

Circular number	41/2008	Date issued	7 August 2008
This circular is	For consultation	Respond by	31 October 2008
This circular is	Relevant to the National Framework		
Status	This circular informs Fire and Rescue Authorities of the Department's preferred options for apportionment of FiReControl shared costs between the regions of England and seeks views of Regional Management Boards.		

FiReControl Cost Apportionment

Issued by:

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Addressed to:

**The Chair of the Regional Management Board
The Chief Executive of the County Council
The Clerk to the Fire and Rescue Authority
The Clerk to the Combined Fire and Rescue Authority
The Commissioner of the London Fire and Emergency Planning Authority
The Chief Fire Officer**

Please forward to:

Summary

This circular sets out the Department's preferred option for apportioning FiReControl shared costs amongst the regions of England – by council tax base. The Department seeks the consolidated views of regions through their Regional Management Boards on the use of this mechanism by 31 October 2008.

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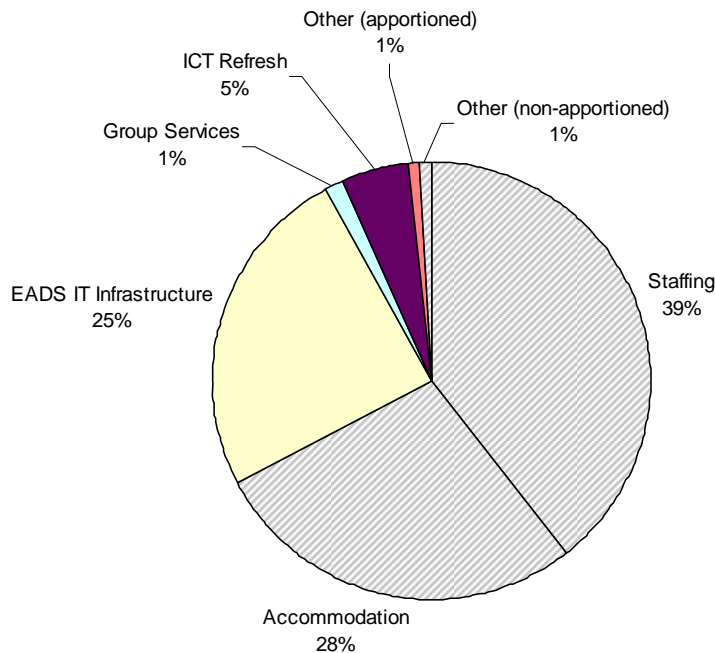
Website [**www.communities.gov.uk**](http://www.communities.gov.uk)

1.0 Overview

- 1.1 This circular sets out the Department's preferred option for apportioning the shared costs for running the Regional Control Centre network to the regions. It seeks the views of regions, through their Regional Management Boards to the proposed use of council tax base as an apportionment mechanism. Deadline for responses is 31 October 2008.

2.0 Background

- 2.1 The recent publication of the FiReControl Full Business Case Part 1 'The Regional Case' provides an opportunity to consult on cost apportionment, with a much better understanding of the likely costs that will need to be shared amongst the regions. The Regional Case sets out key elements of the business case from a regional perspective, including: resilience benefits, operational benefits, transition funding, and the forecast costs and savings once the Regional Control Centre is up and running. The documents can be downloaded from the Communities and Local Government website at:
www.communities.gov.uk/fire/resilienceresponse/firecontrol/businesscase.
- 2.2 There has been a major exercise involving the LGA, CFOA and a number of other professionals from the Fire and Rescue Service to ensure that the basis for presenting the figures in the FiReControl Business Case is both fair and transparent. This exercise included reviewing, with stakeholders, all the assumptions about the future running costs of the Regional Control Centres and employing independent accountants to verify current costs of control rooms.
- 2.3 In January 2008 a cost apportionment principles paper was issued to Regional Project Directors and regional members of the FiReControl Finance Working Group. Following feedback received on this paper, and the culmination of the review exercise, Ministers have decided that:
- a) Only shared costs should be apportioned between the regions
 - b) Where a region makes a saving then this should be retained in full by the region
 - c) Communities and Local Government should provide an annual resilience payment to the regions which the CLG FiReControl Business Case indicates might incur a net cost.
- 2.4 This circular seeks views on the mechanism to apportion, amongst the regions, the shared costs arising from the FiReControl project, the majority (circa 75%) of which relate to the national Information Technology (IT) services contract.
- ### 3.0 Which costs are apportioned?
- 3.1 Not all of the future running costs of the RCC are apportioned. For example staffing and accommodation costs are not apportioned as these will fall directly to the Local Authority Controlled Companies and LFEPA.
- 3.2 Most of the remaining costs are shared costs which need to be apportioned to regions using a fair mechanism. Whilst the proportion of shared costs that are apportioned will vary slightly between regions, at a national level it is approximately one third, as indicated in the diagram below.



