comparator organisations. In this respect we are reliant on the accuracy of the data provided by the participants. We have however scrutinised the data provided for inconsistencies and where appropriate challenged the information provided. Consultation on facts and methodology has been sought and obtained from the Evaluation Project Board. The Board consists of staff from HSE, EA, SEPA and DTLR. The MCA and private sector are not represented and have not to date been involved in reviewing this report.
- 1.16 When HSE's charging models were first established they were reviewed by Panell Kerr Foster¹ in March 1999. Their work focussed on HSE COMAH and concluded that the fee models did not recover more than full costs and that the costs included in the calculation and methodology applied appeared to result in an underestimate of the actual cost of providing services under HSE COMAH. The recent uplifts in rates for 2001/2002 have been put through to address an under-recovery of 2.1% in 1999/2000 and 0.5% in 2000/2001. Such under-recoveries inform the forecast rate assumptions for subsequent years but only to achieve full cost recovery within a given year, not costs previously under-recovered.

Status

- 1.17 This is the Final Report and has been reviewed by HSE.

¹ Review of Proposed Charges for COMAH, Gas Transportation, Railways and Offshore, March 1999

2. RATES USED FOR COMPARISON

Introduction

- 2.1 Due to the differences between the private and public sector, HSE rates have been separately compared with public and private sectors. The rates used by the organisations consulted differ considerably.
- 2.2 The review has focussed on the rates used for the year 2000/2001 as HSE and some of the comparator organisations did not have finalised rates for 2001/2002 at the time this work was started. As explained in Section 3, HSE rates increased by up to 15% in 2001/2002 as some initial rates had been fixed too low to recover costs.
- 2.3 This section provides details of the rates used and explains the rationale for their selection.

HSE rates used

- 2.4 HSE applies a single rate for inspectors in each scheme regardless of grade or seniority. The charge-out rate therefore represents a ‘composite’ rate. We have derived an average across the four schemes weighted on the actual income in 2000/2001. The individual charge-out rates for each scheme that is part of this review are shown in the table below:

Table 1: Hourly HSE rates used to derive HSE weighted average (2000/2001)

HSE charging Scheme	Offshore	Railways	COMAH	Gas Transportation	HSE weighted average
Rate per hour	116	115	104	101	113 ²

- 2.5 The charges made by HSE for regulatory work within these charging schemes are in general for the following types of activity:
- assessment of safety case reports;
 - inspection;
 - investigations; and
 - approval of new works, plant and equipment (railway industry only).

Public sector rates used

- 2.6 The public sector organisations consulted were the Scottish Environment Protection Agency (SEPA), the Environment Agency (EA) and the Maritime and Coastguard Agency (MCA). The SEPA and EA rates used are the rates they charge for work under COMAH. The MCA rate is used for carrying out marine surveys, inspections and providing specialist advice.

² Weighted average based on proportion of 2000/2001 actual income received (Appendix 3)

Table 2: Public sector comparator rates used for analysis (2000/2001)

Organisation	EA	SEPA	MCA
Hourly rate (£)	104 ³	90	72

EA COMAH rate

- 2.7 The EA does not generally use hourly rates to recover costs, but applies a fee framework to recovering costs. Notable exceptions are COMAH which follows the HSE hourly rate approach and charging for specific aspects of Integrated Pollution Control (IPC) relating to Radioactive Substances (RAS).
- 2.8 The IPC/RAS rate is £175 per hour. This rate however includes costs, such as monitoring programmes, which are not incurred by HSE and are therefore not comparable either with a commercial consultancy rate or with the charge-out rate for COMAH. The higher rate for IPC/RAS also reflects the more extensive requirements of those regulatory regimes in areas such as compliance assessment, effluent and waste monitoring, internal and external consultation on applications, environmental surveillance and reporting and regulatory policy development. In the IPC daily unit charge, the time and costs of an inspector are used as a mechanism for recovering the costs of regulatory effort carried out by central units and the costs of the supporting framework, rather than the regulatory effort of individual inspectors (as in HSE case). The EA therefore consider it inappropriate to compare the IPC/RAS rate with HSE's rates.

SEPA COMAH rate

- 2.9 Similarly to the EA, SEPA does not generally use hourly rates for billing operators. The exceptions are COMAH and RAS (Radioactive Substances). For the same reasons given above the SEPA RAS rates are not comparable with the COMAH rates or with consultancy rates. (The rate used by SEPA for RAS work is £75 per hour). Our analysis only compares the SEPA COMAH rate with that of HSE.

MCA rate

- 2.10 The hourly rate used is the rate for marine surveys, inspections and advice. The costs of other services performed by the MCA, such as Registration of Ships and Seafarers' Examinations/Certificates are recovered through a fee system and are therefore not easily comparable with HSE's rates.
- 2.11 Marine surveys are done on UK registered vessels in order to produce a safety certificate for the operation of that vessel. Different types of vessels require different types of surveys. Inspections are done on non-UK vessels which operate in UK waters under international legislation. MCA only charge for inspections where a repeat visit is needed to ensure that remedial action has been carried out. The MCA also offers telephone advice, which is now chargeable at the hourly rate. Of their income from these areas, some 96-98% relates to surveys, the remaining 2-4% to inspections and advice.

³ Environment Agency has set its rate equal to that of the HSE to retain administrative simplicity and because the underlying costs per hour are similar. The EA rate currently results in a very marginal under-recovery of costs.

2.12 Professional marine surveyors operate out of some 16 Marine Offices from around the UK coast. More survey work is now being carried out by non-marine surveyors, e.g. some of MCA's Coastguard staff now undertake smaller fishing vessel surveys. The Marine Offices are organised into 4 operational regions, together with 18 Coastguard Stations, within the Directorate of Maritime Operations.

Private sector rates

2.13 In contrast to HSE which charges a single rate within each industry, the private sector can charge different rates depending on, for example, the type of work, the experience of staff used and the level of specialism required. The two comparator organisations have provided us with a range of rates for consultancy work they perform in Offshore, Rail and COMAH industries.

2.14 The rates for senior staff for both comparators fall within a £55 and £75 per hour range⁴. These consultants are industry specialists, working in the Offshore, Rail and COMAH industries, and often have additional qualifications or membership of chartered industry bodies and may have up to 20 years industry experience. We have calculated a single private sector rate, referred to as the Combined rate. This has been calculated by taking the average of the midpoint rates for senior staff in the two comparator organisations. The Combined rate derived is shown in the table below:

Table 3: Private sector rate used for analysis (2000/2001)

	Combined rate
Rate per hour (£)	64

2.15 One of the comparator organisations can also charge premiums for “deep” industry specialists (typically with more than 20 years of experience) in certain sectors of certain industries, such as Railways, resulting in rates of between £60 and £85 per hour. However we have been told by this organisation that these rates are seldom used, account for a small proportion of the staff employed by the comparator organisations, and attract a premium primarily because they represent a "scarce resource". In this way we feel they are comparable to the most senior inspectors at HSE who spend relatively little time involved in chargeable work. HSE think that these special rates are better comparators with the rates they charge for Offshore and Rail because of the level of knowledge and/or expertise required from inspectors in these industries. To reflect these different views our final conclusions show HSE's rates compared with both the standard average of £64 and a deep industry specialist rate for Offshore and Rail towards the top end of the range of £83 per hour. This represents a premium over the standard rate of 30%.

2.16 It should be noted that the private sector does not derive its hourly charge-out rate on a cost-plus basis, but on a ‘going-rate’ basis. The rate above therefore includes a market margin for which we have not adjusted as outlined in our approach in paragraphs 1.8 and 1.9.

⁴ Interviews with dutyholders and industry associations from COMAH have indicated that operators are able to find private sector health and safety consultants for between £40 and £50 per hour. We understand that these are generally consultants from smaller firms or people who are self-employed. These firms are unlikely to have the same cost structure as larger organisations and the £64 rate is therefore considered a more appropriate comparator.

- 2.17 There are also a number of costs highlighted in paragraph 4.11 which are incorporated into overheads and non-chargeable time and therefore recovered by the private sector rates. We have not quantified the impact of each of these costs individually.
- 2.18 It should be noted that one of the comparator organisations performs work which broadly falls into three categories: work for major clients, work for large companies with long-term relationships, and competitively won work. Depending on the category of work being performed, the chargeout rates quoted may be marginally lower or higher than standard rates. Since these differences apply to only one of the comparator organisations and would not significantly affect the outcome of this review, we have not made any adjustment for these.

3. TRENDS IN CHARGE-OUT RATES

Introduction

- 3.1 This section shows the trend in the charge-out rates used by HSE, public sector comparators and private sector comparators.
- 3.2 Only those public sector organisations legally permitted to are able to adjust rates to recoup deficits from prior years. HSE does not have the legal powers to do this. However over time charge-out rates could be expected to more accurately represent full cost recovery as information systems are able to build on an archive of historical data to better predict, and therefore derive an estimate of, the costs attributable to the charging scheme.
- 3.3 The cause of increases in charge-out rates may vary. In general, some increases are likely to be attributable to one or a combination of the following:
- changes in wage and price inflation;
 - changes in the asset base subject to capital charges;
 - changes to the methods of cost allocation, in particular of central overheads;
 - changes in the productivity of public sector inspectors or private sector equivalents whose hours form one of the key determinants of cost allocation;
 - changes in the deployment of support services and their utilisation;
 - future changes to legislative requirements including EU directives;
 - changes in market conditions (private sector only).

HSE rates

- 3.4 The table below summarises the HSE rates for the four charging schemes falling within the scope of this review for the financial years 1999/2000, 2000/2001 and 2001/2002. According to the HSE, the higher rates in Offshore and Railways mainly reflect the higher salary costs of employing more specialist inspectors in these industries.

