



Future funding options for Firebuy Limited

A consultation document



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On 5th May 2006 the responsibilities of the Office of the Deputy Prime Minister (ODPM) transferred to the Department for Communities and Local Government (DCLG)

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Foreword

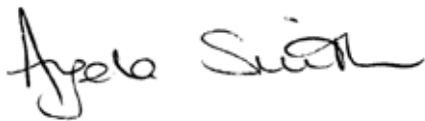
We promised in the National Procurement Strategy for the Fire and Rescue Service 2005 – 2008 we would consult on the future funding of Firebuy Limited. We are pleased to send you the enclosed document for your consideration.

The proposals have been drawn up by a joint working group of Firebuy Ltd board members, including representatives from the Local Government Association and Chief Fire Officers' Association, and officials of the Department for Communities and Local Government (DCLG). It has been agreed by both DCLG Ministers, as the Central Government sponsors of Firebuy Ltd, and the Firebuy Ltd Board.

As you know Firebuy Ltd has been established to deliver the National Procurement Strategy and to achieve, for Fire and Rescue Authorities, significant efficiencies and savings along with improved standards and interoperability of equipment. The long term viability of Firebuy Ltd is vital to ensure that the benefits to the Fire and Rescue Service are delivered.

You will see from the consultation paper that Firebuy Ltd is already producing savings for Fire and Rescue Authorities. We are confident that Firebuy Ltd will go on to make real savings and produce higher standards for our fire-fighters. This can only benefit our communities and our Fire and Rescue Service.

We look forward to hearing from you.



Angela Smith MP
Parliamentary Under Secretary of State



Liz Barron
Chair, Firebuy Ltd

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Chapter 1

Introduction

1.1 Purpose of consultation

- 1.1.1 This consultation seeks views on the future funding options for Firebuy Ltd.
- 1.1.2 We welcome responses to the specific questions posed in this document and any other general comments that you may have. Please ensure that responses to any of the specific questions posed clearly identify the question number to assist with the compilation and analysis of responses. It would also be helpful if responses were submitted electronically, as well as any hard copies that may be sent. This will considerably reduce the time needed to compile and analyse the comments received.
- 1.1.3 Responses and comments, to be received by mid-day on 6 February 2007 should be sent to:

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Tel: 020 7944 0055

1.2 After the consultation period

- 1.2.1 Within 3 months after 6 February 2007 we will analyse the responses to the consultation and produce a feedback document which summarises the:
- received responses and comments;
 - impact on the proposals as a result of the consultation;
 - funding option(s) which will be used by Firebuy Ltd.
- 1.2.2 Please note that responses, including the names and addresses of respondents, will be made available to anyone who asks for them unless confidentiality is specifically requested or disclosure would prejudice third parties.

1.3 The consultation criteria

- 1.3.1 The Government has adopted a code of practice on consultations. The criteria below apply to all UK national public consultations consisting of a document in electronic or printed form.
- i. Consult widely throughout the process, allowing a minimum of 12 weeks for written consultation at least once during the development of the policy.
 - ii. Be clear about what your proposals are, who may be affected, what questions are being asked and the timescale for responses.
 - iii. Ensure that your consultation is clear, concise and widely accessible.
 - iv. Give feedback regarding the responses received and how the consultation process influenced the policy.
 - v. Monitor your department's effectiveness at consultation, including through the use of a designated consultation co-ordinator.
 - vi. Ensure your consultation follows better regulation best practice, including carrying out a Regulatory Impact Assessment if appropriate.
- 1.3.2 The code does not have legal force but is regarded as binding on UK departments and their agencies unless Ministers conclude that exceptional circumstances requires a departure from it. The full consultation code may be viewed at:
http://www.cabinetoffice.gov.uk/regulation/consultation/consultation_guidance/consultation_guidance/index.asp#codeofpractice
- 1.3.3 If you are not satisfied that this consultation has followed the above criteria or you have any other observations about ways of improving the consultation process, then please contact:

Adam Bond
DCLG Consultation Co-ordinator
Floor 6 Zone H10
Eland House
Bressenden Place
London
SW1E 5DU
e-mail: adam.bond@communities.gsi.gov.uk

Chapter 2

Consultation background

2.1 Position of the Department for Communities and Local Government

- 2.1.1 In order to deliver Fire & Rescue Service (FRS) procurement at a national level, the then Office of the Deputy Prime Minister (ODPM) established Firebuy Limited as a national body to drive the National Procurement Strategy (NPS) for the FRS 2005-2008¹ forward.
- 2.1.2 ODPM provided initial funding for set up costs in 2005/06, but intended that the on-going costs should be met from the savings generated. Originally it was intended that the costs of Firebuy Ltd would be met by the FRS via a transfer of the Revenue Support Grant (RSG), as Firebuy Ltd would be a company undertaking procurement on behalf of the FRS and paid for by the Fire and Rescue Authorities (FRAs). However, this approach could not be adopted since the savings that Firebuy Ltd was to generate to offset the reduction in RSG would not have accrued immediately, leaving an unfunded pressure on FRAs.
- 2.1.3 To ensure that Firebuy Ltd could continue to be set up and to commence its programme of work ODPM made funding available for the financial years 2006/07 and 2007/08, as shown in Diagram 1.

Diagram 1 – ODPM/DCLG Funding of Firebuy Ltd

	2005/06	2006/07	2007/08
Cash	£1,800k	£2,040k	£2,021k
In kind*	0	£100k	£100k

* Use of 2 DCLG staff at no cost to Firebuy Ltd to assist with development of Technical Services Unit.

- 2.1.4 The NPS stated that the ODPM would hold a public consultation on the future funding mechanism that would need to be established post March 2008. The Department for Communities and Local Government (DCLG) who took over responsibility for fire issues upholds the policy established by the ODPM. This consultation paper fulfils the obligation given in the NPS.
- 2.1.5 Key stakeholders have been involved in drafting this document and we sought assistance from Firebuy Ltd, Local Government Association (LGA), Chief Fire Officers' Association (CFOA), Fire Suppliers Association (FIRESA) and the Fire Treasurers Network whilst drawing up our proposals.
- 2.1.6 On establishment Firebuy Ltd was classified as a non departmental public body because it was predominantly funded by grant in aid. Once its income from fees and charges etc exceeds 50% it will be reclassified as a Public Corporation, this

¹ National Procurement Strategy for the Fire and Rescue Service: 2005-2008 published by ODPM November 2005

is an automatic Office of National Statistics classification change for National Accounts' purposes. This will also allow them more flexibility in the management of their affairs, including on the holding of reserves. The change in status will not have any impact on the governance arrangements for Firebuy Ltd.

2.2 Possible procurement savings

- 2.2.1 In 2000, CFOA initiated a joint review of FRS procurement with the Audit Commission. This review culminated in the Audit Commission report "A Uniform Approach", which identified the 1999/2000 FRS spend on procurement of goods and services at around £300 million, of which £63 million was spent on vehicles. It was further identified that although use of consortia was common, each FRA continued to conduct general research, development and evaluation independently. Hidden within these procurement activities was work on conducting risk assessments for equipment and on producing technical and operational notes.
- 2.2.2 The report concluded that immediate savings of £5.5 million could be made through a reduction in procurement overheads and more efficient procurement of commodities such as fuel, energy and clothing. However, it also found that additional, more significant savings and quality improvements could be made through better national and regional collaboration.
- 2.2.3 More recent information on FRS expenditure on procurement is available in the report on Local Government Financial Statistics England 2005.² In 2003/04 the FRS spent £338m on procurement, not dissimilar to that reported by the Audit Commission report.
- 2.2.4 By undertaking joint procurement exercises Firebuy Ltd has the potential to create cashable and non-cashable gains for FRAs. It should however be noted that the actual gains achieved will depend on the complexity of the project (whether there are procurement costs savings and/or unit cost savings) and the take-up by FRAs.
- 2.2.5 We recognise that FRAs are already demonstrating savings through better procurement practices. Firebuy Ltd wants to build on that by promulgating best practice and economies of scale savings.
- 2.2.6 FRAs should remember that the National Procurement Strategy stated that if authorities intend to let contracts after 1st April 2006 which will involve supplies continuing beyond the implementation dates for national arrangements they must obtain DCLG's agreement that their proposals do not conflict with the NPS **before** issuing any Office of the Journal of the European Union (OJEU) notice or other invitation to tender or negotiate. Any authority which proposes to join contractual arrangements put in place by another body must similarly obtain DCLG's agreement if supplies will continue beyond the implementation dates. In either case, a failure to do so may result in the authority being required to unpick such arrangements if a Section 29 Order is made and for the authority to bear the expenses of such