3.3 The IT Infrastructure costs constitute the highest proportion of the shared apportioned costs and together with Group Services costs will fall as charges made to Local Authority Controlled Companies and LFEPA for collectively incurred costs. The remaining shared costs (ICT Refresh and Other (apportioned)) have been included to ensure conformity with the Business Case. Regions will not be charged for these items – it will be for them to decide how to make financial provision to meet this expenditure (eg borrowing, sinking fund etc.)

3.4 The remainder of this paper identifies the options that have been considered for fairly apportioning these costs, Communities and Local Government's preferred mechanism, and the timing for the commencement of these costs.

4.0 Preferred option for apportioning shared costs

4.1 The Business Case indicates that the total amount of costs to be distributed is in the region of £22 million. The following options for apportioning these costs to the Local Authority Controlled Companies and LFEPA have been identified:

- 1) Apportion in proportion to relative share of the tax base – preferred option
- 2) Apportion using an alternative metric, such as the relative proportion of incidents or fire stations
- 3) Apportion using a formula which combines a number of metrics
- 4) Divide equally between the nine regions (i.e. do minimum).

These options are described in more detail in Annex A.

4.2 Communities and Local Government's preference is to apportion costs on the basis of tax base (option one) because it is:

- simple, transparent and easy to understand
- relatively stable over time
- reflects the region's ability to pay

4.3 The 2006 council tax base data, upon which the figures in the Business Case are presented, provides the following proportional split across England’s regions and indicative annual apportioned costs:

	Regional CT Base (2006)¹	%	Expected Annual Apportioned Costs²
NE	1,113,519	5%	1.06
SW	2,207,916	10%	2.25
EM	1,827,798	9%	1.83
NW	2,970,419	14%	3.07
WM	2,240,512	10%	2.28
SE	3,430,805	16%	3.55
YH	2,159,078	10%	2.20
Lon	3,134,451	15%	3.14
EE	2,353,383	11%	2.40
	21,437,881	100%	21.78

4.4 It is proposed that the central source to be used to derive the regional relative proportions of council tax base be the Local Government Finance team within Communities and Local Government. This data is updated annually and it is therefore proposed that the proportions should also be updated annually.

4.5 It is important to note that different mechanisms, which satisfy different criteria, may be chosen to allocate RCC costs within a region – this is a decision for local authorities within the umbrella of the regional management board and is outside the scope of this consultation.

5.0 When will costs start to be apportioned?

5.1 The costs will start to be apportioned to regions on a pro-rata basis as each FRA cuts over to the RCC. The amount will be based upon the agreed intra-regional cost apportionment formula. Where an intra-regional cost apportionment formula has not been agreed at the point of earliest cutover within a region, an FRA’s relative proportion of regional council tax base will be used as the default.

6.0 Feedback on this consultation

6.1 Communities and Local Government is seeking feedback on the proposal to apportion these shared costs on the basis of relative proportion of council tax base. It is seeking views consolidated at a regional level (as it is at this level that the costs will be apportioned) as to whether this is considered an appropriate mechanism. An indication of the degree of support for the proposal would also be welcomed.

6.2 Where the consolidated views of a region differ to Communities and Local Government’s preferred apportionment mechanism then an alternative should be suggested with a supporting explanation as to the reasons why this better meets the criteria of being simple, transparent, stable over time and reflective of a region’s ability to pay.