Table 4: HSE rates in Offshore, Rail, COMAH and Gas Transportation for 1999/2000, 2000/2001, and 2001/2002

Charging Scheme	Offshore	Railways	COMAH	Gas Transportation
<i>Hourly rate</i>				
1999/2000	116	115	102	101
2000/2001	116*	115*	104	101*
2001/2002	133	127	107	107
<i>Percentage increase on prior year</i>				
2000/2001	0%	0%	2%	0%
2001/2002	15%	10%	3%	6%

* Rate in 2000/2001 held from October 1999 to August 2001

Increases in 2000/2001

3.5 For Offshore, Railways and Gas Transportation, HSE told industry that it would fix rates for 18 months because there would be insufficient data on which to base an increase. Therefore there was no increase in 2000/2001 for these charging schemes.

3.6 The increase in COMAH was broadly inflationary.

Increases in 2001/2002

3.7 Increases in Offshore and Railways rates have been significantly higher than inflation. The main reason for these increases was that the initial rates were found to under-recover costs. This reflected the facts that prior to the introduction of charging there was incomplete data on which to accurately set rates.

3.8 As in 2000/2001, the increase in the COMAH rate was broadly inflationary.

3.9 The increase in the Gas Transportation rate spread over a two-year period is broadly inflationary.

Comparator organisations

3.10 The table below summarises the rates used by the comparator organisations over the same period:

Table 5: Comparator organisation rates for 1999/2000, 2000/2001, and 2001/2002

	EA (COMAH)	SEPA (COMAH)	MCA	Private sector
<i>Rates</i>				
1999/2000	102	87	70	62
2000/2001	104	90	72	64
2001/2002	107	92	74	66
<i>Increase on previous year</i>				
2000/2001	2%	3%	3%	3%
2001/2002	3%	2%	3%	3%

3.11 Increases in rates across the comparator organisations have broadly been the same over the period, increasing between 2% and 3% per annum. These increases have been broadly inflationary, and are in line with those of HSE's COMAH rate.

Conclusions

3.12 Over the three-year period since the introduction of charging, HSE's rates have increased between 5% and 15% in total, whereas comparator rates have increased between 5% and 6%. The higher increases in Railways and Offshore have arisen because the initial rates were set too low because of incomplete data when charging was first introduced. The increases in COMAH and Gas Transportation have been in line with comparator organisations.

4. RATES ADJUSTED FOR COMPARABILITY

Introduction

4.1 In our analysis of the organisations within this study we have identified a number of differences. This section describes the differences identified and the adjustments we have made for them in our analysis in order to derive an adjusted "comparable rate".

Approach

4.2 Differences in hourly rates are affected by:

- differences in costs;
- differences arising from what is included and what is excluded from the rates used (differences of definition); and
- differences in the time bases over which the costs have been spread, i.e. the total hours used to calculate rates (differences in base hours).

4.3 We have sought to adjust the rates for the last two types of difference, as these undermine conclusions on reasonableness of the underlying cost base. Our approach to adjustments has been pragmatic. We have where possible adjusted quantifiable differences, which in some cases result in an increase and in some cases a decrease in the chargeout rate. By adjusting the rates for these differences, we have calculated rates which are more comparable within the restrictions of the data available.

4.4 Where detailed data has not been available, we have estimated the differences with the assistance of comparator organisations and based on discussions with finance staff at HSE.

Differences of definition

4.5 We have highlighted and, as indicated, adjusted for the following differences between the comparator rates:

- **travel and subsistence costs.** Travel and subsistence cost is dependent on the amount of travel undertaken and in the private sector is often billed separately. Because this cost represents a recharge of expenses we have adjusted rates which recover travel and subsistence costs indirectly. HSE recovers its travel and subsistence costs indirectly through the hourly rate. We have assumed the travel and subsistence costs which are incorporated into the hourly rate within general administrative expenditure at HSE, EA and SEPA to be 5% for COMAH, Rail, Gas Transportation and 8% for Offshore⁵. We have deducted it from the rates accordingly. The MCA rate includes 4% travel and subsistence within general administrative expenditure and we have adjusted for this accordingly. Similar private sector organisations generally

⁵ 5% of the 2000/2001 MTA for HSE COMAH, Railways and Gas Transportation relates to travel and subsistence costs (7.6% for Offshore). These convert into a weighted average of 6% across the four schemes.

bill for travel and subsistence separately at cost and therefore no adjustment has been made;

- **trainee inspectors.** HSE differs from the comparator organisations in that it does not charge the salary costs of trainee inspectors (these are known as 'Band 4s' and are typically in their first year at HSE), or recover their costs through the charging scheme. Their costs are met by other sources of funding. To the extent that this is a cost which is borne by other elements of HSE which fall outside the scope of the charging schemes, this diminishes comparability. We have therefore assumed that the additional costs of trainee inspectors are 5% of the cost of the charging scheme. The private sector recovers trainee costs directly through discounted charge-out rates or through overheads;
- **"pure" policy development⁶.** HSE does not include "pure" policy development within its charge-out rate. The EA on the other hand does include these costs which account for approximately 1% of its charge-out rate which relate to, for example, work on EU directives and changes to COMAH policy. The MCA includes "pure" policy development costs of 2% of the overall charge-out rate. We have adjusted the EA's and the MCA's hourly charge-out rate accordingly. The private sector does not have the same policy development requirements, and therefore no adjustment has been made to the private sector rate;
- **research and development.** 3% of the EA charge-out rate is attributable to expenditure on researching methods of monitoring and assessing COMAH risks. HSE does not include Research and Development expenditure in its charge-out rate and therefore in this respect the rates are not comparable. We have accordingly adjusted the Operational Management element of the EA hourly rate;

4.6 The tables below summarise the adjustments made for differences of definition:

Table 6: Differences of definition adjustment - HSE

	HSE Offshore	HSE Rail	HSE COMAH	HSE Gas Transportation
Travel & subsistence costs	-8%	-5%	-5%	-5%
Trainee inspectors	+5%	+5%	+5%	+5%
"Pure" policy development	-	-	-	-
Research & development	-	-	-	-
Net adjustment for differences of definition	-3%	-	-	-

⁶ Policy development in this context refers to the development of regulatory legislation and excludes operational policy development.

Table 7: Differences of definition adjustment - comparator organisations

	EA (COMAH)	SEPA (COMAH)	MCA	Private sector
Travel & subsistence costs	-5%	-5%	-4%	-
Trainee inspectors	-	-	-	-
"Pure" policy development	-1%	-	-2%	-
Research & development	-3%	-	-	-
Net adjustment for differences of definition	-9%	-5%	-6%	-

Differences in base hours

4.7 Both the length of the planning year and the length of the working day on which costs are based have a direct impact on the hourly rate derived as they affect the total hours over which costs are recovered.

4.8 We have made adjustments for the following:

- **length of working year required to achieve 100% recovery.** There are significant differences in the length of the working year arising from differences in the lengths of corporate planning years, and the level of utilisation required to achieve 100% recovery. The table below summarises the main differences in the length of the working year.

Table 8: Working days required to attain full cost recovery

	HSE (days)	EA (days)	SEPA (days)	MCA (days)	Private sector
Days in year	365	365	365	365	365
Weekends	(104)	(104)	(104)	(104)	(104)
Bank holidays	(10)	(10)	(6)	(10.5)	(8)
Annual leave	(25)	(25)	(33.5)	(30)	(24)
Training	(6)	(4)	(8)	(16.1)	(5)
Sick leave	(10)	(5)	(2.5)	(7.9)	(6)
<i>Working days per annum before allowance for non-chargeable time</i>	210	216	210	196.5	218
Allowance for non-chargeable time	(63) ⁷	(61) ⁸	(42)	(32.5)	(41) ⁹
<i>Working days to attain full recovery</i>	147	156	168	164	177

⁷ HSE non-chargeable time is split into 42 days set aside for personal work plans, being managed or managing staff, reading circulars and 21 days of travel time. In practice, inspectors are able to charge any work they perform while travelling to the dutyholder. This has been estimated by the HSE at 5% of travel time, equivalent to 1 day per annum. However, since this is not factored into the calculations made by the HSE to derive the hourly rate, we have not adjusted for it.

⁸ Relates to other activities associated with application processing and permitting such as work planning, input into monitoring programmes, liaison with industry groups keeping abreast of technical and regulatory developments, file maintenance and supervision of other staff.

⁹ Includes researching work opportunities, proposal writing, bidding, tendering and contracting with new clients.

- **length of working day.** Not all the comparator organisations use the same length of working day to derive the hourly charge-out rate. HSE, EA and MCA all use 7.4 hour working days. SEPA and the private sector use 7 hour working days.

4.9 The table below shows the combined effect of the length of working year adjustment and the length of working day. We have used HSE hours per annum as the base against which to derive a base hour adjustment factor.

Table 9: Base hour adjustment

	HSE	EA	SEPA	MCA	Private sector
Working days to attain full cost recovery (days)	147	156	168	164	177
Working day (hours)	7.4	7.4	7	7.4	7
Hours worked per annum to achieve full recovery	1,088	1,154	1,176	1,214	1,239
<i>Base hour adjustment factor</i>	-	+6%	+8%	+12%	+14%

4.10 We have also adjusted for the following:

- **travel time.** HSE's charging schemes allow them to recover travel time within the hourly rate and this is budgeted at approximately 10% of inspector time. The MCA and private sector comparator organisations do not include travel time in their hourly rate, but may instead charge more hours for travel. The MCA bills on average 7% travel time and the private sector billing can vary from project to project and depending on the terms of contract. For the private sector we have assumed the travel time to be 10% of chargeable time. The exact proportion invoiced will vary according to the nature of the contract with the organisations' clients;

Table 10: Travel time adjustment

	HSE	EA	SEPA	MCA	Private sector
Travel Time Adjustment	-	-	-	7%	10%

- **full cost recovery.** Although intended to be full cost recovery charging schemes, not all are. In 2000/2001, three of the four HSE schemes partially under-recovered costs. Both EA and SEPA rates achieved close to full cost recovery. The MCA rate under-recovered by 4%¹⁰ and has been adjusted accordingly.