² Local Government Financial Statistics England No.16 2005 published by the ODPM in November 2005
ISBN 1-851128-27-1

action. If an OJEU notice or other tender documents have already been published but no contract has been signed authorities should, as a matter of urgency, discuss their proposals with DCLG. In addition, where proposed supplies are not intended to continue beyond the relevant implementation dates FRAs were strongly encouraged to discuss their proposals with DCLG in advance of issuing an OJEU or invitation to tender so as to identify any opportunities for collaboration.

2.3 Value for money

- 2.3.1 Individual authorities have duties to ensure that contracts represent best value and there is a possibility that unit costs for some authorities will rise as the quality of product purchased improves. The duty of Best Value does not require authorities to focus solely on cash but on the true economic cost of their decisions, taking account of purchase price, maintenance, durability, quality and the safety of their staff.
- 2.3.2 The DCLG intend that the duty of best value will be deemed to be discharged through the Firebuy Ltd arrangements. This does not take away the statutory duty for each fire and rescue authority to consider whether its duty as to best value has been fulfilled. However, FRAs “must have regard to the Fire and Rescue National Framework³” in carrying out their functions as required by section 21(7) of the Fire and Rescue Act 2004. Paragraph 2.21 of the Framework states the “Fire and Rescue Authorities must support the arrangements set out in the (National Procurement) Strategy”. The Framework is intended to promote the economy, efficiency and effectiveness of FRAs (similar to the best value duty). So the intention of the Framework and the FRAs’ duty are trying to achieve the same objective. The introduction of Firebuy Ltd is of course considered to be one way of achieving economy, efficiency and effectiveness of FRAs in relation to procurement.
- 2.3.3 The NPS set Firebuy Ltd and the Regional Management Boards’ best value targets to achieve and record best value procurement. DCLG would like to see all FRAs voluntarily adopting this approach. The targets are that they will have:
- adopted the “MEAT” (Most Economic Advantageous Tender) principle for national contracts in the FRS from November 2005 and regional contracts from April 2006.
 - adopted the whole life costing methodology for national contracts from November 2005 and regional contracts from April 2006.
 - record savings and efficiencies achieved from procurement activity from April 2006 to include cost savings, efficiency savings and service improvements.

3 The Fire and Rescue National Framework 2006-08 published April 2006

2.3.4 The Audit Commission, National Audit Office, Audit Scotland and the Wales Audit Office, are working in partnership together with KPMG to develop a performance improvement approach for promoting value for money in core business functions, across the public sector. These are the functions often referred to as corporate services, which underpin the efficient and effective deployment of people, technology, assets, money and use of buying power. They are focussing specifically on the following five functions; ICT, Human Resources, Finance, Procurement and Estate Management. The aim initially is to develop a suite of key value for money (VFM) indicators which can be used by public sector organisations along the delivery chain from Central Government to local services and in the sectors of Local Government, Health, Policing and Fire and Rescue. The DCLG and Firebuy Ltd have provided input into the study with regard to the procurement indicators. The results of the study are expected to inform future Comprehensive Performance Assessment rounds.

2.4 Firebuy Ltd's role in FRA procurement

- 2.4.1 The premise of Firebuy Ltd is to make the procurement process more effective and to generate procurement and unit cost gains for FRAs. The procurement costs relate to gains achieved through FRAs not having to undertake the tender process themselves. The unit costs relate to gains in the actual cost of an item of equipment. Examples are given below.
- 2.4.2 This will help to fulfil the FRAs requirements under the efficiency review and to make better use of front line staff.
- 2.4.3 Firebuy Ltd will negotiate call-off contracts for FRAs and take the lead in subsequent contract management and service level monitoring. Firebuy Ltd is a Contracting Authority for the purposes of the EU procurement rules but ultimately it will remain the FRAs who acquire the assets and matching liabilities. Firebuy Ltd will support FRAs in achieving standardisation and interoperability and work with Suppliers to ensure that the goods and services they provide meet the needs of the Fire & Rescue Service.
- 2.4.4 For non-fire generic lines of spend, Regional Management Boards and FRAs are encouraged to exploit any suitable arrangements highlighted as best practice by the Regional Centres of Excellence for local government or other arrangements put in place by local government partners as explained in the National Procurement Strategy.
- 2.4.5 Firebuy Ltd was established to deliver primarily the items shown in the top left hand box of Diagram 2 –the specialist items where it is considered that maximum gain can be achieved by procuring at a national level and to a common output-based specification those items that are service-specific.

Diagram 2 – Procurement Organisations

National	Firebuy Ltd All Fire Vehicles and Key Emergency Response Equipment Integrated Clothing Project Respiratory Protective Equipment New Projects Commissioned by CFOA and/or DCLG	National Consortia Software licences Mobile telephones
	Local/Regional	Regions/FRAs Minor operational equipment Office equipment
	Sector Specific	Generic

2.5 Benefits already being delivered

2.5.1 Firebuy Ltd has already delivered over £1m savings for the FRAs since 2005 (see table below). These are conservative estimates. It has already issued to FRAs a note on current gains for inclusion in their 2005/06 Annual Efficiency Statements. A copy is at Annex A.

	Current Predicted Gains £k	
	Procurement Cost	Unit Cost
Software	111	0*
Smoke Alarms	30	400
Vehicles and Operational Equipment	100	200
Handheld radios	45	165
Sub total	286	765
TOTAL GAINS	1051	

* There are no unit costs savings as FRAs would not need to make any further purchases following provision of the software.

2.5.2 Software

Firebuy Ltd has provided licences for the following solutions which have been made available to all English FRAs:

- Manual Handling Software – Together with the Fire Service Procurement Association (FSPA), Firebuy Ltd has assisted in the development of a software package called FireStore. Firebuy Ltd has provided 2 user licences for each

English FRA to enable them to identify and mitigate manual handling risks. The cost of this exercise was £28k. The avoidance of a single personal injury claim could potentially save an FRA significantly more than the cost for a national licence.

- Blue Light Procurement Database – This database allows FRAs to store and share contract information with Police and Fire & Rescue Services. It has been funded for 2005/06 and 2006/07 at a cost of £35k per annum.
- Bluelight eTendering solution – This solution has been demonstrated to all regions and adopted by 8 regions. It allows FRAs to obtain quotes and tenders electronically which saves officer time, reduces human error and reduces advertising, printing and postage costs. Firebuy Ltd has funded the set up costs on a regional basis at a cost of £6k per region.
- This has provided gains to the FRAs by identifying and providing software solutions at no cost to FRAs and provided a uniform solution to encourage collaborative working on projects.
- The total of £111k is made up of £28k from Manual Handling Software + £35k from Blue Light Procurement Database + £48k from Bluelight eTendering solution (£6k x 8 Regions).

