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Dear

CONSULTATION ON THE FUTURE FUNDING OF FIREBUY LTD – FIRE FINANCE NETWORK JOINT RESPONSE

As Chair of the Fire Finance Network, I have been asked to produce a joint response on behalf of all Fire Authority Treasurer's and Finance Managers to the consultation paper.

Please find attached that response. This is in two parts :-

- (1) Firstly, a formal response to the issues in the consultation paper.
- (2) Secondly, a short list of issues, comments and suggestions, that have come up in various meetings and correspondence with colleagues in relation to Firebuy. I am aware that Firebuy have been doing extensive work around the regions as part of its communications strategy, but officers at Firebuy may wish to consider attending the next Fire Finance Network meeting to discuss these in more detail.

I hope you find this response useful.

Yours sincerely,

KIERAN TIMMINS
EXEC. DIRECTOR OF RESOURCES

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

There is a strong view from the network that a management overhead is the correct charging mechanism for Firebuy. If Firebuy delivers the anticipated best value, authorities will be keen to buy from the arrangement and the project will be a success.

Such a charge will also be reflective of the use of, and the benefits accruing to a fire authority. In the medium term, the general view is that a levy on suppliers is the only sustainable solution.

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

Q3. What are your views on Firebuy 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?

At this stage in its development, it is considered that all of Firebuy's capacity should be directed on delivering its key aims successfully. Whilst leveraging in external work may bring income in the future, it may be a distraction at this stage.

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

In general terms, most Finance Officers believe that, in the medium term, Firebuy should stand or fall on its operational success. All charges should be based on a management fee, which reflects usage of the Firebuy contracts by authorities. It should be expected that the organisation will only continue if it delivers contracts that fire services actively want to buy into.

It is however recognised that, whilst on the one hand £6m investment over three years is significant, and delivery of major benefits by 2008/09 should be expected, a transitional arrangement to charging fully on a management fee basis might be considered.

As a transitional arrangement, most authorities oppose a top slice from revenue grant because of :-

- the lack of transparency
- the inconsistency in charges related to benefits
- the additional VAT charges.

Therefore, if there is to be a transitional arrangement, subscription is favoured.

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

There is considerable divergence of opinion on the basis of a possible subscription between authorities. They fall into two key camps:-

(i) Smaller Authorities

Oppose the charge being divided upon a straight division basis, since it is considered (as the paper highlights), that this will result in a disproportionate charge for the smaller authorities. These authorities favour charges based upon the size of authority.

(ii) Larger Authorities

These authorities have often already entered into large-scale, long-term framework arrangements for commodities (like smoke alarms), and are likely to gain the least from deals brokered by Firebuy. They vehemently believe that to receive the highest charge for a service and the least benefit is unfair and would lead to cross subsidy between authorities.

In light of the divergent views, closer consideration should be given to a hybrid model, which best ensures that costs and benefits are linked.

The Department may wish to reconsider funding Firebuy directly since it is to deliver both :-

- (a) Savings in procurement.
- (b) A route to national standardisation for resilience;

and in the light of (b) the DCLG may be minded to continue funding Firebuy for an extended transitional period until it is fully operational when the more favoured full management fee basis could be fully implemented.

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?

See Q10 response.

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?

The general view of the Network is that a management fee basis is most desirable in the long term. It is considered therefore that the fee level charged initially should be close to what would be expected in the longer term in order to minimise any transitional subscription arrangement.

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

As stated above, a management fee alone is the preferred option, but authorities recognise that a transitional arrangement may be required.

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

One hybrid option that has been proposed as a possible option is :-

- (1) A management charge, levied on the supplier for each purchase on a framework contract, at a percentage figure which would, taking into account the estimated take up and value of contracts to be taken up by FRAs, result in a sum which represents a reasonable estimate of what the procurement costs/staff/resources **should be** for Firebuy to put those contracts in place (not current costs).

It might be helpful if FRAs or an independent expert were involved in determining this figure, and consequent percentage.

- (2) An obligation on Firebuy to also seek income from the other sources identified, and
- (3) Provision for FRAs to pay a contribution to Firebuy, apportioned on the basis of population, where there is any shortfall between the totals of (1) and (2) above, and the actual costs of Firebuy, subject to a specified ceiling/maximum contribution figure (e.g. 2%) above the figure assessed for (1), or a fixed sum.

This would provide some buffer provision for Firebuy, e.g if the anticipated no./value of procurements doesn't materialise, consequently reducing their income from the management charge, but also ensure FRAs knew what their maximum contribution liability will be, (which will also be a sum not much more than what the costs should be, rather than what they are) and also ensuring that Firebuy will be incentivised to keep costs down.

CHAPTER 2 - GENERAL COMMENTS, SUGGESTIONS AND QUERIES ARISING

Para. 2.2.6. – Clarification would be welcome on who (and how) to contact within DCLG about procurements and a protocol on which (if any) procurements need not be discussed. Authorities are unclear about what they should currently be doing to progress procurements.

Pg.13 Diagram 2 – The table may be misleading, since a large proportion of spending is now on services (particularly ICT related services). The commissioning of services will still be conducted at local/regional level and will become even more important as authorities move towards commissioning shared services in line with the Gershon agenda.

Para 2.5/Para 2.6 – Whilst recognising the strides made already and the significant efforts to quantify the benefits of Firebuy, Finance Officers have questioned the reliability of these initial estimates of savings. The Network is keen to work with Firebuy to improve the accuracy and quality of the indicators.

(As examples:-

- (1) the savings quoted for smoke alarms are based upon comparing previous prices achieved by London to new contract prices and then grossing these savings to a national level. Some authorities, especially those already buying large numbers of smoke alarms, were already achieving prices as good as the Firebuy price savings and so cannot achieve further savings.
- (2) Licences paid for by Firebuy and provided free to authorities are quoted as a saving. These have still been paid for out of public “fire” monies.)

Officers are also concerned that, at a time of financial belt tightening within the Treasury, it is vitally important that any national statements of deliverable efficiency savings are realistic and achievable. We would wish to work with Firebuy to improve future benefit forecasting.

CHAPTER 3 - BUDGETARY REQUIREMENTS

Some members of the Network queried the average cost per staff member indicated by the budget forecasts, which seemed high.

Several authorities asked how the recruitment process to Firebuy was conducted as staff within their authorities had expressed interest in such roles.

Consideration should be given to locating Firebuy outside London to reduce staffing and overhead costs.

How does Firebuy outsource its support functions? It is possible for fire services to tender to provide these services?

Most fire authorities are currently assuming pay deals will follow Treasury assumptions of 2% not 3.3%.

Has consideration been given to recruiting more staff to minimise the use of expensive consultants?

It is noted, ignoring the non-cashable savings, that the predicted savings and cost of Firebuy are broadly neutral.

Pg 28 – A risk is identified of fire authorities not paying subscription invoices promptly. This is no more of a risk than with any other invoice on which a management fee is charged. Fire Authorities have a good track record in the prompt payment of invoices.