¹⁰ Source: 2000/2001 MCA Accounts of total costs of £3.9m, £0.17m was under-recovered.

Table 11: Full cost recovery adjustment - HSE

	HSE Offshore	HSE Rail	HSE COMAH	HSE Gas Transportation
Full cost recovery adjustment ¹¹	12%	7%	-	3%

Table 12: Full cost recovery adjustment - comparator organisations

	EA	SEPA	MCA	Private sector
Full cost recovery adjustment	-	-	4%	-

Differences which have not been adjusted

4.11 During our analysis we have highlighted a number of costs which we have been unable to quantify specifically, but which are incorporated into the hourly rates. These include:

- **market margin.** We have not adjusted the private sector rates for market margin as discussed in paragraph 2.16.
- **additional costs of a regulator.** Regulators operating within the public sector are obliged to incur additional costs, some of which private sector organisations do not incur and some they may elect to avoid. Activities include:
 - detailed and exhaustive record-keeping to provide sufficient evidence to monitor compliance with regulations and if necessary to enable them to take enforcement action against operators;
 - undertaking liaison meetings with stakeholders, including government, dutyholders, unions and industry groups;
 - reporting to ministers (and additionally HSC in the case of HSE, DEFRA in the case of the Environment Agency);
 - regulatory dialogue with dutyholders;
 - under COMAH, public registers (including safety report assessments) have to be maintained by the Competent Authority;
 - responding to political circumstances which can affect and direct operational work.

Any additional costs resulting from the above clearly need to be recovered through charge-out rates. It has not been possible to separately quantify the impact of these costs, although some of this is probably adjusted for through the base hour adjustment. Making a further adjustment for these costs would decrease the difference between private sector and HSE rates.

¹¹ Source: Table 4 adjusted for 3% inflation

- **costs borne by HSE and not the other regulators.** Compared to the other public sector comparator organisations, HSE bears some additional costs which are recovered through the charge-out rate. These include:
 - a higher level of administrative support compared to MCA in order to explain legislation requirements to dutyholders. This reflects the fact that the charging schemes within our remit operate within a newer legislative framework and therefore there is a need for a higher level of ongoing support to industry;
 - Charging Review Group secretariats;
 - with respect to COMAH, HSE bears most of the support costs associated with developing guidance and arrangements for enforcement of COMAH.

It has not been possible to quantify the impact of these costs on the charge-out rate and therefore the charge-out rate has not been adjusted for these costs, although we acknowledge that these will be additional costs which HSE will have to bear. These additional costs may explain part of any remaining difference between HSE and the other public sector rates.

- **additional costs which are borne by the private sector.** The private sector rates incorporate a number of costs into overheads and non-chargeable time. We have not been able to quantify these individually. These include:
 - bidding costs, including researching selling opportunities, writing and presenting proposals. Work may be obtained by direct recommendation or through ongoing relationships with clients, in which case these costs will be negligible;
 - market risks resulting in less certainty about future utilisation levels;
 - research expenditure which is included in overheads. It is excluded from the HSE rate;
 - methodology development which is included in overheads;
 - premium for insurance which is incorporated into overheads to cover business risk;
 - statutory reporting requirements, including reporting to shareholders and financial markets. The public sector has its own reporting costs which have been discussed above.

It has not been possible to quantify the impact of these costs on the charge-out rate and therefore the charge-out rate has not been adjusted for these costs, although we acknowledge that these will be additional costs which the private sector will have to bear. Adjusting for these costs would increase the difference between private sector and HSE rates.

- **uncertainty about client base.** As a public sector regulator with greater certainty about its client base, HSE has a planning advantage over the private sector which can find it harder predict its order book and needs to spend resource time to both find and bid for work. However to some extent this advantage is likely to be offset by the fact that HSE is duty-bound to respond

to unpredictable events such as major health and safety incidents and accidents.

Revised rates

4.12 The table below summarises the model developed to adjust the individual charge-out rates to assist in comparability¹².

Table 13: Summary of adjustments made to chargeout rates - HSE

	HSE Offshore	HSE Rail	HSE COMAH	HSE Gas Transportation
Original rate	£116	£115	£104	£101
Difference of definition	-3%	-	-	-
Base hours adjustment	-	-	-	-
Travel time adjustment	-	-	-	-
Full cost recovery adjustment	12%	7%	-	3%
<i>Adjusted charge-out rate</i>	<i>£126</i>	<i>£123</i>	<i>£104</i>	<i>£104</i>

Table 14: Summary of adjustments made to chargeout rates - comparator organisations

	EA (COMAH)	SEPA (COMAH)	MCA	Private sector
Original rate	£104	£90	£72	£64
Difference of definition	-9%	-5%	-6%	-
Base hours adjustment	+6%	+8%	+12%	+14%
Travel time adjustment	-	-	+7%	+10%
Full cost recovery adjustment	-	-	+4%	-
<i>Adjusted charge-out rate</i>	<i>£100</i>	<i>£92</i>	<i>£84</i>	<i>£80</i>

Comparison of rates

4.13 The adjusted rates show that:

- EA COMAH rate is 3% lower than the HSE COMAH rate and the SEPA COMAH rate is 11% lower than the HSE COMAH rate. However, as mentioned in section 3, HSE administers the COMAH scheme on behalf of EA and SEPA and therefore picks up a disproportionate element of the administrative costs. Our Review of the Efficiency of Charging Processes

¹² In contrast to the adjustments in Table 7 which have been applied in a single step, the adjustments in Table 13 and Table 14 have been applied successively. This is because the adjustments for base hours, travel time and full cost recovery affect the whole rate rather than its individual cost components.

has indicated that the administration of charging accounts for 6%¹³ of total COMAH costs. Although EA and SEPA invoices account for less than 10% of revenues collected within COMAH, EA invoices give rise to a disproportionate number of queries. There is insufficient data to accurately attribute the administrative costs to the EA;

- the adjusted MCA rate is 33% lower than the HSE Offshore rate, 32% lower than the HSE Rail rate, 19% lower than the HSE COMAH rate and 19% lower than the HSE Gas Transportation rate;
- the adjusted private sector rate is 36% lower than the HSE Offshore rate, 35% lower than the HSE Rail rate, 23% lower than the HSE COMAH rate and 23% lower than the HSE Gas Transportation rate.

4.14 As noted in Paragraph 2.15, HSE think that it is more appropriate to compare HSE's rates with a "deep" specialism rate for industries such as Offshore and Rail. The adjusted private sector rate including a 30% premium is £104 per hour. This rate is 15% lower than the HSE Offshore rate and 13% lower than the HSE Rail rate.

¹³ Budget COMAH charging team cost for 2001/2002 is £118,000; share of Invoice Processing Costs (Bootle) is £41,000; share of finance and planning costs £28,000; total costs of administration £187,000; Actual COMAH income £3.1m.

5. KEY FINDINGS AND CONCLUSIONS

Introduction

5.1 This section considers the main findings and conclusions from our comparison of HSE charge-out rates with those of public and private sector benchmarking organisations.

Rates compared

5.2 The table below shows both the actual hourly rates and the adjusted hourly rates as discussed in Section 4.

Table 15: 2000/2001 actual and adjusted hourly charge-out rates - HSE

	HSE Offshore	HSE Rail	HSE COMAH	HSE Gas Transportation
Hourly rate (actual)	£116	£115	£104	£101
<i>Adjusted charge-out rate</i>	<i>£126</i>	<i>£123</i>	<i>£104</i>	<i>£104</i>

Table 16: 2000/2001 actual and adjusted hourly charge-out rates - comparator organisations

	EA (COMAH)	SEPA (COMAH)	MCA	Private sector	Private sector (with 30% premium)*
Hourly rate (actual)	£104	£90	£72	£64	£83
<i>Adjusted charge-out rate</i>	<i>£100</i>	<i>£92</i>	<i>£84</i>	<i>£80</i>	<i>£104</i>
<i>% difference from HSE Offshore (adjusted)</i>	<i>-20%</i>	<i>-27%</i>	<i>-33%</i>	<i>-36%</i>	<i>-15%</i>
<i>% difference from HSE Rail (adjusted)</i>	<i>-18%</i>	<i>-25%</i>	<i>-32%</i>	<i>-35%</i>	<i>-13%</i>
<i>% difference from HSE COMAH (adjusted)</i>	<i>-3%</i>	<i>-11%</i>	<i>-19%</i>	<i>-23%</i>	<i>n/a</i>
<i>% difference from HSE Gas Transportation (adjusted)</i>	<i>-3%</i>	<i>-11%</i>	<i>-19%</i>	<i>-23%</i>	<i>n/a</i>

* rate includes 30% premium for "deep" specialism in Offshore and Rail industries as discussed in Paragraph 2.15.

5.3 In 2000/2001:

- the public sector comparator rates (adjusted for comparability purposes) are between 20% and 36% lower the HSE Offshore rate. The private sector rates are either 15% or 36% lower than the HSE Offshore rate, depending on whether a 30% "deep" specialist premium is applied (as discussed in Paragraph 2.15);
- the public sector comparator rates (adjusted for comparability purposes) are between 18% and 35% lower the HSE Rail rate. The private sector rates are

either 13% or 35% lower than the HSE Rail rate depending on whether a 30% "deep" specialist premium is applied as discussed in Paragraph 2.15;

- the public sector comparator rates (adjusted for comparability purposes) are between 3% and 19% lower the HSE COMAH rate. The private sector rates are 23% lower than the HSE COMAH rate;
- the public sector comparator rates (adjusted for comparability purposes) are between 3% and 19% lower the HSE Gas Transportation rate. The private sector rates are 23% lower than the HSE Transportation rate.

Productive time

5.4 Time budgeted to perform chargeable activities as a proportion of total time spent on chargeable activities is lower at HSE than at the comparator organisations. At HSE, approximately 65% of days which could be spent working are spent on direct work. This compares to 70% at the EA, 74% at the MCA, 76% at SEPA and 77% in the private sector.