2.5.3 Smoke alarms

- This framework agreement was let in December 2005 and secured savings over the previous framework agreement let in December 2003 by London Fire & Emergency Planning Authority (LFEPA). Using the DCLG's formula for calculating Cashable Gains, the saving over the most popular 10 year smoke alarm on the new framework and the old framework agreement was £0.30p. Depending on the usage of this framework agreement, potential savings of up to £400k could be achieved over the 2 year framework if all FRAs purchased smoke alarms off the framework.
- The procurement costs gains for FRAs for smoke alarms could be assumed as a nominal figure @ £1000 per FRA in reductions in officer time through accessing Firebuy Ltd's framework agreements. This figure could be assumed for 30 FRAs as not all FRAs will access the agreement.

2.5.4 Vehicles and Operational Equipment

- The existing framework agreements for pumping appliances let by the Fire Service Procurement Association (FSPA) and the Fire Service Appliance Consortium (FSAC) run until April 2007. The replacement pumping appliance framework agreement commenced the tender process in May 2006 and is scheduled for award during January 2007.
- A number of interim arrangements for vehicles and operational equipment endorsed by Firebuy Ltd are available for FRAs to use. These include arrangements for Aerial Appliances, Combined Aerial Rescue Pumps (CARP), Water/Foam Carriers, Road Traffic Collision Equipment and Operational Equipment.

- Potential savings assuming 500 vehicles could be up to £200k over five years.
- Potential savings using interim contracts in 2006/07 has already accumulated £500k.

2.5.5 Handheld radios

- This Framework Agreement was let in December 2005. During 2005/06 FRAs purchased over £250k of radios and accessories. It is estimated that the savings achieved were in the region of 15%. Spend in 2006/07 is in excess of £1.1m therefore savings can be estimated at £165k.
- Like smoke alarms slightly higher procurement savings per FRA could be assumed. These are estimated at £3k per FRA with 15 FRAS accessing the framework = £45k.

2.6 Expected future benefits

2.6.1 Expected future benefits are already estimated at over £10m over the next five years (see table below). Gains from any new projects started as a result of the review of the National Procurement Strategy will be additional to these estimated gains.

These are conservative estimates and only relate to procurement. Further information on unit costs will be made available in Spring 2007.

Information on the projects below will be updated as contracts are awarded. Stakeholders who respond to this consultation will have future figures e-mailed to them.

	Future Predicted Gains £k		
	2008/09	2009/10	2010/11
Software	250	250	250
Vehicles and Operational Equipment	225	225	225
Handheld radios	50	50	50
Respiratory Protection Equipment	180	180	180
Personal Protective Equipment	180	180	180
Insurance	1200	1600	2000
Technical Services – Non cashable savings	1000	1000	1000
Electronic tendering system	94	94	94
Sub total	3179	3579	3979
TOTAL GAINS	10737		

2.6.2 Software

- Cashable saving through purchasing of FireStore Manual Handling software. Potential saving of approx 5 x Personal Injury claims at £50k per claim.

2.6.3 Vehicles and Operational Equipment

- It is estimated that there will be cashable gains of 45 x £5k per FRA in lieu of OJEU tendering costs or consortia membership costs. Further information can be provided after January 2007 following the contract award.
- Cashable gains through single procurement exercise undertaken by Firebuy Ltd, together with cashable gains from FRAs reducing their funding to existing vehicle purchasing consortia. It is estimated that for the 5 projects this would make gains of £10k each on the procurement, based on $\frac{1}{4}$ of a Fleet Engineers time.
- In next four years 5 FRAs outside current consortia would need to retender.
- Standardisation of compliance and certification for all pumping appliances that will ensure these vehicles will conform to BS: EN 1846 and all other relative standards providing uniform safety and fit for purpose standards for all pumping appliances.
- Greater overall standardisation and interoperability. However, with the modernisation agenda and different service delivery models being applied across FRAs a range of vehicles will provide new dynamic opportunities for FRAs to deliver Integrated Risk Management Planning changes.
- Contract awards that take account of a product range based on affordability and total fleet life costing that deliver efficiency gains through extended warranties, reduced downtime and one standard of contract management by Firebuy Ltd that drives continuous improvement in partnership with all suppliers.
- Reduction in unit cost of special appliances is based upon the same procurement principles as the National Framework Contract for Pumping Appliances. Indicative gains on a per appliance basis will be published in January 2007 once the contract has been awarded.
- Reduction in reserves due to standardisation/interoperability.

2.6.4 Handheld Radios

- Cashable savings based on 5 FRAs purchasing at £10k each year.

2.6.5 Respiratory Protection Equipment (RPE)

- Interoperability and standardisation on products would enable more effective use of resources at large, protracted or cross-border incidents enhancing national resilience.
- To provide an Outcome Based Specification for RPE which is suitable for the full range of FRS activities.
- To develop compatible training, equipment and procedures.
- Ability to influence Suppliers to meet the FRS Equalities Agenda.

- Assumptions
 - In next four years 20 FRAs would need to replace their existing breathing apparatus.
 - A number of regions would collaborate so assume 6 large tender exercises.
 - A single national project would reduce the cost of tendering for FRAs and Suppliers, whilst enabling the FRS to benefit from the pool of knowledge within the Service.
- Gains through single procurement exercise undertaken by Firebuy Ltd are estimated at £180k based on the 6 tender exercises, as each tender exercise will cost half a station manager's time costed at £30k per tender exercise.

2.6.6 Personal Protective Equipment (PPE)

- Gains through single procurement exercise undertaken by Firebuy Ltd. Indicative gains will be published once the contract has been awarded.
- Assumptions
 - In next four years 20 FRAs would need to retender.
 - It is likely that some would collaborate so assume 6 large tender exercises.
- The Integrated Clothing Project has benefited from the combined PPE and clothing material knowledge from across the Service and is a good example of how collective working can benefit project outcomes with the maximised use of expertise within the service.
- The garment trials have set a benchmark in terms of the thoroughness of the testing regime which has measured the performance of the PPE against physiological, ergonomic, compatibility and functionality criteria.
- Like the RPE project gains through the single procurement exercise undertaken by Firebuy Ltd are estimated at £80k based on the 6 tender exercises, as each tender exercise will cost half a station manager's time which has been estimated at £30k per tender exercise.

2.6.7 Insurance

- 16 English FRAs have participated in the first phase of this project to assess the feasibility of setting up an FRS Mutual Insurance Service.
- Insurance premium cashable gains in the region of £600k are estimated during the financial year 2007/08 for the FRAs whose existing insurance arrangements would allow them to join a Fire & Rescue Service Mutual. The cashable gains could rise to over £2m per year by year 5. Total estimated cashable gains for the 16 FRAs, who have provided premium and claims data, are estimated at over £7m in the 5 year period from July 2007.

2.6.8 Technical Services

- The Technical Services function should realise cashable and non-cashable gains through a reduction in duplication of Research & Development work in FRAs. This more focussed approach may realise cashable gains in unit prices of FRA specific goods and services as suppliers will be able to reduce costs through standardisation.
- FRAs could achieve non-cashable gains in the region of 0.5 FTE of a Station Manager at £60K per FRA or 2 per region. This equates to $18 \times £30k = £540K$.

2.6.9 Electronic tendering system

- Cashable saving through access to Blue Light e-Tendering solution.
- Typical savings of £100 per tender can be achieved through electronic tendering.
- An estimate of 47 FRAs undertaking 20 tenders per year.

2.6.10 OGC Buying Solutions Framework Agreements

- Firebuy Ltd is assuming responsibility for a number of OGC Buying Solutions Framework Agreements. It is proposed that with marketing these will achieve an increased take-up which as well as generating income for Firebuy Ltd through a management charge, usage would create cashable gains for FRAs through unit cost savings and reduced procurement costs. The forecast is for a management charge of 1% for 30 contracts though the potential gains are not yet known as the responsibility for the framework agreements has not been completed.