¹ Source: Local Government Finance Directorate, Communities and Local Government.

² The reason that the expected annual apportioned costs are not a precise reflection of a region’s proportion of England’s council tax base is that the shared costs also include a small proportion of costs which are allocated on a different basis, for example data management.

- 6.3 The FiReControl Finance Working Group representative for your region has received the detailed breakdown of costs to support any assessment of alternative apportionment options that you may wish to consider. We are also happy to provide nationally collated data where this is retained by Communities and Local Government. Please contact eddie.tuttle@communities.gsi.gov.uk with any requests for this information.
- 6.4 Please provide responses to this consultation to eddie.tuttle@communities.gsi.gov.uk by Friday 31 October 2008.

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Assessment of Options

a) Apportioning the shared costs arising from the national IT services contract and group services.

It is expected that staffing and accommodation costs should be met where they fall. However, the shared costs (which make up approximately one third of the forecast RCC operating costs) may be apportioned using an appropriate mechanism. The options are constrained by law and accounting rules.

The options presented for consideration are:

- **Option 1: Apportion in proportion to relative share of the tax base.** The preferred option in which the shared costs of operating the RCC are distributed between the regions according to relative proportion of the council tax base.
- **Option 2: Apportion using an alternative metric.** The same as option 1 except a different local authority attribute (metric) is used to apportion the costs, e.g. the number of fire stations or the number of incidents handled.
- **Option 3: Apportion using a formula.** The shared costs of operating the RCC are distributed according to a formula in which two or more local authority attributes (metrics) are combined.
- **Option 4: Divide equally between the nine regions.** The do-minimum options in which the shared costs of operating the RCC are divided into nine equal parts.

These options are compared against three criteria:

- **Simple, transparent and easy to understand:** the apportionment mechanism should be straightforward and simple to calculate. This will aid transparency and help to reduce unnecessary administrative overheads. Ideally the metrics chosen should relate to demand for control services, such as population.
- **Relatively stable over time:** local authorities desire financial stability. Ideally, the basis for apportioning shared costs should remain stable over long periods of time. Some local authority metrics have the potential to fluctuate within a given time period and are best avoided, e.g. the number of calls received, which will be affected by changes in technology and social behaviour, and incident reduction initiatives undertaken by local authorities.
- **Reflects the region’s ability to pay:** it is desirable that the distribution of costs should reflect the ability of the region to pay.

The following table illustrates how well the options satisfy the criteria outlined above:

Assessment criteria	Option			
	1	2	3	4
Simple, transparent and easy to understand	Y	Y	N	Y
Relatively stable over time	Y	?	?	Y
Reflects the region’s ability to pay	Y	?	?	N

Apportioning according to relative proportion of tax base is the only option which would definitely satisfy all the criteria at this point in time. Taking each option in turn:

- **Option 1: Apportion in proportion to relative share of the tax base.** Based on analysis of current data this option is the most likely to result in a 'felt fair' distribution of shared costs between the regions.
- **Option 2: Apportion using an alternative metric.** Other metrics either fail the criteria for reflecting the region's ability to pay or are less successful at ensuring that all regions should see savings.
- **Option 3: Apportion using a formula.** Experience suggests that agreeing formulae can be difficult and time consuming, eg the process required to make changes to the Fire Formula Spending Share. There are an infinite number of possible combinations for local authority metrics and weightings. Moreover, a combination which provides an 'optimal' fit to the data in a particular time period will become 'sub-optimal' as the values for the metrics employed change over time.
- **Option 4: Divide equally between the nine regions.** This option is the least likely to result in a 'felt fair' distribution of shared costs between the regions. It is a straightforward and stable apportionment mechanism which fails to reflect the ability of regions to pay.

It is important to understand that it is only possible to apply the apportionment mechanisms set out above to approximately one third of the overall cost of running the RCCs. It is also important to note that different mechanisms, which satisfy different criteria, may be chosen to allocate RCC costs within a region – this is a decision for local authorities within the umbrella of the Regional Management Board and is outside the scope of this consultation.