Table 17: Proportion of working days which are chargeable

	HSE	EA	SEPA	MCA	Private sector
Days in year after deducting holidays	226	226	220.5	220.5	229
Training	6	4	8	16.1	5
Sick leave	10	5	2.5	7.9	6
Allowance for non-chargeable time ¹⁴ (excluding holidays, sick leave)	63	61	42	32.5	41
Working days to attain full recovery	147	156	168	164	177
% of working days chargeable	65%	70%	76%	74%	77%

5.5 This is largely driven by the fact that inspectors have a total of 63¹⁴ days set aside for:

- travel time (21 days);
- personal work plans;
- being managed, or managing staff; and
- reading circulars including those pertaining to essential technical/operational information.

To a lesser extent the discrepancy is caused by a higher allowance for sickness leave than in the comparator organisations. The base hour adjustment in our analysis in Section 4, adjusts for the difference in working days and therefore the difference in productive days is not reflected in the adjusted rates.

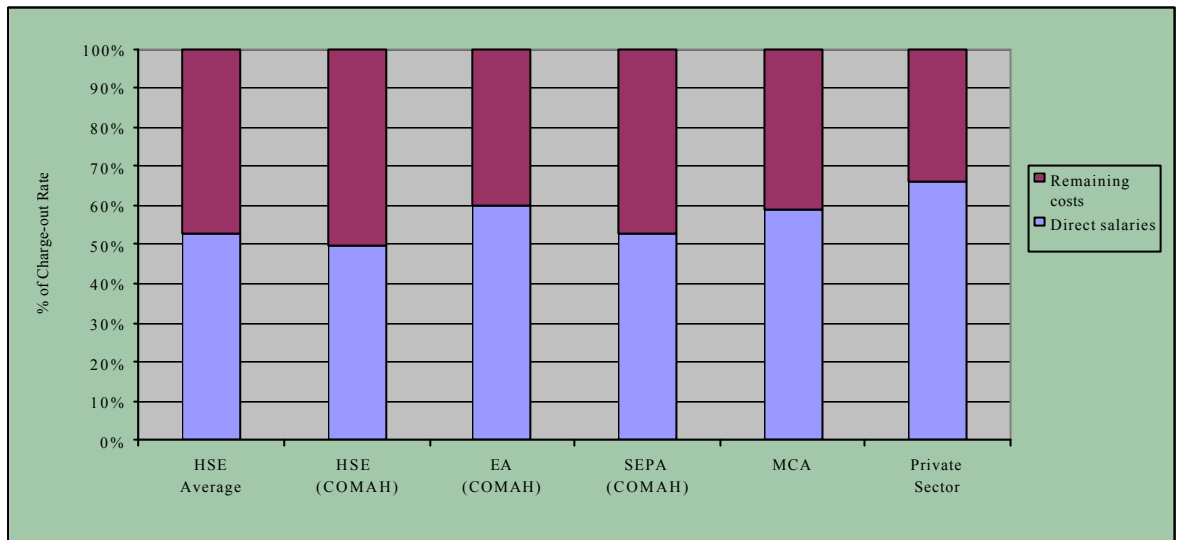
¹⁴ This was the estimate used when charging was first introduced.

Direct salaries vs. other costs

5.6 At 50-53% of total cost, the level of direct salaries as a proportion of total costs is generally lower at HSE compared to the comparator organisations. Although HSE is in line with SEPA (53%), the proportions at the EA and MCA are higher at 60% and 59% respectively. This indicates that HSE spends proportionately less on staff who perform front-line work.

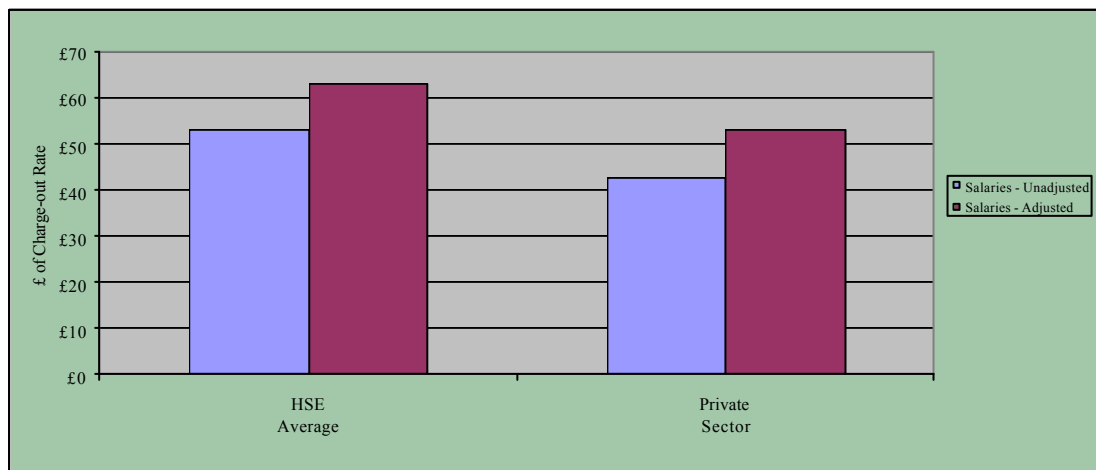
5.7 The difference between HSE and the private sector is even greater. In the private sector direct salaries account for 66% of cost.

Figure 1: Proportion of direct salaries to remaining costs (adjusted)



5.8 In absolute terms this difference in direct salaries equates to an adjusted difference of £10 per hour as compared with the HSE average rate. HSE's adjusted direct salaries account for £63 of the average hourly rate, compared to £53 in the private sector. This is striking because there is a general consensus that private sector rates are likely to be higher.

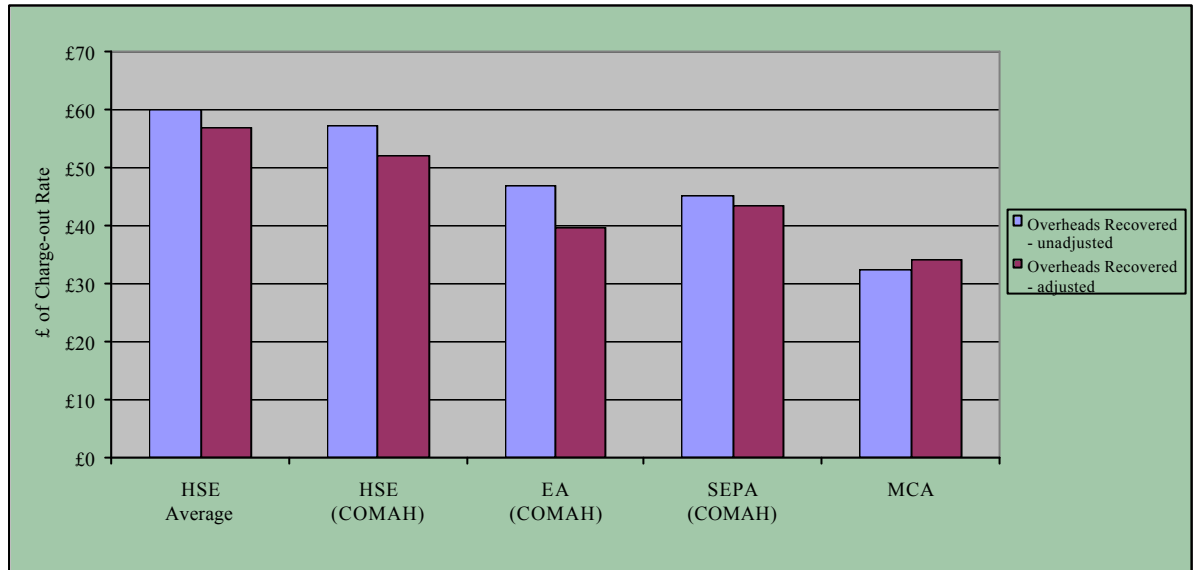
Figure 2: Absolute direct salary cost recovered per hour



Indirect costs

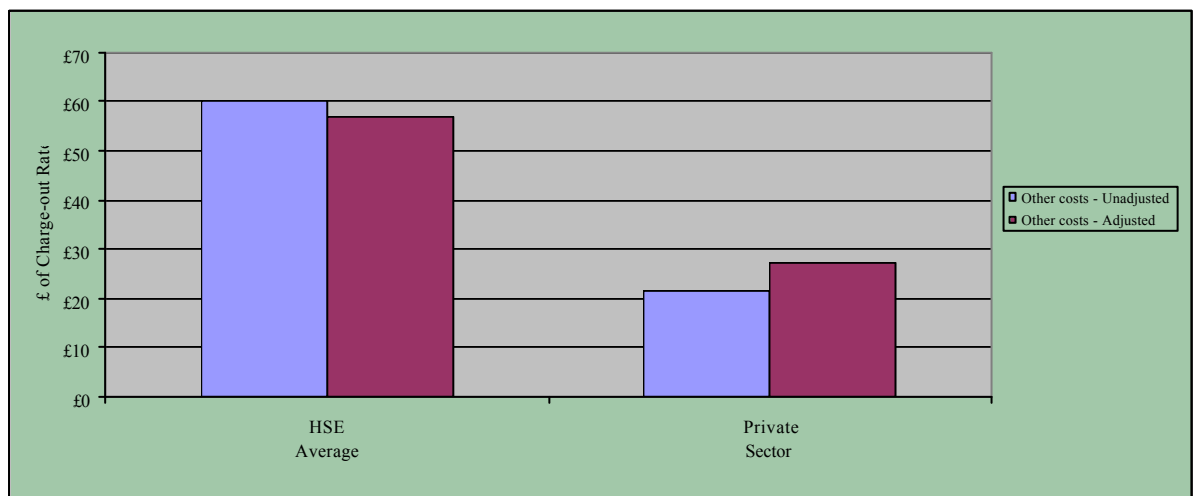
5.9 In terms of total indirect costs (defined as costs other than direct salaries) per hour recovered, HSE has significantly higher indirect costs at £57 (HSE weighted average), £52 (HSE COMAH), compared to £40 (EA), £43 (SEPA), £35 (MCA). Thus HSE rates incorporate between £9 and £22 more of indirect costs compared to the public sector comparator organisations.