2.6.11 BT/DFTS Shared Services Contract

- Target savings in the region of 20% of all fixed line FRA telecommunications costs per annum are estimated for all participating FRAs during the financial year 2007/08 and beyond.
- The next step of establishing actual FRA requirements by way of regional due diligence studies is in motion – cost saving estimates leading to potential savings can then be more accurately made in October 2006.
- Feasibility study being undertaken during Summer 2007.

Chapter 3

Firebuy Ltd budgetary requirements 2008/09 to 2012/13

- 3.1 Subject to the requirements of the next National Procurement Strategy for the Fire & Rescue Service from 2008/09 onwards, Firebuy Ltd does not expect its budget to rise above the current level of £2m, other than for inflation. Firebuy Ltd is confident that it will be able to deliver significantly more savings for FRAs in future years from the same level of resources.
- 3.2 The breakdown of the proposed budget is set out below:

	Current 2006/07 budget	2008/09	2009/10	2010/11	2011/12	2012/13
	£m	£m	£m	£m	£m	£m
Staff Costs	1.1	1.1	1.1	1.2	1.2	1.3
Firebuy Ltd Board	0.1	0.1	0.1	0.1	0.1	0.1
External Project Costs	0.5	0.5	0.5	0.5	0.5	0.5
Accommodation	0.1	0.1	0.1	0.1	0.1	0.1
Corporate Costs	0.2	0.3	0.3	0.3	0.3	0.3
	2.0	2.1	2.1	2.2	2.2	2.3

Note – The figures from 2008/09 do not take into account inflation, except pay inflation based on the current 3.3% DCLG pay remit.

- Staff Costs – Firebuy Ltd currently employs 15 staff, 5 on fixed term contracts, 5 on secondment, 2 consultants and 3 agency staff. This mix of staff allows Firebuy Ltd to react to change in its workload contracting and expanding.
- For example, staff numbers will reduce as work on the ICP project ends, but may increase to the same levels to handle the RPE project, technical services and additional consultancy work Firebuy Ltd wish to undertake.
- The costs include salary, employers' national insurance and pension contributions, and travel and subsistence costs.
- Firebuy Ltd Board – cost of 7 paid board members (1 chair and 6 non-executive directors) salaries currently £30,000 but subject to annual increases and travel expenses for all paid and non paid board members. The majority of the work undertaken by board members incurs travel expenses as they visit Regional Management Board meetings, individual FRAs and attend Firebuy Ltd Board meetings.
- External Project Costs – Legal and Financial advice for key national projects.
- Accommodation – this is the rent that Firebuy Ltd currently pays to LFEPA for the sub let of space in Hampton House. From the end of 2007 Firebuy Ltd will need to relocate as LFEPA's lease on Hampton House ends, it currently gets an advantageous rate as the rent includes facilities management. It is not possible to

be precise on the costs of new accommodation but it is not expected that it will exceed £100k. In the first instance redundant government estate property will be considered.

- Corporate Costs – Costs include contracted out services such as Human Resources management, legal advice, audit and accounting advice, banking, and website management. It also includes communications and corporate governance.
- The budget would cover the contract management of contracts awarded in the National Procurement Strategy for the Fire & Rescue Service 2005/08 (e.g. ICP, RPE and Vehicles) and the delivery of projects in the next National Procurement Strategy for the Fire & Rescue Service from 2008/09 onwards.

Chapter 4

Funding options and methods for collection

4.1 Funding options

4.1.1 We are consulting on two main sources of potential funding for Firebuy Ltd:

- A. Income generation
- B. Contribution from FRAs

Section 4.2 explains why we are not asking your views on privatisation, industry contributions and continued funding by DCLG.

A. Income Generation

4.1.2 There are three main ways in which Firebuy Ltd is seeking to generate income:

- i. through a management charge added to goods and services purchased from framework agreements put in place;
- ii. through management fees for services provided to other countries/bodies e.g. Wales, Scotland, Northern Ireland, MoD, etc; and
- iii. through the provision of consultancy services.

i. Management charge

4.1.3 The management charge would be a levy on the Supplier for a percentage of the cost of an item purchased from a Firebuy Ltd contract. Income generated by this option would be dependent on take up. The actual amount of the levy itself will need to be determined for each product based on savings achieved and nature of the product. The intention is that this would operate in a similar way to the manner in which the Office of Government Commerce Buying Solutions arm levy a commission on the suppliers for all services purchased under their framework agreements. The levy will be collected retrospectively from returns submitted by suppliers who have built this into their tender price.

4.1.4 Firebuy Ltd's aim will always be to keep the % on-cost to as low a figure as possible to ensure that the price of the product to FRAs still represents good value for money compared with any local arrangements that could be put in place. Firebuy Ltd will regularly review the management charge to ensure it is set at the appropriate level. This is a critical factor in the funding of Firebuy Ltd and in Section 5 we ask for your views on the appropriate initial level of management charge.

4.1.5 The benefits to using this approach is that those who make more use of the framework agreements pay a higher percentage of the overhead costs of Firebuy Ltd proportionate to the use they are making of the service. The more use of the framework agreements the more money is generated for Firebuy Ltd.

- 4.1.6 But this income stream is not without risk as it is demand led; it also assumes that suppliers will be willing to participate in administering the scheme. It will not be possible to control the take up of equipment and thus there could be wide fluctuations each year.

Q1. What are your views on Firebuy Ltd collecting management charges for use of their framework agreements?

ii. Management fees

- 4.1.7 As well as being the sponsor of Firebuy Ltd DCLG can also act as a potential customer. Firebuy Ltd is exploring with the DCLG a number of projects with regard to New Dimensions, FiReControl and Firelink. DCLG wish to continue to support Firebuy Ltd where practicable through making use of their procurement expertise for its own fire service related procurement work. They will of course pay Firebuy Ltd to undertake this additional work. The charge made would of course include a proportion of overhead costs which should reduce the overall burden on Firebuy Ltd's budget.
- 4.1.8 Firebuy Ltd was established to assist the English FRAs. There has already been interest from some of the devolved authorities to participate in various Firebuy Ltd projects. For example Wales have agreed to participate in the Integrated Clothing Project subject to value for money and affordability. Firebuy Ltd will be developing a recharging mechanism to recover costs with the devolved authorities. This will also apply to other fire fighting organizations such as the MOD and airports who wish to participate in Firebuy Ltd framework agreements.
- 4.1.9 A benefit is that the charge made would of course include a proportion of overhead costs which should reduce the overall burden on Firebuy Ltd's budget. However, this income stream is not without risk as it is demand led and there may be a potential for Firebuy Ltd to become over stretched. It will not be possible to control the take up of equipment and thus there could be wide fluctuations each year.

Q2. Can you suggest any other ways that Firebuy Ltd could charge for its work?

iii. Consultancy services

- 4.1.10 Firebuy Ltd intends to explore other ways of generating income. They wish to develop a consultancy arm. Within the tenders they will put forward for new business, Firebuy Ltd will include a costing for a proportion of its overheads. This will allow Firebuy Ltd to reduce the amount of money that they need to seek to cover its net costs.

There is a risk that the consultancy arm becomes more important to Firebuy Ltd's finance than its core work as set out in the National Procurement Strategy and this could get neglected. It will also be difficult to predict how much work Firebuy Ltd could generate as it will be competing with existing procurement consultancy companies who also have public sector experience. However there are plans in place to manage any such issues and it is not anticipated that they will actually occur.

Q3. What are your views on Firebuy Ltd extending its remit to include a consultancy arm?

Q4. Are there any further areas you think Firebuy Ltd should explore as possible sources of additional income?

B. Contribution from FRAs

4.1.11 The intention is that this will cover the costs of services provided to FRAs by Firebuy Ltd after deducting any other income. This would be recalculated yearly to ensure income balances expenditure. The aim would be to generate as much income as possible in order that the amount of contribution from FRAs can be reduced to as low a figure as possible.

