Recharging Policy for New Dimension Maintenance Contract Costs

Issued by:
Fay Smith
New Dimension Policy Advisor

Addressed to:
The Chair of the Fire and Rescue Authority
The Chief Executive of the County Council
The Clerk to the Fire and Rescue Authority
London Fire Commissioner
The Chief Fire Officer

Please forward to:
Directors of Finance
Members of the Transport Officers Group (TOG)
FRS Engineers

Summary
As part of the long term strategy for New Dimension, CLG through Firebuy Ltd, has procured a 16-year maintenance contract for New Dimension equipment and vehicles. This Circular provides information on the implementation of a recharging process on Fire and Rescue Authorities for those avoidable costs that CLG currently covers.

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1.0 Summary

1.1 As part of the long term strategy for New Dimension, CLG through Firebuy Ltd, has procured a 16-year maintenance contract for New Dimension equipment and vehicles. This Circular provides information about the implementation of a recharging process on Fire and Rescue Authorities for those avoidable costs from the maintenance contract, as set out in Circular 52/2008 and later reaffirmed in Circulars 16/2009 and 59/2009. Recharging will start from 1 February 2010, and covers costs over and above normal wear and tear, and which are due to the activities of the fire service. In the first 12 months of the contract (Oct 08 – Sept 09), such costs amounted to some £118k across England, all paid by CLG, and the distribution of those costs across each FRA are provided in a table below, to give FRAs some indication of the levels of costs they will have to pay from February. Because these are avoidable costs, FRAs should be able to manage and reduce them as with the rest of the vehicles they use. Recharging is not dependent on the transfer of ownership of New Dimension assets, and FRAs face these charges in any event. However, with the completion of asset transfer, FRAs would see these charges coming directly from our maintenance contractor rather than being routed via CLG.

2.0 Background

2.1 Fire Service Circular (FSC) 52/2008 provided information on the long term maintenance contract for New Dimension assets and the costs deriving from this contract. It confirmed that VT Group (formerly VTCS) had been awarded the maintenance contract (which commenced on 1 October 2008 for 16 years) and that CLG was committed to paying the fixed costs of the contract (around £100m) to ensure that the equipment and vehicles are fit for purpose in readiness to respond any major national incidents.

2.2 The Circular also confirmed that whilst CLG encourage use of this equipment in response to day to day business, it is not for CLG to fund the repair or replacement of equipment owing to either mis-use, loss of equipment or damage caused by response to anything other than a national-level event. Consistent with maintenance and repair arrangements for FRAs’ own vehicles and equipment, it will be expected that where damage to New Dimension assets occurs during routine incidents or as a result of an act or omission by an employee of an FRA or some person or body acting on the FRA’s behalf, that the costs of remedy or repair should be borne by that FRA. This was again reaffirmed in both Circular 16/2009 and 59/2009.

2.3 Through FSC 52/2008, CLG agreed, on an exceptional basis, to cover those avoidable costs incurred by FRAs, in advance of the introduction of a recharging policy. In discussions with both Firebuy Ltd (the Contract Manager) and VT Group we have now finalised a process for recharging these costs, the details of which is set out below.
3.0 **Types of Costs to be Recharged**

3.1 The costs relating to all avoidable costs (previously referred to as unfair wear and tear) will be recharged back to the FRA who incurred them. The term avoidable costs refers to a vehicle or item of equipment becoming non-serviceable as a result of the action or inaction of the FRS, to the extent that the relevant item has to be changed prematurely or fixed due to breakage, damage or accelerated wear. The term also covers those situations where costs are incurred needlessly, not just as a result of repairs. It should be noted that it is not possible to provide a definitive list of what constitutes 'avoidable costs' as it will often be subject to the individual circumstances in which the cost occurs. However, essentially it means costs which are over and above 'normal wear and tear' and some generic examples include:

- Accident damage
- Damage as a result of either action/inaction of a Fire and Rescue Service (FRS) and its personnel, such as failure to carry out FRS routine checks, or using the wrong kind of fuel in an engine
- Broken/missing equipment including lost keys
- Misuse or careless use of the equipment and vehicles during training or operational incidents
- ‘Driver-error’ accidents
- Pick-up/delivery charges (i.e. costs associated with transportation of the assets) resulting from any avoidable damage.
- ‘No show’ charges incurred as a result of VT Group or its subcontractors attending a fire station at the request of an FRS to pick up equipment or undertake on-site repairs, where there is no one in attendance at the station or the equipment is, for whatever reason, unavailable.