Figure 3: Costs other than direct salaries recovered per hour of work in the public sector (adjusted)



5.10 Compared with the private sector, the contrast is more striking. The indirect cost impact is a mirror of the direct salaries, with private sector indirect costs reflecting 34% of the overall rate, versus 47% at HSE.

Figure 4: HSE and private sector costs (excluding direct salaries) compared



5.11 In absolute terms this equates to an adjusted difference of £30 per hour, HSE on average recovering £57 per hour compared to £27 per hour being recovered in the

private sector. Put differently, HSE's indirect costs are more than twice those of the private sector. The "deep" specialism rate which is sometimes applied by one of the comparator organisations for certain work in Offshore and Rail industries (see Paragraph 2.15) includes £35 of costs excluding salaries. This compares to £59 for HSE Offshore and £59 for HSE rail.

Level of administrative support

- 5.12 Within the public sector, HSE has a similar level of administrative support as compared to EA with a ratio of 1 support to 3 technical staff (in terms of FTEs). At both SEPA and MCA the ratio is 1:4. This suggests that HSE and EA employ 25% more administrative staff than its comparator organisations.
- 5.13 The ratio of support staff to technical staff within HSE is strikingly higher than in the private sector. The private sector has a support staff to technical ratio in the region of 1:10 whereas HSE has a ratio of 1:3. This suggests that HSE employs more than three times as many administrative staff compared to the private sector comparators.

General administrative expenditure

- 5.14 The relative proportion of Direct Salary expenditure to General Administrative expenditure between the organisations differs considerably.

Table 18: Proportion of direct salary expenditure to general administrative expenditure in the public sector (adjusted)

	HSE weighted average		EA (COMAH)		SEPA (COMAH)		MCA	
	% of total rate	% of direct costs	% of total rate	% of direct costs	% of total rate	% of direct costs	% of total rate	% of direct costs
Direct Salaries	53%	70%	60%	90%	53%	83%	59%	78%
General Administrative Expenditure	23%	30%	7%	10%	11%	17%	17%	22%
Total	76%	100%	67%	100%	64%	100%	76%	100%

- 5.15 Of total direct expenditure, at HSE 30% relates to administration (this includes accommodation, travel, staff development, office services, but excludes support staff which are included in direct salaries), compared to 10% at the EA, 17% at SEPA and 22% and the MCA.
- 5.16 Thus approximately 1/3 of HSE's direct expenditure is on administration compared to on average 1/4 in the comparative organisations.

Unadjusted costs

- 5.17 It has not been possible to quantify the impact of certain costs on the charge-out rates in the public and private sector and therefore we have not adjusted the charge-out rate for these costs. Adjusting for these costs would affect the difference between HSE and the public sector comparators and between the public sector and private sector rates. Refer to Paragraph 4.11 for more details.

Conclusions

- 5.18 In our analysis we have made comparisons between HSE's charge-out rates and those of a small number of comparator organisations. As indicated in Section 1, there are a number of limitations to this type of analysis. A possible explanation for the difference in rates may be the sample size, which is small and may therefore be unrepresentative. It is also possible that the organisations selected or the rates provided by them are not good comparators.
- 5.19 HSE's COMAH rate appears broadly comparable with that of the EA. SEPA's COMAH rate is 11% lower than HSE's COMAH rate. Compared to HSE's COMAH and Offshore rates, the MCA rate is 19% and 33% lower respectively. It should however be noted that the EA is more similar in terms of size than SEPA and MCA.
- 5.20 The private sector rate, which represents consultants working in Offshore, Rail and COMAH industries, is 23% lower than the HSE COMAH rate, 36% and 35% lower than the HSE's Offshore and Rail rates. If the private sector rates in Offshore and Rail are adjusted for a further 30% "deep" specialist premium (as discussed in paragraph 2.15) they are then 15% and 13% lower than the HSE Offshore and Rail rates respectively.
- 5.21 Although it is obligatory for HSE to recover all attributable costs from each full-cost recovery charging regime, the evidence from this review suggests that HSE needs to consider how best to achieve a significant reduction in its charge-out rates. In the short-term the aim should be to reduce its rates to bring them more into line with other public sector comparators but in the medium to longer-term it should aim to reduce its rates closer to those of the private sector.
- 5.22 In order to reduce the rates it charges to industry, the evidence from this review suggests that HSE should consider whether it is possible to:
- increase the proportion of productive days' work which chargeable staff perform;
 - increase the productivity of individuals;
 - review the existing mix of support staff to technical staff;
 - reduce aspects of its indirect cost base.

APPENDICES

Appendix 1: Unadjusted split of HSE charge-out rates in 2000/2001

	Offshore	Rail	COMAH	Gas Transportation	HSE weighted average
<i>Direct expenditure</i>					
Direct salaries	52%	45%	45%	45%	47%
General administrative expenditure	28%	30%	30%	30%	29%
<i>Central costs:</i>					
Operational management & strategy	11%	11%	13%	13%	12%
Corporate services	5%	9%	6%	6%	7%
Capital charges	4%	5%	6%	6%	5%
Total	100%	100%	100%	100%	100%
Actual expenditure 2000/2001	£5.9m	£5m	£3.1m	£0.03m	-

Appendix 2: Unadjusted split of public sector costs in 2000/2001

	HSE weighted average	HSE (COMAH)	EA (COMAH)	SEPA (COMAH)	MCA
<i>Direct Expenditure</i>					
Direct Salaries	47%	45%	55%	51%	55%
General administrative expenditure	29%	30%	11%	16%	20%
<i>Central Costs:</i>					
Operational management & strategy	12%	13%	19%	10%	4%
Corporate Services	7%	6%	11%	16%	15%
Capital charges	5%	6%	4%	8%	6%
Total	100%	100%	100%	100%	100%

Appendix 3: Actual expenditure in HSE Offshore, Railway, COMAH and Gas Transportation charging schemes (2000/2001)

	Offshore	Rail	COMAH	Gas Transportation	HSE weighted average
Actual expenditure	£5.9m	£5m	£3.1m	£0.03m	-

Appendix 4: HSE and private sector rate split into key components

	HSE weighted average - unadjusted	HSE - adjusted	Private sector - unadjusted	Private sector - adjusted
Direct Salaries	47%	53%	66%	66%
Overheads (including market margin)	53%	47%	34%	34%
Total	100%	100%	100%	100%
Hourly rate	£113	£120	£64	£80

Appendix 5: Key characteristics of comparator rates

	HSE	Public Sector Comparators			Private sector
		EA (COMAH)	SEPA (COMAH)	MCA	
Hourly rate 2000/2001 (actual)	Various	104	90	72	64
Simply aims to recover full cost	✓	✓	✓	✓	✗
<i>Rate recovers:</i>					
travel & subsistence costs ;	✓	✓	✓	✓	✗
trainees inspectors/consultants;	✗	✓	✓	✓	✓
regulatory policy development (or equivalent);	✗	✓	✓	✓	✓
operational policy development;	✓	✓	✓	✓	✓
research and development;	✗	✓	✗	✓	✓
market margin.	✗	✗	✗	✗	✓
<i>Other characteristics:</i>					
Length of working year required to attain full cost recovery (days);	147	156	168	164	177
Length of working day (hours);	7.4	7.4	7	7.4	7
Recovers travel time;	✓	✓	✓	✗	✗
Ratio of support staff to technical staff recovered through charging scheme (FTEs);	1:3	1:3	1:4	1:4	1:10
Single rate for all grades of staff.	✓	✓	✓	✓	✗

Appendix 6: Detailed analysis of components of charge-out rates

Introduction

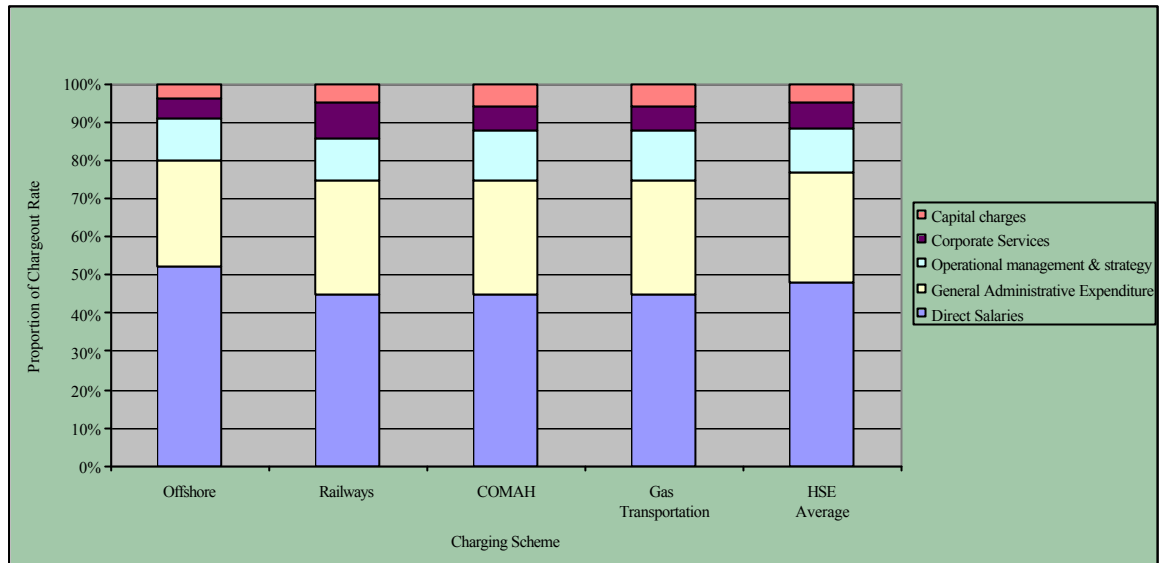
- A6.1 This appendix explores the make-up of each charge-out rate. Consistent with the approach adopted in Section 4, we have adjusted the structure of the rate to reflect the same assumptions. The rates before adjustment are referred to as "unadjusted rates" and the rates after adjustment have been referred to as "adjusted" rates.
- A6.2 As discussed in paragraphs 1.12 to 1.14, each of the organisations will have different characteristics which affect the underlying cost structure and the basis of cost allocations.
- A6.3 This analysis is very dependent on the consistent categorisation of costs across the organisations. Some of the findings appear unusual, and suggest issues about the application of the definition by comparator organisations. These differences may be in part attributable to differences of definition or to differences in the underlying organisational structure and the relative treatment of costs which make meaningful comparison difficult.
- A6.4 The charge-out rates have been analysed into the following components:
- **direct salaries**, being the gross cost of staff carrying out the work, their line managers and support staff, including associated employers national insurance, pensions (inspectors, technical and direct support staff);
 - **operational management and strategy**, which represents the gross salaries of staff dealing with the consistency and quality of operational work, and the share of central management time attributable to the operational management of the charging schemes;
 - **general administrative expenditure**, which includes accommodation, travel, subsistence, staff development, IT costs, and office services, including telephone, postage, etc. (but excludes support staff which are included in Direct Salaries);
 - **corporate services**, being central and Head Office costs which include payroll, finance, planning, and internal audit;
 - **capital charges**, including cost of capital (and return to shareholders from private sector organisations), depreciation, insurance and cost of capital associated with debtors.