4.1.12 The options for collecting contributions from FRAs are:

- A top slice from Revenue Support Grant
- Subscription

There are advantages for both options.

A top slice ensures all FRAs contribute, and broadly the cost to an individual FRA should be related to the scale of its usage of Firebuy Ltd's services. It is simple to administer and ensures a reliable income stream.

A serious disadvantage of top slicing is that Firebuy Ltd will be liable to pay VAT on contributions. For example, if Firebuy Ltd wish to have £1m of disposable funds via the Revenue Support Grant it would need a top slice of £1.175m. The cost to FRAs would therefore be increased by £175k. Also a top slice would not be transparent and may provide less incentive to operate efficiently and disguises the true costs to the FRAs.

Subscriptions, whereby Firebuy Ltd will provide FRAs with an invoice on a regular basis, are more visible but leave open the possibility of FRAs 'opting' out of contribution to Firebuy Ltd. Neither Firebuy Ltd nor the DCLG have powers to compel FRAs to contribute to Firebuy Ltd. The subscription route would ensure that Firebuy Ltd has a continuity of funding and is therefore able to provide a degree of certainty to its staff regarding employment.

If subscriptions were not paid Firebuy Ltd would have to consider whether or not they permitted non contributing FRAs to make use of their framework agreements and if they did whether an additional charge would be made. Those particular FRAs, if denied the use of Firebuy Ltd frameworks, would have to seek permission of the DCLG, as outlined in the National Procurement Strategy, to purchase any item that they have designated as a national procurement and satisfy them that it met the same quality standards as those procured by Firebuy Ltd. The DCLG would also want to know why they were not using Firebuy Ltd.

There are also practical issues in determining which method to use to calculate the amount to be collected from each FRA. The following are some suggested ideas with costs based on an assumed budget contribution of £1m.

- A straight division between the 47 authorities, which would mean each authority, would pay £22k. This could be unfair to smaller authorities.
- Divide it by authority type with a weighting for each type of authority so they pay proportionate shares of the funding. There are four authority ‘types’: County = 1 share, Combined = 2 shares, Metropolitan = 3 shares and London Fire and Emergency Planning Authority = 4 shares. This gives a total of 86 shares. For example, the cost to County FRAs 1 share = £12k.
- Split by population; at the lowest end this would cost £43 pa for the Isles of Scilly ranging up to £148k pa for London.⁴

The above is the option favoured by DCLG.

- Divided by no of FRS staff; at the lowest end this would cost £1k pa for the Isles of Scilly ranging up to £138k pa for London.⁵

In theory it would be possible to have a combination option (part top slice, part subscription) or a subscription coupled to a payment based on usage but both of these could be difficult to manage due to fluctuations.

Q5. Would transferring (top slicing) or stakeholder subscription payment method be your preferred option?

Q6. If you prefer the stakeholder subscription payment which payment method would you prefer and why?

Q7. Are there any other alternative contribution methods that you would like us to consider including details on how the method would work and can be calculated?

4.2 Other options considered but not being offered for consultation

- 4.2.1 DCLG meets the cost: Ministers have agreed to fund Firebuy Ltd until the end of 2008 to allow time to cover start up costs and develop funding arrangements. From the outset one of the aims of Firebuy Ltd has been to deliver savings in procurement. It will need to at least meet its own costs in order to succeed. DCLG has also provided support through the provision of staff to assist with development of the Technical Services Unit and advise Firebuy Ltd.
- 4.2.2 Industry Contributions: Ask industry to contribute, perhaps by funding specific research projects. However, we do not wish to go down this route as it could leave Firebuy Ltd open to charges of maladministration and possibly corruption due to these suppliers being seen to have an advantage. Firebuy Ltd must be in a position to rebut charges of undue influence.

⁴ Population figures are as used for the allocation of Support Capital Expenditure.

⁵ Figures taken from latest published information in the Fire and Rescue Service Operational Bulletin for England and Wales, 03/04 published in October 2005 – total no of FRS staff 50341.

4.2.3 Privatisation of Firebuy Ltd: Outsourcing of fire service procurement was considered at the very early stages of the project in January 2004 and again in March 2005. It was rejected because development of the capacity and expertise for carrying out the customer role successfully would be a significant challenge for the Fire and Rescue Service. There are no plans to review the situation at present.

Chapter 5

Recommended option

Firebuy Ltd will be aiming to meet its costs as far as possible from income generation. They expect income to rise steadily and the need for funds from the FRAs to reduce over time. There is every confidence that FRA funding can be reduced to a minimum.

Firebuy Ltd’s preferred option from the outset is to meet the majority of the costs through a management charge and the rest through subscriptions and the aim is to keep these both as low as possible.

We have produced some scenarios to show how these contributions would be compiled. The level of the management charge is critical and the tables demonstrate the impact on subscription levels of a 1% and a 2% charge:

(1) Best Case – £80m spend on purchasing

	Income from 1% £m	Income from 2% £m
FRA Subscription/transfer	1	0
Income from Devolved Administrations and MOD & other organisations using Firebuy Ltd framework agreements	0.2	0.4
Income from Management Fee from FRAs	0.8	1.6
Total budget	2	2

FRA Subscription/transfer

- Firebuy Ltd would provide FRAs with an invoice on a regular basis.

Income from Devolved Administrations and other organisations using Firebuy Ltd framework agreements

- Collected via a management fee or subscription.

Income from Management Fee from FRAs

- FRAs would pay a fee to access contract arrangements put in place by Firebuy Ltd.

This is the best case scenario based on £80m spend, which assumes nearly all English FRAs purchasing all their FRS specific goods and services via Firebuy Ltd managed arrangements. This is a conservative estimate and the total spend is expected to be higher. If there was a 2% management charge then it would allow Firebuy Ltd to breakeven without subscriptions.

As this spend rises the FRA subscription/transfer could reduce. It would not be unreasonable to say that FRAs would spend an additional 10% per year through Firebuy Ltd management arrangements (e.g. for 2009/10 there would be an additional £80k which would reduce subscription/transfer from £1m to £920k, and so on for future years).

(2) Worst Case – £10m of spend on purchasing

	Income from 1% £m	Income from 2% £m
FRA Subscription/transfer	1.8	1.6
Income from Devolved Administrations and MOD & other organisations using Firebuy Ltd framework agreements	0.1	0.2
Income from Management Fee from FRAs	0.1	0.2
Total budget	2	2

FRA Subscription/transfer

- Firebuy Ltd would provide FRAs with an invoice on a regular basis.

Income from Devolved Administrations and from MOD and other organisations using Firebuy Ltd framework agreements

- Collected via a management fee or subscription.

Income from Management Fee from FRAs

- FRAs would pay a fee to access contract arrangements put in place by Firebuy Ltd.

This is the worst case scenario based on a much lower volume of spend by English FRAs, say £10m of spend giving £100k income from management fee, which would leave £800k to be raised by further subscription/transfer from FRAs which would almost double the amount required from FRAs.

It is anticipated that income would be increased and subscriptions reduced quickly and that the worst case scenario is unlikely to occur.

Q8. Given the impact on the level of subscriptions by increasing the management fee from 1% to 2% what is your view on the appropriate level of management fee?

Q9. Of the options in this paper what would be your preferred funding solution?

Q10. Are there options which are not covered in the paper that you would like us to take into consideration?

Below is a worked example of how different funding options might affect a typical FRA (Blankshire FRA).

