

WEST MIDLANDS FIRE AND RESCUE AUTHORITY

EXECUTIVE COMMITTEE

10TH OCTOBER 2011

1. **THE DISTRIBUTION OF FIRE CAPITAL GRANT -
CONSULTATION**

Report of the Chief Fire Officer.

RECOMMENDED

THAT the Committee approve the draft response to the consultation exercise and that the Chair of the Authority, in conjunction with the Director of Finance and Procurement amend the current wording, if appropriate, in order to align the response with any submission made by the Association of Metropolitan Fire and Rescue Authorities.

2. **PURPOSE OF REPORT**

This report is submitted to seek the Committee's approval to the draft consultation response to the distribution of Fire Capital Grant.

3. **BACKGROUND**

- 3.1 During the Comprehensive Spending Review period (2011/12 to 2014/15), the Government indicated that it would make £70 million Capital Grant available to the National Fire Service in each of the four years.
- 3.2 The capital funding for 2011/12 was distributed by allocating a fixed sum to every Authority with the balance distributed according to population.
- 3.3 The Government have indicated that Capital Grant Funding is intended to be used to drive efficiency savings in the Fire and Rescue Service at a time when there are significant cuts in resource funding. The funding is designed to help Fire and Rescue Authorities to make the efficiency changes they need in order to live within their spending review allocation from 2013 onwards when the largest portions of the reductions will apply.

3.4 CLG is seeking views on the proposal that future funding is distributed based on a combination of:

- an efficiency fund, administered via a bidding process and
- a pro rata distribution using current distribution methods

As part of the consultation exercise, which ends on 21st October 2011, seven specific questions have been raised in connection with this matter. The context of the consultation is shown in Appendix 1 to this report and the questions and draft responses are shown at Appendix 2. The entire document can be viewed at <http://www.communities.gov.uk/publications/fire/capitalgrantconsultation>.

4. **EQUALITY IMPACT ASSESSMENT**

In preparing this report an initial Equality Impact Assessment is not required and has not been carried out.

5. **LEGAL IMPLICATIONS**

There are no legal implications arising out of this report.

6. **FINANCIAL IMPLICATIONS**

There are no direct financial implications arising from this report but the allocation of Capital Grant Funding in future years will have a bearing on the overall funding and investment options available to the Authority.

BACKGROUND PAPERS

Communities and Local Government, Distribution of Fire Grant Consultation Paper issued on 12th September 2011

VIJ RANDENIYA
CHIEF FIRE OFFICER

APPENDIX 1

Why?

We want to introduce a two-track approach where we distribute a portion of the grant to provide some continuity to the sector and put in place a competitive bidding process to drive efficiencies. We think that this approach will ensure the funding is targeted to areas that deliver the greatest savings whilst also providing a set minimum grant for all – in recognition that all fire and rescue authorities will have ongoing capital costs.

Possible types of activity

The Government has committed that £70m per annum, will be made available to fire and rescue authorities as capital grant funding to support activity that makes efficiency savings. However we would not expect to see bids for improvements to control services in the light of the separate funding stream which is available for this purpose.

Funding can be used in a variety of ways including to invest in schemes that reduce fire and rescue authorities' overheads.

Examples of what this funding could support are:

- station refurbishment – reduced running costs
- improved allocation of special appliances
- more efficient estate management arrangements
- combined aerial/pumping appliances
- workforce modernisation schemes
- relocation of headquarters to reduce overheads
- business processes
- private communication networks – to reduce broadband costs
- home fire safety equipment
- small appliances, fire bikes.

The examples above are intended to be illustrative only, and are not an indicator of where government thinks individual fire and rescue services need to focus their activity.

Such decisions can only be taken locally and based on fire and rescue authorities' own integrated risk management plans, which reflects local need and set out plans to tackle effectively both existing and potential risks to communities.

After identifying local fire and other risks, fire and rescue authorities work out how best to deploy their finite resources to mitigate those risks in the three broad areas of prevention. This process in itself works well in determining the most effective and efficient way of doing things, and means that fire and rescue authorities should already be forward planning and have an idea of where efficiencies can be made, enabling the whole process of bidding to be straightforward.

