

**MEETING: 23<sup>rd</sup> FEBRUARY 2008**

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**SUBJECT: PUBLICATION OF RCC BUSINESS CASE PART 2**

**JOINT REPORT OF THE CHIEF FIRE OFFICER, FINANCE OFFICER AND THE CLERK TO THE AUTHORITY**

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## **1 INTRODUCTION**

- 1.1 This report informs Members of the publication of Part 2 of the Fire Control Business Case (Version 1.1) and highlights some of the key issues within it. (A copy of the Business Case is available on request from the Chief Fire Officer).
- 1.2 Communities and Local Government (CLG) is carrying out formal consultation on this Business Case, with responses requested by the 27<sup>th</sup> of February 2009. CLG may issue a further revised version of the Business Case in spring 2009, i.e. Version 1.2.

## **2 BACKGROUND**

- 2.1 As Members will recall the last version of the Part 1 Fire Control Business Case was published in July 2008, and was reported to Authority on 21<sup>st</sup> July 2008 (minute no 56 of 2008 refers).
- 2.2 In summary, Part 1 of the Business Case set out the benefits that will accrue to each Region together with the anticipated costs/savings that will arise from the implementation of the project and the report also included proposed staffing numbers necessary to operate the Regional Control Centre together with projected regional control room costs.
- 2.3 It was evident from this document that the North East Regional Control Centre (RCC) will be more expensive to operate than the current North East control rooms, and the Business Case also highlighted that the increased cost of the North East RCC will be met through central funding and this funding will be reviewed after three years.
- 2.4 Following the Fire Authority Meeting of 21<sup>st</sup> July 2008, the Chief Fire Officer, in association with the Finance Officer, wrote to CLG providing feedback on Part 1 of the Business Case. CLG have confirmed that the feedback received on Part 1 is being taken into consideration.

**3 BUSINESS CASE PART 2**

3.1 Part 2 of the Business Case is concerned with detailing CLG's reasons for undertaking the FiReControl project and these fall into under five broad categories;

- 3.1.1 Strategic Case
- 3.1.2 Economic Case
- 3.1.3 Commercial Case
- 3.1.4 Financial Case
- 3.1.5 Project Management Case

3.2 The **Strategic Case** is formed around the enhanced capability provided by the RCC network which will enable the effective coordination and control of all FRS and national assets. The Chief Fire Officer considers that this element of the case stands up to scrutiny.

3.3 The **Economic Case** is constructed around a number of factors, including:

- 3.3.1 Greater operating efficiencies achieved through economies of scale within the nine RCC's, through resource profiling matching capacity to demand by managing staffing levels and new ways of working.
- 3.3.2 Improved security as the RCC network will form part of the Critical National Infrastructure (CNI), and it is possible although not quantifiable at this time (as further critical details have not been forthcoming) that this requirement may place additional costs upon Fire Authorities.
- 3.3.3 Tri-service controls (Fire, Police and Ambulance) may remain an option in the long term. The Minister echoed this on 21<sup>st</sup> January at a meeting with RMB Members, which included the Chairman of this Authority.
- 3.3.4 Cancellation costs are estimated at £320 million, and there is considered opinion that this is not an option due to the significant investment to date.
- 3.3.5 Following implementation, the most significant cost will be attributed to Staffing. It is of note that the North East Local Authority Controlled Company (LACC) has estimated staffing levels at 15% less than the current regional aggregated numbers. Notwithstanding this estimated requirement, the report does not include the LACC requirement for up to 11 specialist support staff required for the Management Information Systems, Gazetteer, Training and System Administration.
- 3.3.6 The lease agreement for RCC sets out a fixed price increase every 5 years (2.5% compound inflation), with Facility Management (FM) costs being increased at the rate of inflation, annually on each anniversary. It is clear therefore that over the long term, costs will continue to rise and this needs to be considered in light of expected future financial constraints.

3.4 In support of the **Commercial Case** and to ensure the resilience of the RCC infrastructure, CLG have implemented national procurement arrangements for facilities and estates management. This national arrangement was contractually

## PREVENTING PROTECTING RESPONDING

structured with due regard to the *Third Party Rights Contract Act 1999*. The result is that the obligations and rights under the master contract are transferred to each region in terms of a 'sub-contract', i.e. the LACC will undertake the contract from CLG just as if it had entered in to the agreement in its own right.