4.0 **Process for Recharging**

4.1 A diagram is provided at Annex A outlining the process for dealing with avoidable costs and the recharging of this. Recharging will start with effect from 1 February 2010. At present, re-charging will only apply where the avoidable cost is over £250, although CLG reserves its right to consider re-charging below this amount, particularly where costs under £250 are attributable to a particular FRA on an overly-frequent basis.

4.2 In terms of approving any repairs or replacements it is important that essential maintenance work is not delayed, to ensure that New Dimension assets are non-operational for as short a period as possible and that there is no degradation of capability.

4.3 The process that CLG, Firebuy and VT Group operate in authorising repairs or replacement is on a three-tiered financial basis. Given the thousands of individual New Dimension assets and the large amount of repairs undertaken each month, it has been agreed that all repairs and replacements costing under £250 are undertaken routinely by VT Group without prior authorisation being required. Any repair estimated as costing between £250 and £1000
requires prior authorisation from Firebuy, and anything over £1000 requires
CLG prior approval before the work commences (the latter numbering around
50 cases since contract commencement in October 2008). Currently this
system is working well and CLG intends to continue on the same basis for the
recharging process. In the event of the transfer of assets (see para 6.1 below),
it is expected that a similar authorisation policy will apply, with Firebuy
managing this on behalf of FRAs and providing regular reports on authorised
work and charges. A clear FRA dispute resolution process will be established
and communicated as part of the asset transfer process. However to confirm
recharging is not dependent on asset transfer, and FRAs will face these
charges regardless.

4.4 Under the contract, an assessment of all defects, damage and reports of
missing items is carried out at the time of reporting to ascertain whether these
are chargeable to the FRA (as opposed to being part of the contracted
inspection/servicing regime). Where equipment is reported missing, either by
the service or when an asset is taken in for servicing, VT will contact the FRS
within 24 hours to allow time for the missing item to be located and delivered to
VT. On occasion, Firebuy may request further information from an FRS relating
to a report of damage to ascertain how the damage occurred and whether this
is part of normal wear and tear or not. Firebuy has access to a Technical
Advisor and will also take advice from the National Resilience Assurance Team
(NRAT) as required. The outcome of this assessment will be provided to CLG
who will recharge the FRA in accordance with the recharging procedure if
appropriate.

4.5 In the event of a dispute over whether the cost is ‘avoidable’ or not, CLG will
re-consider the case in conjunction with Firebuy, the NRAT and if necessary,
the National Resilience Assurance Board before making its final decision. This
will take into account representations from the fire service, who will also be
expected to support any dispute or claim with station records and any other
information as may be relevant.

4.6 It is CLG’s intention to recharge FRAs by issuing invoices to them within three
months of the repair being completed and the costs finalised. If this does not
prove successful, for instance where FRAs do not provide the necessary
documentation/evidence within appropriate timescales, then CLG will consider
netting the costs off any New Dimension s31 Grant.

5.0 Costs to date on the Maintenance Contract

5.1 A table is enclosed at Annex B outlining total contract costs (excluding the
fixed maintenance costs) incurred through the maintenance contract over the
first 12 months of the contract, shown by FRA. The table also contains the
approximate proportion of costs which would have been classed as avoidable
and hence what FRAs may have been recharged had this recharging policy
been in place from the contract start. We confirm however, that the Department
will not seek to recover any avoidable costs already incurred since the start of
the contract, and FRA liability will commence when this recharging procedure
is implemented as set out in section 4.1 above.
5.2 VT Group purchased all of CLG’s Bardon stock at the start of the contract, on the basis that when any of this stock is issued, it would be priced the same as VT purchased it from CLG. In many cases, this is less than the current ‘off-the-shelf’ price, and therefore both CLG and the FRA benefit from this discounted rate until all of the original stock has been used. When VT Group have to purchase additional stock from suppliers, the pass-through cost for such items will inevitably increase as the discounted stock will no longer be available. However Firebuy is establishing and managing framework contracts to cover the majority of New Dimension equipment to ensure VT, and therefore CLG and the FRAs, receive the best price from suppliers.