	Funding Requirement	Comment
Firebuy Ltd Funding Requirement	£40k	
Example 1 – Top Slice for all funding requirement	£40K	With VAT, Blankshire would need to be top-sliced £47k for Firebuy Ltd to receive £40k.
Example 2 – Subscription for all funding requirement	£40K	Risk of delay in FRAs making payment to Firebuy Ltd.
Example 3 – Top-slice/subscription for all funding requirement reflecting cashable gains achieved from participation in Firebuy Ltd arrangements	£40K	If Blankshire procured goods and services to the value of £1m through Firebuy Ltd, and achieved cashable gains of £80k, then they could offset the £40k against the £80k, making the net cashable gains £40k.
Example 4 – Top-slice/subscription for gap between income earned by Firebuy Ltd from participation in Firebuy Ltd agreements by Blankshire	£30K	If Blankshire procured £1m of goods and services as above, and Firebuy Ltd ‘earned’ £10k as 1% commission on the £1m spend, then the top-slice/subscription to Blankshire would be £40k – £10k = £30k.
Example 5 – 2% Management charge	£20k	If Blankshire procured £1m of goods and services as above, and Firebuy Ltd ‘earned’ £20k as 2% commission on the £1m spend, then the top-slice/subscription to Blankshire would be £40k – £20k = £20k.

Chapter 6

Partial Regulatory Impact Assessment (RIA)

6.1 Purpose and intended effect of measure

Objective

The proposal intends to set out the options available to establish the future funding of Firebuy Limited after the initial funding provided by Department for Communities and Local Government comes to an end in March 2008. The intention is to announce a new funding formula by March 2007. The full Regulatory Impact Assessment is expected to be published during 2007.

Background

In order to deliver FRS procurement at a national level, the then Office of the Deputy Prime Minister (ODPM) established Firebuy Limited as a national body to drive the National Procurement Strategy (NPS) for the Fire and Rescue Service 2005-2008⁶ forward.

ODPM provided initial funding for set up costs in 2005/06, but intended that the on-going costs should be met from the savings generated. Originally it was intended that the costs of Firebuy Ltd would be met by the FRS via a transfer of the Revenue Support Grant (RSG), as Firebuy Ltd would be a company undertaking procurement on behalf of the FRS and paid for by the Fire and Rescue Authorities (FRAs). However, this approach was unable to be adopted since the savings that Firebuy Ltd was to generate to offset the reduction in RSG would not have accrued immediately, leaving an unfunded pressure on FRAs.

To ensure that Firebuy Ltd could continue to be set up and to commence its programme of work ODPM made funding available for the financial years 2006/07 and 2007/08. It stated in the NPS that it would hold a public consultation on the future funding mechanism that would need to be established post March 2008. The Department for Communities and Local Government (DCLG) who took over responsibility for Fire issues upholds the policy established by the ODPM. The consultation exercise fulfils the obligation given in the National Procurement Strategy.

Rationale for government intervention

Ministers have agreed to fund Firebuy Ltd until the end of 2008 to allow time to develop alternative funding arrangement; however they have made it clear in the National Procurement Strategy for the Fire & Rescue Service 2005-2008 that DCLG will not fund Firebuy Ltd after 2007/08. Even if there were a change of policy, which is extremely unlikely, securing the money would not be without risk. Any bid for funds for Firebuy Ltd would be encompassed within the DCLG's Fire and Resilience Directorate bid for the Spending Review 2007.

⁶ National Procurement Strategy for the Fire and Rescue Service: 2005-2008 published by ODPM November 2005

6.2 Consultation

The National Procurement Strategy for the Fire and Rescue Service was put out for public consultation in October 2004. Copies of the consultation document, the regulatory impact assessment, and the response to the consultation can be found on the DCLG website at this address
<http://www.communities.gov.uk/index.asp?id=1161340>.

The final Strategy was published in November 2005 after taking into account the responses to the consultation. In the Strategy it made it clear that the ODPM now the DCLG would consult on the future funding of Firebuy Ltd.

6.3 Options

Seven options were considered. Options 8 to 10 were disregarded as not feasible and will not be offered for consultation, and an assessment will not be undertaken on these options.

Option 1 – Do nothing

Option 2 – Transfer from the Revenue Support Grant

Option 3 – Stakeholder subscription

Option 4 – Management Charge

Option 5 – Management Fees

Option 6 – Consultancy Fees

Option 7 – Combination of options 3, 4, 5 and 6

Alternative options considered infeasible

Option 8 – DCLG continues to fund Firebuy Ltd

Ministers have agreed to fund Firebuy Ltd until the end of 2008 to allow time to cover start up costs and develop funding arrangements. From the outset one of the aims of Firebuy Ltd has been to deliver savings in procurement. It will need to at least meet its own costs in order to succeed. DCLG has also provided support through the provision of staff to assist with development of the Technical Services Unit and advise Firebuy Ltd.

Option 9 – Industry Contributions

We do not wish to ask for industry contributions as it could lead Firebuy Ltd open to charges of maladministration and possibly corruption due to these suppliers being seen to have an advantage. Firebuy Ltd must be in a position to rebut charges of undue influence.

Option 10 – Privatisation of Firebuy Ltd

Outsourcing of fire service procurement was considered at the very early stages of the project in January 2004 and again in March 2005. It was rejected because development of the capacity and expertise for carrying out the customer role successfully would be a significant challenge for the Fire and Rescue Service. There are no plans to review the situation at present.

6.4 Risks

Option 1 – Do nothing

Ministers have agreed to fund Firebuy Ltd until the end of 2008 to allow time to develop alternative funding arrangements. However they have made it clear in the National Procurement Strategy for the Fire & Rescue Service 2005-2008 that funding will cease after 2007/08. To do nothing after this funding ends would mean that Firebuy Ltd would collapse and the efficiencies and improvements in equipment would fail to be realised and delivered.

Option 2 – Transfer from the Revenue Support Grant

Firebuy Ltd would be met by the Fire and Rescue Service (FRS) via a top slice of the Revenue Support Grant (RSG), as a company undertaking procurement on behalf of the FRS and paid for by the Fire and Rescue Authorities (FRAs). This scheme would be simple to administer, transparent and fair as it would be taken off proportionally from each FRAs.

The risks are that Firebuy Ltd will not achieve the savings that they are expecting and therefore would not be revenue neutral and impose an extra burden on the council tax. Firebuy Ltd are currently predicting at least £1m in savings after they have taken away their overheads.

Option 3 – Stakeholder subscription

FRAs pay an initial subscription to fund Firebuy Ltd. The intention is that this will cover the net annual budgeted cost of Firebuy Ltd after agent's commission and new business generation surplus have been removed. This would be recalculated yearly to ensure income balances expenditure, it is possible that as Firebuy Ltd become successful in generating income that the need for a subscription would disappear and dividend could be paid. This would only be viable if all FRAs sign up as shareholders and agree to pay. By becoming a stakeholder the FRAs will have ownership of Firebuy Ltd and can help shape its future direction.

The risks are that FRAs will not sign up to become members of Firebuy Ltd and therefore it will not be possible to generate the required income. This would mean it would not be possible to run a number of projects and it would be difficult to offer staff security of tenure.

Option 4 – Management Charge

Firebuy Ltd would charge agent's commission to anyone using a Firebuy Ltd contract. Income generated by this option would be dependent on take up. It would not be possible to run an organisation effectively with this as the only form of income. Firebuy Ltd would need to work out how much a % on-cost charge on current projects would bring in as revenue.

This income stream alone may not generate sufficient funds to cover the overheads. It is also a demand led income stream which it is not controllable and could have wide fluctuations each year.

Option 5 – Management Fees

They are exploring with the DCLG a number of projects with regard to New Dimensions, FiReControl and Firelink. DCLG wish to continue to support Firebuy Ltd where practicable through making use of their procurement expertise for its own fire service related procurement work.

Firebuy Ltd is also exploring working with Wales, Scotland and Northern Ireland. They are also in discussions with the Ministry of Defence and the Office of Government Commerce.

These will be secondary income streams which would supplement the main stream and allow the burden on the FRAs to be reduced whether top slice or subscription was used. These cannot be the sole source of income as they will not generate sufficient funds.