- 3.5 Further to the above, CLG have indicated that the contractual arrangements with EADS will positively impact on costs over the reference period 2004/05 to 2020/21. EADS are working to deliver a software solution within, what is now, a challenging timeframe. There is some apprehension regarding the possibility of further slippage and with this, increased costs. Notwithstanding the latter, CLG have acknowledged that costs are higher than forecast, however they maintain that such costs are affordable.
- 3.6 Within the **Financial Case**, CLG has reported the current cost of the FiReControl project at £380 million, with fire authorities being funded for all net additional costs.
- 3.7 The current funding mechanism for the project is through New Burdens grants and to date a total of £42 million has been released with a further £66 million planned for the next two reporting periods of 2009/10 and 2010/11.
- 3.8 CLG has revisited their assumptions and reduced the projected annual saving from 28% (£21m) in 2007 to 11% (£8m) nationally. The Authority will be aware that according to CLG estimates the North East Region will make a net loss of £602,000, to be funded from a resilience payment which is to be reviewed after three years. Such payments are designed to ensure that no region is penalised by the move to RCC.
- 3.9 However, research within the region and specifically to this Authority suggests that these costs do not reflect the true costs of the project and that the resilience payment required will be greater than that stated. It is the view of the Chief Fire Officer that the resilience funding should match actual expenditure rather than the assumptions in the financial summary of the Business Case. This is of particular significance as the LACC approved staffing model requires more staff than the CLG staffing model.
- 3.10 Furthermore in considering an apportionment model for the distribution of costs within North East, each Authority through the Regional Management Board will need to come to an agreement. Consultation is taking place with colleagues to ensure that an equitable cost apportionment model is implemented within this Region.
- 3.11 It has also been recently reported that the Local Government Association have indicated that future funding should come within the Revenue Support Grant rather than a ring-fenced specific grant. It is considered that there are considerable financial risks to this approach particularly given the current and potential future fire settlements and that specific grant funding would be more appropriate.
- 3.12 The **Project Management Case** outlines a number of objectives with a key focus on national roles, however this lacks financial and organisation detail of roles and functions.

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3.13 Considering the projected call profile of the North East RCC, it is reasonable to predict that capacity may be available and used to undertake national roles and functions. By undertaking such activities, RCC's would receive funding, which in turn, would offset a modest proportion of regional costs.

3.14 Due to the North East being within the first wave regions, clarification on the national roles and functions are required immediately. Members are asked to consider the urgency of the need for clarification and consider requesting clarification from CLG on the detail of roles, functions and funding arrangements.

#### **4 PROPOSED RESPONSE**

4.1 Given the issues within this report it is proposed that the Chief Fire Officer in consultation with the Chairman of the Authority, the Finance Officer and the Clerk to the Authority respond to the consultation by the 27<sup>th</sup> February 2009 highlighting the concerns of this Authority as outlined in this report.

#### **5 EQUALITY AND FAIRNESS IMPLICATIONS**

5.1 There are no Equality and Diversity implications associated with the specific content of this report.

#### **6 HEALTH AND SAFETY**

6.1 There are no Health and Safety implications in respect of this report.

#### **7 RISK MANAGEMENT**

7.1 A risk assessment has been undertaken to ensure that the risk to the Authority has been minimised as far as practicable. The assessment has considered an appropriate balance between risk and control; the realisation of efficiencies; the most appropriate use of limited resources; and a comprehensive evaluation of the benefits. The risk to the Authority has been assessed as high utilising the standard risk matrix based on control measures being in place. Accordingly the project will be kept under regular, if not constant review. The complete risk assessment is available on request from the Chief Fire Officer.

#### **8 FINANCIAL IMPLICATIONS**

8.1 Whilst there are no immediate financial implications associated with the content of this report it is apparent that there could well be a significant financial impact on this Authority as the full costs of the RCC project become clearer. This will be raised within the response to the consultation.

#### **9 RECOMMENDATIONS**

9.1 The Authority is requested to:

- a) Consider the content of the report, and

## ***PREVENTING PROTECTING RESPONDING***

- b) Agree that the Chief Fire Officer, Finance Officer and the Clerk to the Authority formally respond in line with the issues highlighted in this report;
  - c) Receive further reports as appropriate.
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### **BACKGROUND PAPERS**

The under mentioned Background Papers refer to the subject matter of this report;

- FiReControl Business Case Part 2 Version 1.1 (Draft)
- FiReControl Business Case Part 1 (Regional Annex)