HSE

- A6.5 Consistent with the approach adopted in Section 4, the following diagram¹⁵ shows the unadjusted charge-out rate split into the main cost categories (as defined above) and the weighted average HSE rate for the four charging schemes being considered.

¹⁵ COMAH, Railways and Offshore split is based on the forecast for 2001/2002. Source HSE, FINU2.

Figure 5 : Unadjusted HSE charge-out rates split into main cost components



A6.6 The breakdown in each case is similar, although a marginally greater proportion of the Offshore rate is attributable to Direct Salaries (52%). We expect this is due to the higher salaries paid to Offshore inspectors. This premium is likely to reflect market conditions as these staff have the skills and expertise to seek work as contractors for higher-paying oil companies.

A6.7 The table below shows a breakdown of the weighted average rate and the COMAH rate¹⁶.

Table 19: HSE weighted average and COMAH rates - unadjusted and adjusted

	HSE average - unadjusted	HSE average - adjusted	HSE (COMAH) - unadjusted	HSE (COMAH) - adjusted
<i>Direct expenditure</i>				
Direct salaries	47%	52%	45%	50%
General administrative expenditure	29%	24%	30%	25%
<i>Central costs:</i>				
Operational management & strategy	12%	12%	13%	13%
Corporate services	7%	7%	6%	6%
Capital charges	5%	5%	6%	6%
Total	100%	100%	100%	100%

Public sector comparators

A6.8 The table below shows the adjusted charge-out rates for HSE and public sector comparator organisations split into their key components.¹⁷

¹⁶ Unadjusted split of HSE charge-out rates shown in Appendix 1.

¹⁷ Unadjusted split of public sector charge-out rates shown in Appendix 2.

Table 20: Adjusted chargeout rates split into key components

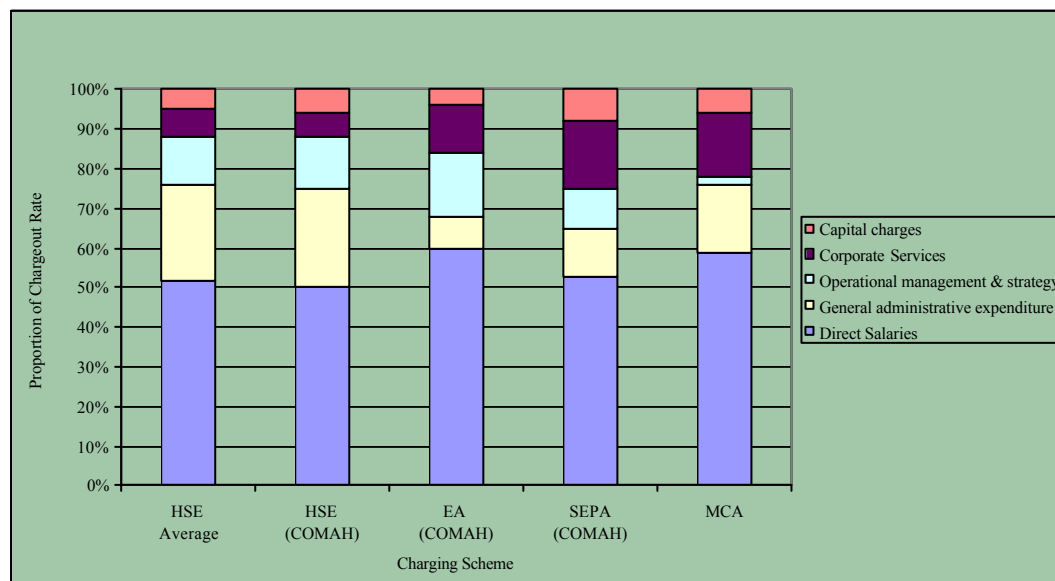
	HSE average	HSE (COMAH)	EA (COMAH)	SEPA (COMAH)	MCA
<i>Direct Expenditure</i>					
Direct Salaries	52%	50%	60%	53%	59%
General administrative expenditure	24%	25%	8%	12%	17%
<i>Central costs:</i>					
Operational management & strategy	12%	13%	16%	10%	2%
Corporate Services	7%	6%	12%	17%	16%
Capital charges	5%	6%	4%	8%	6%
Total	100%	100%	100%	100%	100%

A6.9 For the comparator public sector organisations, the main components of the charge-out rate are attributable as follows:

- direct salaries (between 53% and 60%), compared to 52% (HSE weighted average) and 50% (HSE COMAH);
- general administrative expenses (between 8% and 17%), compared to 24% (HSE weighted average) and 25% (HSE COMAH);
- overheads (between 24% and 35%), compared to 24% (HSE weighted average) and 27% (HSE COMAH), split as follows:
 - operational management and strategy (between 4% and 16%);
 - corporate services (between 12% and 17%);
 - capital charges (between 4% and 8%).

A6.10 The chart below shows a graphic representation:

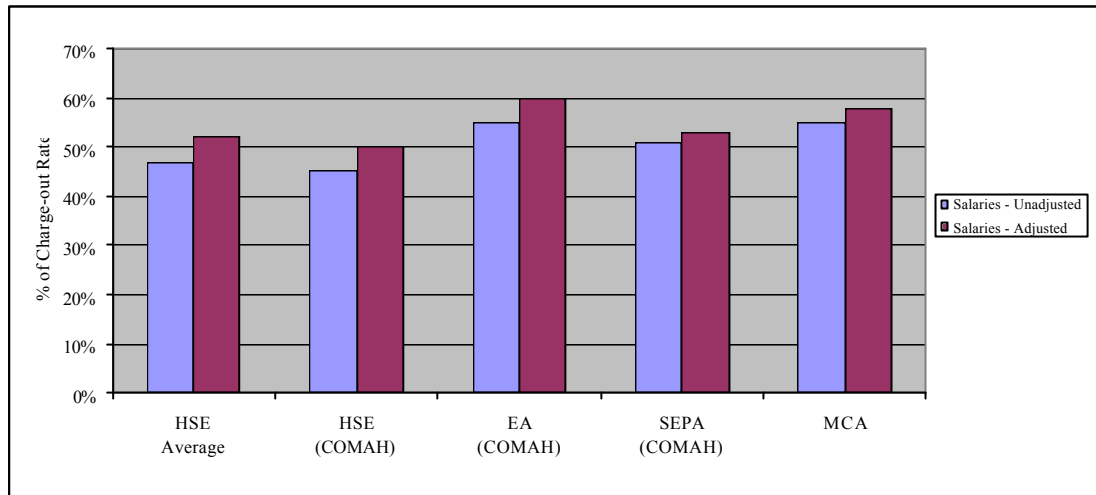
Figure 6: Main components of adjusted public sector rates



A6.11 It should be noted that HSE bears the cost of operational policy for COMAH and the administration cost of invoicing of the COMAH charging scheme. These costs are included within Direct Salaries.

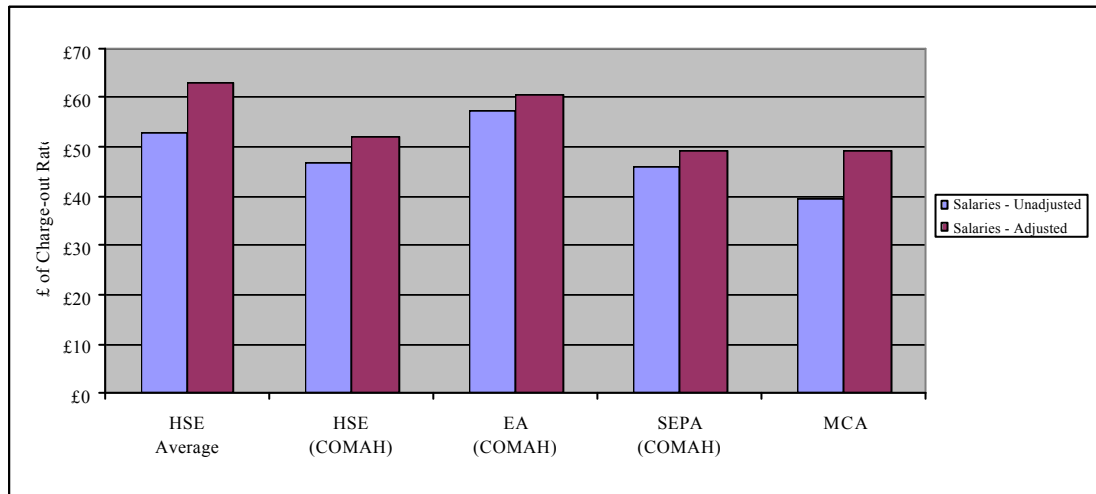
Direct salaries

Figure 7: Proportion of public sector rates attributable to direct salaries



A6.12 The proportion of the adjusted charge-out rate relating to Direct Salaries is lower at HSE at 52% (HSE weighted average) and 50% for COMAH compared to the EA (60%) and MCA (58%). It is in line with SEPA (53%).