Bids process

We want to make sure that the bidding process is transparent, robust and fair; we also want to ensure that the process minimises unnecessary burdens on bidding authorities. As such we propose that the bidding process starts with fire and rescue authorities providing bids by completing a short generic application form. Fire and rescue authorities would have around 6 weeks to complete the form.

The application form would include a spreadsheet for fire and rescue authorities to enter the costs for each element of their bid, the amount they are contributing and the amount they are bidding for, along with a breakdown of the savings for each element of the bid. Fire and rescue authorities will also need to include a narrative explaining their rationale for their cost savings assumptions. As part of the process the office of the Chief Fire and Rescue Adviser will undertake a technical assessment of the application to quality check information and deliverability of the bids.

The application would request information on the detail of the project. As part of the assessment process we would review capital asset management plans to assess the strategic fit of the bid and the fire and rescue authorities wider asset strategy. To reduce the burden on them we would accept web links to asset management plans where available or if these are not available then a paper copy would be sufficient. We would intend to request information on three financial positions – do nothing, the bid, reduced bid operation. This is intended to aid prioritisation and give the assessment scope in case of oversubscription, in that it would enable the provision of reduced funding to keep the total amount paid out within the amount of money available.

We will use existing integrated risk management plans to provide background information, in particular to seek assurance on continued quality of frontline services, and will ask for a web link to, or hard copy of these documents.

A draft application form and spreadsheet will be published later this week. We would welcome your feedback on this.

Bidding rounds

We are interested in your views on the number of bidding rounds we should run for the grant. Our preference is for one bidding round. In this way we would be able to provide certainty on capital for fire and rescue authorities for the next three years. One bidding round would also require less resource and fewer costs for fire and rescue authorities. However, if we are unable to allocate all of the funding in one go we would reserve the option for a second bidding round to manage significant under allocations.

However, we can see that there may be attractions to going for one, two or even three bidding rounds and we would like your views on this. Multiple bidding rounds would allow fire and rescue authorities who may not be in a position to bid year one (or two) to put in bids in future years.

Regardless of the number of bidding rounds we are proposing that the deadline for the first round of bids should be December 2011, with a view to decisions on successful bids being announced by end of February 2012.

Assessment criteria

The main objective of our proposal is to deliver capital funding to the fire sector in a way that delivers resource savings to help fire and rescue authorities in the final two years of the Spending Review period when their resource budgets are most reduced. We have developed a spreadsheet for bidders to enter data on and this will allow us to calculate a benefit cost ratio. We think that this is the simplest means of assessing bids on a numerical basis, and one that places the fewest burdens on bidders. The bids which deliver the greatest savings in proportion to their costs over a 10 year period will be rated the highest.

The proposed equation to assess the benefit cost ratio of the bids is below. It uses the Net Present Value of the proposal per pound you are bidding for to compare the bids. The Net Present Value is the difference

between the discounted benefits and the discounted costs. The former are the expected efficiency savings and the latter are the cost to the Department for Communities and Local Government plus further costs to your fire and rescue authority if you are co-funding.

Present Value (Cost Saving) – Present Value (Cost to Fire and Rescue Service) - Present Value (Amount of bid)

Net Present Value/£ Government bid = $\frac{\text{Present Value (Cost Saving) - Present Value (Cost to Fire and Rescue Service) - Present Value (Amount of bid)}}{\text{Present Value (Amount of bid)}}$

The equation does not take into account changes in services, therefore it does not include social or environmental impacts. If bids include changes in services this would not be used to disadvantage bids that showed improved service.

Once applications have been received they will be checked to ensure they have been filled out correctly and all information requested is included.

The Office of the Chief Fire and Rescue Adviser will evaluate the application through a technical and deliverability assessment, to ensure bid proposals are reasonable and realistic. Part of this assessment will include a review of any capital asset management data provided by web link.

Members of the Department for Communities and Local Government finance team will check the figures included in applications.

The applications will then be forwarded to an Advisory Panel, established to provide assurance that funding is being put to best use. This panel will be made up of senior qualified people from within government. The Chief Fire and Rescue Adviser, departmental non executive Directors and members of the Finance Policy and Accounts Committee could all be potential members.

Those bids that are more complex, of high value, or cross service/sector bids may additionally be subject to a presentation to the Assessment Panel and further questioning, in order for them to provide further information in support of the project.