Option 6 – Consultancy Fees

Firebuy Ltd intends to explore other ways of generating income. They wish to develop a consultancy arm. Within the tenders they will put forward for new business, Firebuy Ltd will include a costing for a proportion of its overheads. This will allow Firebuy Ltd to reduce the amount of money that they need to seek to cover its net costs.

This will be secondary income stream which would supplement the main stream and allow the burden on the FRAs to be reduced whether top slice or subscription was used. This cannot be the sole source of income as it will not generate sufficient funds.

Option 7 – Combination of options 3, 4, 5 and 6

This option will spread the risk of funding Firebuy Ltd across a number of income streams. It will provide for a FRAs contribution either through top slice of the Revenue Support Grant or subscription, management fees, management charge and consultancy fees. This is the option with the least risk. The risks highlighted in the separate options still apply but will have a smaller impact on the budget.

Q11. These are initial risk assessments and we would welcome your views on this assessments, for example – are there further risks that we have yet to identify?

6.5 Costs

Firebuy Ltd's actions would have social and environmental impacts but the different choices between the funding options will have no additional social or environmental costs apart from the do nothing option.

Option 1 – Do nothing

<i>Economic</i>	FRA's will not achieve the same level of efficiencies as a national procurement solution would provide and suppliers will go back to putting in multiple tenders for each FRA rather than one.
<i>Social</i>	The equipment development work that Firebuy Ltd is undertaking to improve the standard of equipment may well falter and will not progress as fast if Firebuy Ltd can not operate properly. Progress in addressing the needs of under represented groups would be affected if some of the barriers created by current operational equipment are not
<i>Environmental</i>	None

Option 2 – Transfer from the Revenue Support Grant

<i>Economic</i>	No extra costs as Firebuy Ltd is predicted to be revenue neutral to council tax payers – its savings will offset its costs.
<i>Social</i>	No extra costs
<i>Environmental</i>	None

Option 3 – Stakeholder subscription

<i>Economic</i>	The extra costs of the 17.5% VAT element would apply to this option.
<i>Social</i>	No extra costs
<i>Environmental</i>	None

Option 4 – Management Charge

<i>Economic</i>	Overall no extra costs but impact on individual FRA's is dependent on how much use is made of the Framework agreements. No additional burden on suppliers as they will pass on any additional costs in administering the management charge in their tenders.
<i>Social</i>	No extra costs
<i>Environmental</i>	None

Option 5 – Management Fees

<i>Economic</i>	This should be self financing and generate additional monies which will be used to offset the costs to the FRAs and therefore reduce council tax. Firebuy Ltd will be undertaking work currently done and paid for in central government.
<i>Social</i>	No extra costs
<i>Environmental</i>	None

Option 6 – Consultancy Fees

<i>Economic</i>	This should be self financing and generate additional monies which will be used to offset the costs to the FRAs and therefore reduce council tax. Firebuy Ltd will be competing for work in the market place but will be subject to the same level of competition as other suppliers of procurement expertise. Work will be done as part of the small firms’ impact test to judge the economic effect this funding stream will cause.
<i>Social</i>	No extra costs
<i>Environmental</i>	None

Option 7 – Combination of options 3, 4, 5 and 6

<i>Economic</i>	This will spread the cost for FRAs. Their level of payment will depend on their call off of contracts, however the need to ask for RSG support will decrease as the management fees and charges and the consultancy work develops.
<i>Social</i>	No extra costs
<i>Environmental</i>	None

Q12. These are initial costs assessments and we would welcome your views on these assessments, for example – are there further costs that we have yet to identify?

6.6 Benefits

Firebuy Ltd’s actions would have social and environmental impacts but the different choices between the funding options will have no additional social or environmental benefits.

Option 1 – Do nothing

<i>Economic</i>	None
<i>Social</i>	None
<i>Environmental</i>	None

Option 2 – Transfer from the Revenue Support Grant

<i>Economic</i>	Income guaranteed on a 3 year basis as RSG is linked to the Spending Review. This source of funding may reduce and cease to be required as other income streams come on line.
<i>Social</i>	None
<i>Environmental</i>	None

Option 3 – Stakeholder subscription

<i>Economic</i>	Income guaranteed. This source of funding may reduce and cease to be required as other income streams come on line.
<i>Social</i>	None
<i>Environmental</i>	None

Option 4 – Management Charge

<i>Economic</i>	Users of the contract only pay for what they wish to buy. Suppliers are used to operating the management fee as Firebuy Ltd intends to use the OGC model.
<i>Social</i>	None
<i>Environmental</i>	None

Option 5 – Management Fees

<i>Economic</i>	Firebuy Ltd will recoup development fees for any areas of new business to be developed and these will not impact on the FRAs budgets. The use of Firebuy Ltd to undertake central government procurement should reduce the costs to central government departments.
<i>Social</i>	None
<i>Environmental</i>	None

Option 6 – Consultancy Fees

<i>Economic</i>	Firebuy Ltd will be operating in a commercial market and they will need to ensure their processes are streamlined to make them competitive which will keep their overall costs down. Any work generated will bring in income which can be offset against overhead charge and on costs to FRAs.
<i>Social</i>	None
<i>Environmental</i>	None

Option 7 – Combination of options 3, 4, 5 and 6

<i>Economic</i>	The risk and cost of Firebuy Ltd is spread. FRAs will not be required to meet whole the bill for running Firebuy Ltd. This allows income to offset expenditure.
<i>Social</i>	None
<i>Environmental</i>	None

Q13. These are initial benefit assessments and we would welcome your views on this assessments, for example – are there further benefits that we have yet to identify?

6.7 Impact assessments

Equality Impact Assessment

An initial equality impact screening has been undertaken and taking into account the relevant guidance it is concluded that no full impact assessment is required.

Health Impact Assessment

Having taken into account the guidance provided by the Health Development Agency a separate Health Impact Assessment is not required. There are no potential health impacts from the different funding options.

Rural Proofing

The policy has been subjected to the Countryside Agency rural proofing policy makers' checklist and we can confirm that there are no rural impacts to the funding options.

6.8 Small Firms' Impact Test (SFIT)

We are currently conducting a Small Firms Impact Test and the results will be made available in the full RIA. If you wish to take part in this Test and have not already been approached by the DCLG please send your request to:

Pippa Brown
Department for Communities and Local Government
Fire & Rescue Service Development Division
Allington Towers
PO Box No 50200
Zone 4/a
Allington Street
London
SW1E 5WY

Email: fsed6@communities.gsi.gov.uk

Tel: 020 7944 0055

6.9 Competition assessment

As this consultation is a consultation on how to fund Firebuy Ltd, those options which deal with monies solely from local government, namely options 1, 2, 3 and 5, which are proposals that solely affect the public services, do not require a competition assessment.

Option 4 – does not need a competition assessment as all suppliers will be expected to recoup the same management fee and to show this as a separate item in their tender documentation. It will neither advantage nor disadvantage their tender.

Option 6 – Consultancy Fees will put Firebuy Ltd in direct competition with other procurement suppliers. They will be expected to tender for work in the same way that private companies tender; there should not be any additional advantages for Firebuy Ltd, as an NPDB compared to any other procurement supplier.

Competition is an essential part of a healthy economy, helping to provide low prices and choice for the consumer. It also tends to increase efficiency and innovation.

As the recommended funding solution Option 7 is an amalgam of funding streams, the consultancy will not be Firebuy Ltd's core business. As such it is not expected to have a large impact on the procurement supply business, particularly as they will be restricting their procurement to fire and rescue related products. This restriction has been placed upon them by the DCLG in their establishing documentation.

6.10 Enforcement, sanctions and monitoring

Enforcement and Sanctions

Section 29 of the Fire and Rescue Services Act 2004 enables the Secretary of State to establish and maintain any organisation she considers appropriate if it promotes the economy, efficiency or effectiveness of authorities or to contribute towards the costs of such an organisation.