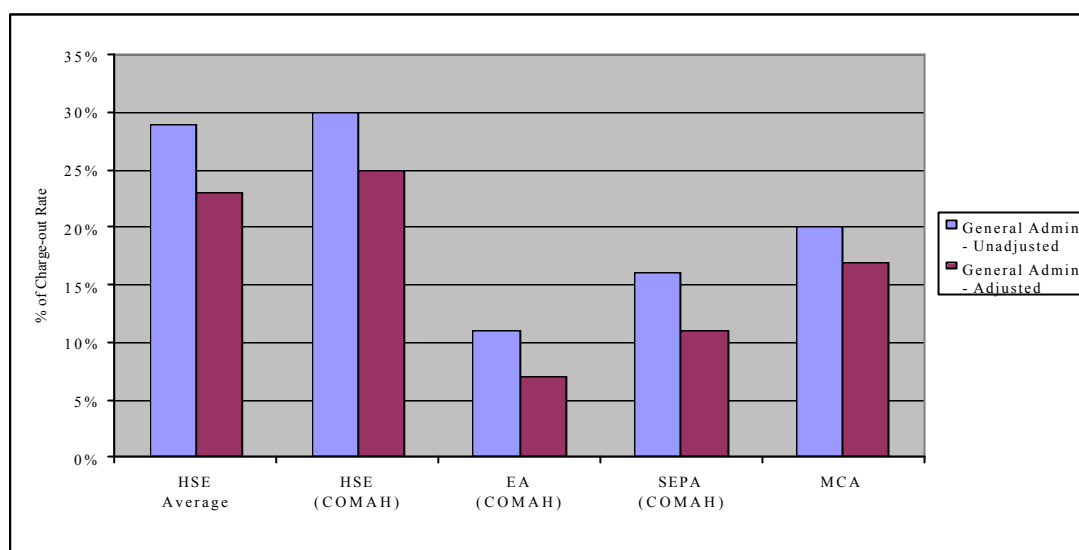
Figure 8: Absolute direct salary cost recovered per hour



A6.13 Per pound of adjusted charge-out rate, the amount of HSE weighted average and HSE COMAH rate attributable to Direct Salaries at £63 and £52 compares to EA (£60), SEPA (£49) and the MCA (£49). HSE therefore appears to be between £8 hours cheaper and £14 per hour more expensive than the public sector comparators.

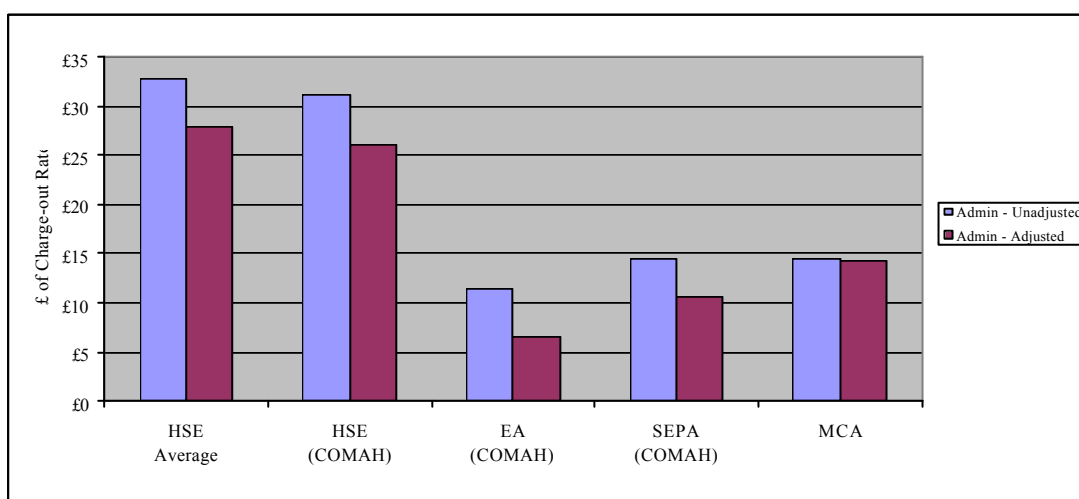
General administrative expenditure

Figure 9: Proportion of public sector rates attributable to general administrative expenditure



A6.14 Adjusted HSE general administrative expenditure is much higher (in some cases more than double) than that of the comparator organisations and represents 24-25% of the charge-out rate. The EA has the lowest level at 8% with SEPA and the MCA at 12% and 17% respectively.

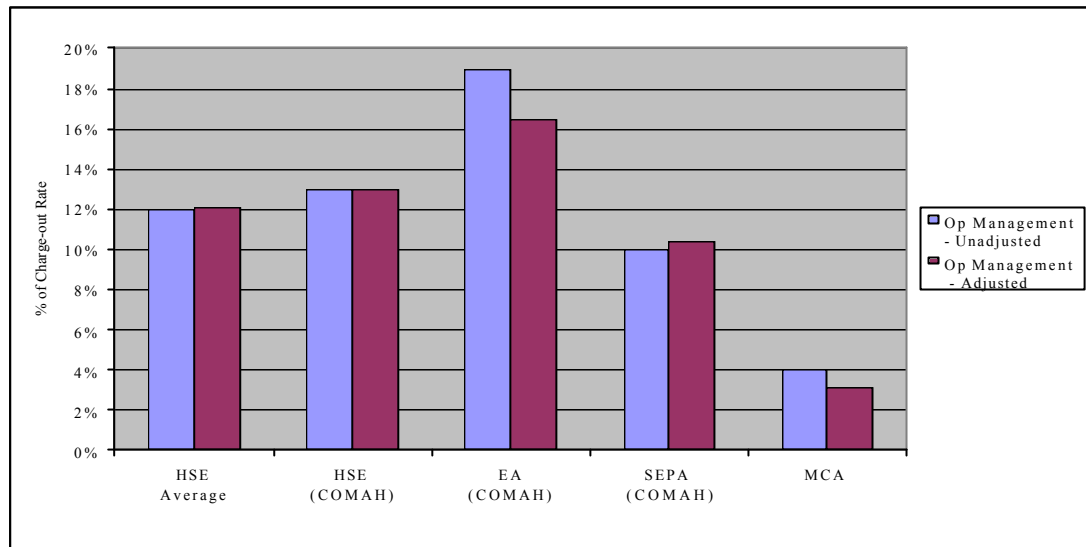
Figure 10: Absolute general administrative expenditure recovered per hour



A6.15 Per pound of adjusted charge-out rate, the amount of HSE weighted average and HSE COMAH rate attributable to General Administrative Expenditure at £28 and £26 is much higher than that of the EA (£7), SEPA (£11) and the MCA (£14). HSE therefore appears to be between £12 per hour and £21 per hour more expensive than the public sector comparators.

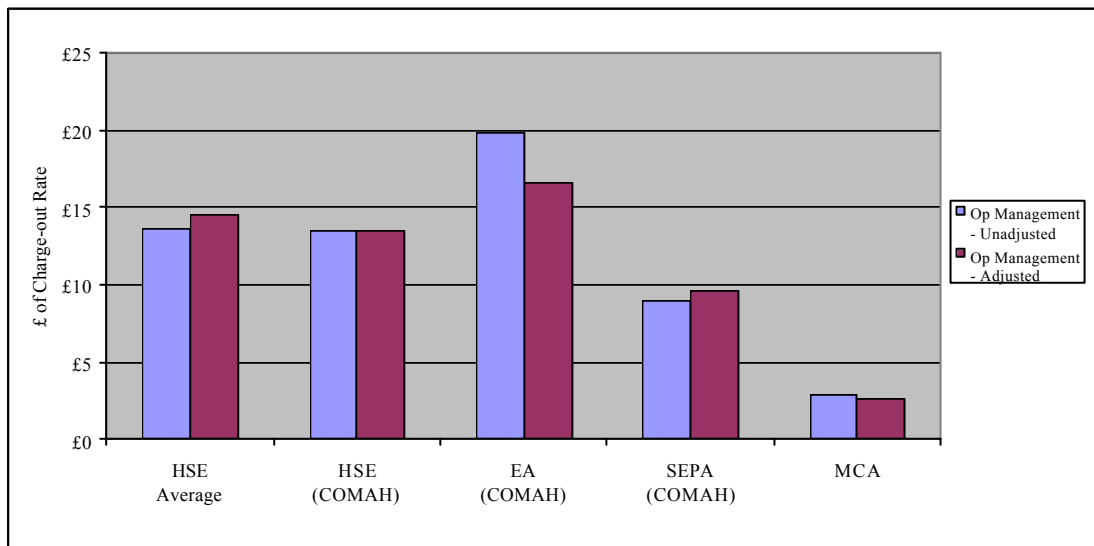
Operational management

Figure 11: Proportion of public sector rates attributable to operational management