5.3 The rechargeable costs provided in the table at Annex B can be viewed as an indicator of the amounts that FRAs may be liable for in the future. It should be noted that the discounted price applies to these costs, as explained in para 5.2 above. Another factor to be considered is that there were a large number of charges for missing equipment and legacy defects which should theoretically reduce in the second year of contract service. Nevertheless the figures should provide an order of magnitude for the FRAs, and illustrate that there is scope for FRAs to minimise costs through good practice.

6.0 Consumables

6.1 CLG committed to meeting on-going consumables costs for New Dimension over the current CSR period in FSC 36/2008. To date, CLG have paid s31 grants for consumables in relation to USAR elements of wood, oxygen, and local training facilities, all of which FRAs source locally and are not provided under the terms of the New Dimension maintenance contract. Further grants are payable over the remainder of the CSR period as noted in FSC 36/2008.

6.2 In relation to all other consumable items, as part of the maintenance contract it is a requirement that VT Group ensures all New Dimension equipment and vehicles returned to a fire station after maintenance or inspection are fully kitted out, including the replacement of any missing consumable items. Additionally the service can request a supply of consumables from VT Group for training for national incidents.

6.3 CLG previously published in FSC 52/2008 a list of the average amount of consumables that the Department would fund, based on expected use by FRSs each year (mainly related to training for national incidents). A review is currently being undertaken by VT Group and Firebuy to re-examine the level of consumable usage in light of the operational experience since the maintenance contract commenced. Given this, it is not the intention of the Department to re-charge consumable costs at this present time, unless consumable usage proves to be significantly excessive and where there is inadequate justification for the high level of consumable utilisation. Experience to date however, is that consumable use is not excessive.

6.4 The results of the review of consumable usage relating to training for national incidents will be communicated to the service in due course, but it is not expected that this will result in a change to this recharging policy before the end of March 2010.
7.0 Re-charging and the Transfer of Assets

7.1 FRAs will wish to be aware that whilst New Dimension assets remain in the ownership of CLG we will pay all the maintenance contract costs (including the fixed maintenance, avoidable and consumable costs) directly to VT Group but as set out in this circular, will recharge the avoidable costs, and if appropriate in the event of excessive use, the consumable costs to FRAs. However through Circular 59/2009 CLG is seeking to transfer ownership of the New Dimension assets to those FRAs which host them, and upon transfer of the assets it is a condition that FRAs will themselves enter into the VT maintenance contract through the Terms of Access. At the point of signature, FRAs will be responsible for arranging payment of all maintenance costs directly and CLG will continue to fund FRAs for the fixed costs of the contract and consumables through an annual section 31 grant.

Fay Smith

New Dimension Policy
ANNEX A: DIAGRAM - NEW DIMENSION MAINTENANCE COSTS - RECHARGING PROCESS

Damage to or loss of equipment

Over £250?

Yes

VT sends authorisation request to Firebuy

Firebuy investigates and verifies charge

VT proceeds with work

No

What is the cost category?

Stock or consumables

Missing items

Avoidable costs

Excessive quantities

Yes

Firebuy send details to CLG for recharge

No

CLG cost

No

Yes

CLG to invoice the FRS within 3 months of the repair being undertaken and cost finalised.

Where the avoidable damage cost is disputed, CLG will reconsider with Firebuy and the NRAT.

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### ANNEX B – COSTS FROM THE NEW DIMENSION MAINTENANCE CONTRACT DURING THE FIRST YEAR OF COMMENCEMENT AND THE PROPORTION OF THOSE COSTS WHICH WOULD HAVE BEEN RECHARGEABLE TO FRAs.

<table>
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<th>FRS</th>
<th>Total Variable Costs Yr 1*</th>
<th>Rechargeable to FRS</th>
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<td>CLG costs</td>
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* Costs include all variable charges including avoidable costs, and consumables.