This section also gives the Secretary of State the power, by order, to require fire and rescue authorities to use specified equipment or services. She may also impose a charge for the use of any equipment, services or organisation.

It is expected that Local Authorities will support such funding arrangements that have been put in place for Firebuy Ltd as they have been established to deliver the policy laid out in Section 29.

Monitoring and review

The savings generated by Firebuy Ltd will be subject to audit against a benchmark that the Select Committee have asked the DCLG to set. This work is intended to be completed by December 2006.

FRAs are already under a duty to report its procurement gains as part of the Annual Efficiency Review and DCLG will use this information to monitor the actual savings being generated by Firebuy Ltd.

Firebuy Ltd is subject to annual audit and has to publish an annual report and accounts which is open to public scrutiny.

This accumulated data will be used by the DCLG to review the annual budget that Firebuy Ltd will set for future years.

It also has to lodge its accounts in Companies House as its status as a company limited by guarantee requires.

6.11 Recommended option

The recommended option is option 7.

6.12 Contact point for enquiries and comments:

Policy Advice	Pippa Brown FRS Development Division DCLG Zone 4/A Allington Towers 020 7944 0055 fsed6@communities.gsi.gov.uk
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Chapter 7

List of questions asked in this consultation paper

Q1. What are your views on Firebuy Ltd collecting management charges for use of their framework agreements?

Q2. Can you suggest any other ways that Firebuy Ltd could charge for its work?

Q3. What are your views on Firebuy Ltd extending its remit to include a consultancy arm?

Q4. Are there any further areas you think Firebuy Ltd should explore as possible sources of additional income?

Q5. Would transferring (top slicing) or stakeholder subscription payment method be your preferred option?

Q6. If you prefer the stakeholder subscription payment which payment method would you prefer and why?

Q7. Are there any other alternative contribution methods that you would like us to consider including details on how the method would work and can be calculated?

Q8. Given the impact on the level of subscriptions by increasing the management fee from 1% to 2% what is your view on the appropriate level of management fee?

Q9. Of the options in this paper what would be your preferred funding solution?

Q10. Are there options which are not covered in the paper that you would like us to take into consideration?

Partial Regulatory Impact Assessment

Q11. These are initial risk assessments and we would welcome your views on this assessments, for example – are there further risks that we have yet to identify?

Q12. These are initial costs assessments and we would welcome your views on these assessments, for example – are there further costs that we have yet to identify?

Q13. These are initial benefit assessments and we would welcome your views on this assessments, for example – are there further benefits that we have yet to identify?

Annex A

Firebuy Ltd’s contribution to Fire & Rescue Authority Backward Looking Annual Efficiency Statements 2005/06

There are a number of areas where Firebuy Ltd can demonstrate gains (both cashable and non-cashable) to Fire & Rescue Authorities.

The 2005/06 Backward Look Annual Efficiency Statements are required to be submitted to DCLG by 6th July 2006.

This document which has been prepared in conjunction with the DCLG’s Fire Service Improvement Team should be sent out to each FRA via CFOA National Procurement Board Regional representatives during June 2006 to enable them to summarise the efficiency gains from Firebuy Ltd in their 2005/06 Backward Looking Annual Efficiency Statements.

The Office of Government Commerce (OGC) Document Procurement Efficiency and Value for Money Measurement – Efficiency Programme – Measurement Guidance 2005 should be read in conjunction with this document.

http://www.ogc.gov.uk/embedded_object.asp?docid=1004949 together with the Annex to Fire & Rescue Service Circular 14/2006 ‘Measuring & Reporting Efficiency Gains’ http://www.odpm.gov.uk/pub/708/AnnextoFRSCircular142006MeasuringandReportingEfficiencyGains_id1164708.pdf which provides clarification on determining whether a gain is cashable or non-cashable.

This document is based on the following areas:

Systems

FireStore Manual Handling	
Cashable Savings	£600 per FRA Two licences of the system have been sent to each English FRA.
Non-Cashable Savings	
Comments	For next year it is proposed that FRAs benchmark manual handling related accidents/claims with any reduction as a result of using the software being costed and included in future Statements. It should be noted that this year’s theme for HSE audits/visits is manual handling.

Blue Light Procurement Database	
Cashable Savings	£750 per FRA for access to system.
Non-Cashable Savings	
Comments	FRAs can insert the number of contracts/frameworks utilised through the system which meant that they did not need to competitively tender, e.g. accessing existing arrangements such as Thames Valley Police Agency Staff or Devon & Cornwall Police Travel Arrangements.

Bluelight eTendering Solution	
Cashable Savings	£1150 per FRA for system setup.
Comments	For future years, FRAs who use the system can insert the estimated savings per quote/tender. A formula for calculating savings will be developed for the next AES.

Contracts/Frameworks

Firebuy Ltd Framework Agreement for Smoke Alarms	
Cashable Savings	<p>1. For FRAs who purchased off the Firebuy Ltd Framework Agreement after 1 December 2005 and previously purchased off the LFEPA Smoke Alarm Framework Agreement, the following calculation can be used, which follows the ODPM Guide for FRAs on completing Annual Efficiency Statements:</p> <p>Cost of procuring smoke alarms before new framework agreement Multiplied by Inflation over period (2.38%) Minus Cost of procuring same product after the Firebuy Ltd Framework on 1 December 2005.</p> <p>Example</p> <p>For FRAs purchasing Dicon SA900S smoke alarms in batches of 500 – 1000, the cashable efficiency gain would be:</p> <p>£6.12 x 2.38% – £5.97 = £0.30p</p> <p>FRAs should input the number of Dicon SA900S smoke alarms purchased between 1 December 2005 and 31 April 2006 and multiply the figure by £0.30p to calculate the cashable efficiency gain.</p> <p>2. If expenditure on smoke alarms exceeded EU Thresholds, then enter a potential saving of £5k for not having to undertake an OJEU tender (OGC figures).</p>
Non-Cashable Savings	
Comments	Firebuy Ltd can provide information on price differences on other smoke alarms if required.

Firebuy Ltd Framework Agreement for Portable Radios	
Cashable Savings	<p>1. For FRAs who purchased off the Firebuy Ltd Framework Agreement let on 1 December 2005 should enter the cost of procuring portable radios through the Firebuy Ltd Framework Agreement over the estimated cost of procuring via a single FRA tender (the gains are estimated to be in the region of 15%).</p> <p>2. If expenditure on radios exceeded EU Thresholds, FRAs can enter a potential gain of £5k for not having to undertake an OJEU tender (OGC figures).</p> <p>3. FRAs can enter an estimate of the gains resulting from a reduction in time to evaluate/trial radios through sharing the evaluation reports – technical evaluation and user trials. (For costs insert full cost or 2 x salary)</p>

Vehicles & Operational Response Equipment – Interim Contract Arrangements	
Cashable Savings	<p>1. FRA to insert cashable gains of £5k (OGC figures) when purchasing through an arrangement developed in conjunction with Firebuy Ltd, e.g. CARP, Water Unit, FSPA Chassis/Cab contract, Operational and RTC Equipment.</p>

Pumping Appliances	
Cashable Savings	<p>1. FRA to enter gain of £5k for saving in BS:EN Performance Testing for using FSPA/FSAC Pumping Appliance frameworks.</p> <p>2. FRA to enter gain of £5k (OGC figures) for not having to undertake OJEU tender.</p> <p>3. FRA to enter estimated gains resulting from a reduction in FRA resources in specification/build process. (For costs insert full cost or 2 x salary)</p>

Note:

It is possible that some of gains may be defined as cashable or non-cashable. See the DCLG advice in FSC 14/2006 for clarification.

Please contact Richard Peasgood on 0207 587 6087 richard.peasgood@firebuy.org.uk for clarification on any other matters.