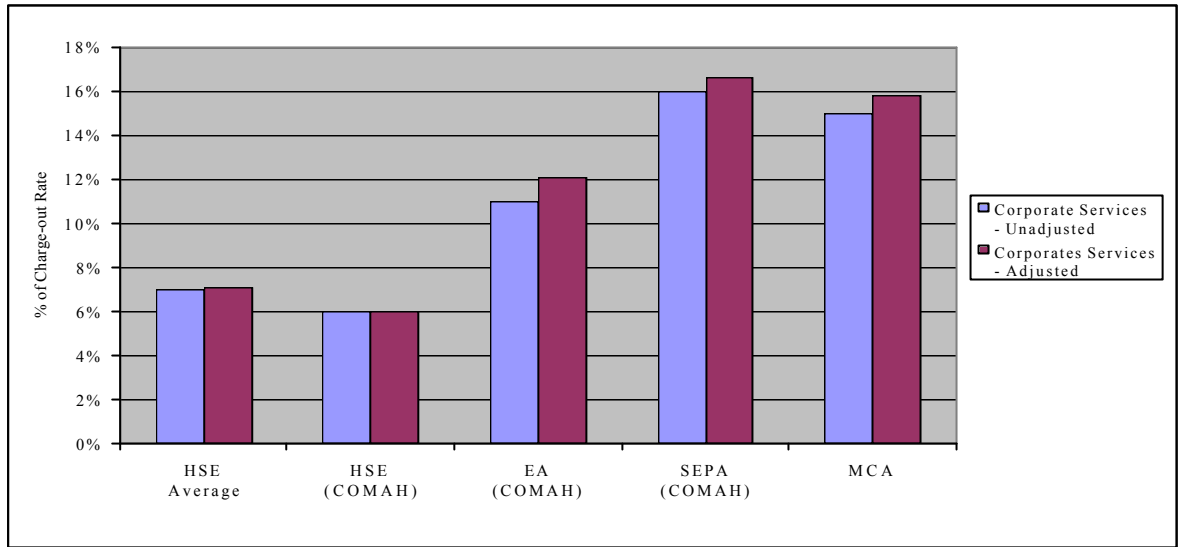
A6.16 The proportion of the adjusted HSE charge-out rate (12%-13%) attributable to Operational Management is significantly lower than that of the EA (16%), although higher than SEPA (10%) and significantly higher than the MCA (4%).

Figure 12: Absolute operational management and strategy cost recovered per hour



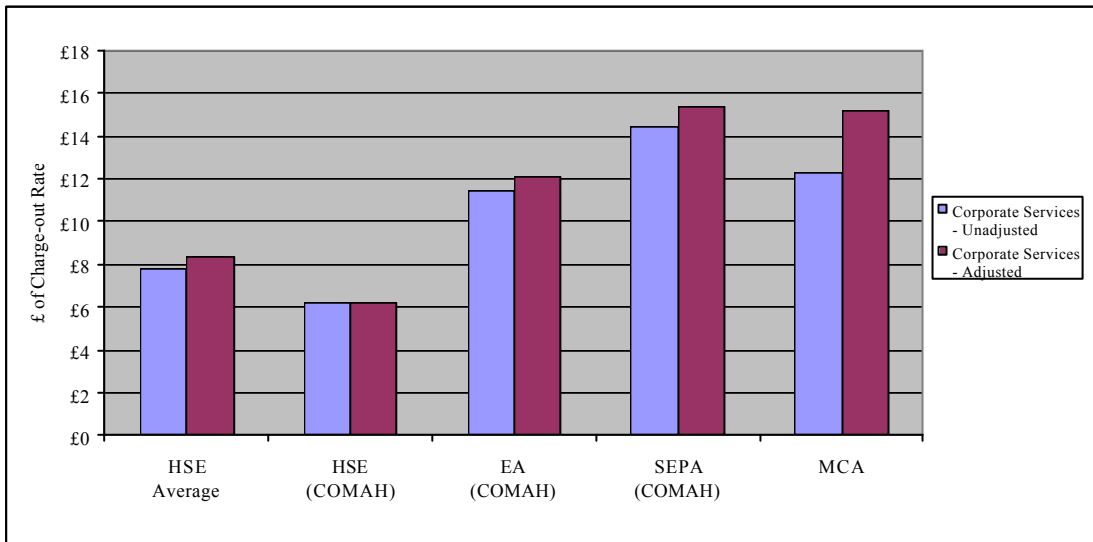
A6.17 Per pound of adjusted charge-out rate, the amount of HSE weighted average (£15) and HSE COMAH rate (£14) attributable to Operational Management is less than that of the EA (£17), and more than that of SEPA (£10) and the MCA (£3). HSE therefore appears to be between £2 per hour cheaper and £12 per hour more expensive than the public sector comparators.

Figure 13: Proportion of public sector rates attributable to corporate services



A6.18 The proportion of the adjusted HSE charge-out rate relating to corporate services (6-7%) is much lower compared to the other public sector organisations at 12% (EA), 17% (SEPA) and 15% (MCA).

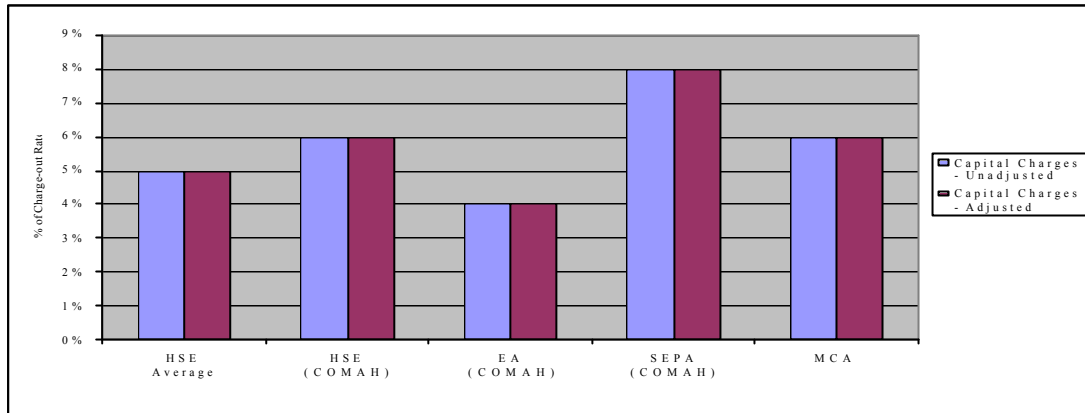
Figure 14: Absolute cost of corporate services recovered per hour



A6.19 Per pound of adjusted charge-out rate, the amount of HSE COMAH and HSE weighted average rate attributable to Corporate Services is less than that of all the public sector comparators at £6 versus £11 at the EA, £14 at SEPA and £11 at the MCA. HSE is therefore between £5 per hour and £8 per hour cheaper than the public sector comparators.

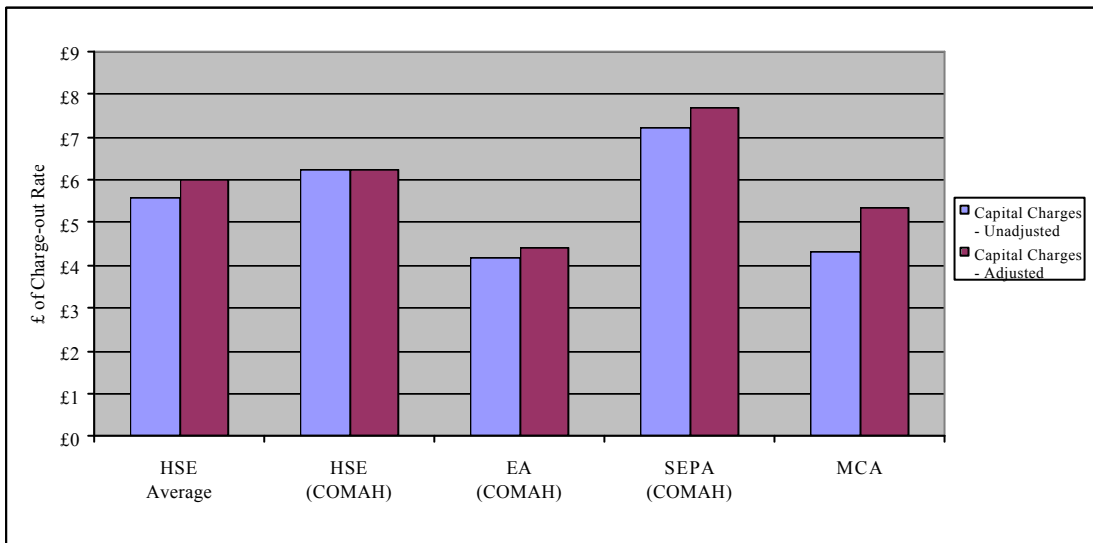
Capital charges

Figure 15: Proportion of public sector rates attributable to capital charges



A6.20 Capital charges form a small part of the overall rate and range between 4 and 8% across the organisations and vary largely due to differences in the capital structure of the organisations. HSE rate is just below the average for the group.

Figure 16: Absolute capital charges recovered per hour



A6.21 Per pound of adjusted charge-out rate, the amount of HSE weighted average and HSE COMAH rate attributable to Capital Charges at £6 is less than that of SEPA (£8), and more than that of the EA (£4) and the MCA (£5). HSE therefore appears to be between £2 per hour cheaper and £2 per hour more expensive than the public sector comparators.

Appendix 7: Product description

Product description for this 17-day-budget review as agreed in the Programme Product Initiation Document

Product	Review of reasonableness of charge-out rates
Purpose	To present the results of our review of our benchmarking review of the reasonableness of HSE charge-out rates
Composition	Short report covering description of the work completed, findings and conclusions. Findings will include: <ul style="list-style-type: none">● comparison of overall charge-out rates, to show to what extent daily rates at HSE differ from comparators;● comparison of core components of charge-out rates between comparable public sector and private sector organisations;● comparison of other information available such as utilisation rates and trends in productivity.
Derivation	Benchmarking work with SEPA, EA, MCA and two private sector organisations
Allocated to:	Consultant Team
Quality Criteria	<ul style="list-style-type: none">● rigorous analysis of data provided;● presentation of explanations for differences and similarities in rates;● adequate presentation of findings including balanced conclusions taking into account the small sample-size.
Quality Review Responsibility	HSE Project Manager
Sign off	HSE Project Manager