The panel will assess bids using the benefit costs analysis above, combined with strategic fit of the bid with the fire and rescue authorities

asset plans and their integrated risk management plan. The panel will then make recommendations to the Minister with regard to which makes the best case for efficiency savings.

The final decision on bids regarding support and prioritisation will be made by the Minister.

Accountability and monitoring

Government is accountable for the funds it spends and the public quite rightly want us to ensure value for money and strong fiscal property. Fire and rescue authorities are equally responsible for demonstrating to their communities how they spend their budgets. The capital grant for fire is of a significant value and as such, while the funding is un-ring fenced we think there is a real benefit, both to fire and rescue authorities and government, in collecting data as this can be used to assist the sector in making efficiencies by disseminating lessons learned. Such efficiencies are also a useful tool for the department to inform any future Spending Review funding bids and to inform the way future funding is allocated.

We would therefore suggest that fire and rescue authorities include in their bids information on how they would demonstrate the extent to which they have achieved efficiency gains detailed in their bids, and, as part of the transparency agenda, how they will provide this information to their communities. We propose to include light touch monitoring by the department utilising publicly available information (on business plan outputs and impact indicators indicated in the bids), followed by a research element, designed to capture and disseminate good practice.

APPENDIX 2

Question 1

Do you have a view about the proportion of funding that ought to be available for distribution versus the proportion of funding that ought to be available to bid against?

Answer

In order to give certainty over the remaining three financial years of the CSR period and to avoid an over-bureaucratic bidding system, given that all Fire Authorities over that three year period are anticipating funding reductions, consideration should be given to an allocation for each of the three years based on the methodology adopted for year 1. If there is a bidding process, the ratio of funding should be more heavily weighted towards distribution, for example, a 90:10 split or maybe an 80:20 split, in order to provide longer term planning certainty.

Question 2

What are your views on our proposal of one bidding round?

Answer

The single bidding round approach has some attractions, both in terms of reduced bureaucracy and certainty over a longer time period. Contrary to this view, a number of specific service changes in year 3 and 4 may not yet have been fully developed or be an appropriately advanced stage for consideration as part of the bidding process (indicated to be December 2011). Consequently, the views expressed in answer 1 to this consultation are referred to.

In relation to a specific issue, if a bidding process is undertaken and the results are not announced until the end of February 2012, this sits outside the normal 2012/2013 budgetary timescales which Fire Authorities need to comply with and therefore reduces the ability to plan for capital related expenditure as robustly as would ideally be the case and which could be achieved by an allocation basis in a shorter timescale.

Question 3

If there is one round, are you content that we should reserve the option for a second round if there are significant under allocations?

Answer

If anything other than a straight allocation is chosen, a significant proportion of any outstanding funding would probably best be dealt with by a single round of considerations. However, some thought perhaps should be given to retaining a proportion of the overall funding, possibly for year 4, by which point Fire Authorities will have the certainty of knowing the scale of the reductions they are expected to achieve and can align their planning more closely to that requirement and be able to submit more robust service focussed bids.

Question 4

As an alternative, to one bidding round, do you think a bidding round for each year would be better?

And if so, why?

Answer

The only benefit of adopting anything other than a single bid (apart from a straight allocation) would be that it would give fire authorities greater opportunity to more robustly consider specific investment opportunities that might generate the savings required when they have certainty of their own individual fire authority grant reductions.

Question 5

Do you think that these are the right criteria for assessing bids for Capital Grant Funding?

If not, what would your proposals be?

Answer

In addition to the criteria set out, consideration could also be given to the same calculation but over a five year period. In addition, a straight cash repayment basis could also be used to help give a greater consideration to the indicated benefits of the investment proposals. Given that the main objective of the proposal is stated as being to help Fire and Rescue Authorities in the final two years of the spending review period, both the shorter net present value period and the straight cash payback options are more closely aligned to this timeframe.

Question 6

Do you agree with the approach on accountability and monitoring?

Answer

A light touch approach is appropriate, although some level of consistency would need to apply. Benefits arising from capital investment could be contained within either a fire authority budget report and/or IRMP plans and/or annual plans.

Question 7

How do you think best practice could be shared with the rest of the fire and rescue service?

Answer

As part of the Fire Finance Network, arrangements could be put in place to request submissions from Fire Authorities to forward achievements through capital investment, whether this has occurred due to a straight allocation or some form of bidding process.