



National Audit Office

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COMPTROLLER AND
AUDITOR GENERAL**

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Department for Communities and Local Government

Reducing the cost of procuring
Fire and Rescue Service vehicles
and specialist equipment

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National Audit Office

Department for Communities and Local Government

Reducing the cost of procuring Fire and Rescue Service vehicles and specialist equipment

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Amyas Morse
Comptroller and
Auditor General

National Audit Office

20 July 2010

The 46 local Fire and Rescue Services in England spend between them about £120 million each year on specialist equipment, such as fire engines, protective clothing and breathing apparatus. Better procurement practice including standardised equipment specifications and more collaboration between Fire and Rescue Services could significantly reduce these costs without affecting the service to the public.

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This report can be found on the
National Audit Office website at
www.nao.org.uk/Firebuy-2010

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Summary

- 1** The 46 local Fire and Rescue Services in England spend between them about £120 million each year on specialist equipment, such as fire engines, protective clothing and breathing apparatus. Better procurement practice including standardised equipment specifications and more collaboration between Fire and Rescue Services could significantly reduce these costs without affecting the service to the public.
- 2** The Department for Communities and Local Government (the Department) is responsible for encouraging better procurement practice within the Fire and Rescue Service, including greater collaboration. The Department established an arms-length body – Firebuy Ltd. – to act as a specialist procurement agency. Firebuy has developed a number of national framework agreements which specify the conditions and prices under which Fire and Rescue Services can purchase items from a shortlist of chosen suppliers. These central agreements aim to reduce duplication of effort across Fire and Rescue Services, reduce prices, and improve consistency of service.
- 3** Our report assesses whether the current operation of Firebuy is reducing the public sector cost of Fire and Rescue Service procurement of specialist equipment.

Key findings

- 4** A number of Fire and Rescue Services and suppliers told us that Firebuy has contributed to bringing more discipline and professionalism to Fire and Rescue Service procurement activities. However, without the Department using its powers to make local Fire and Rescue Services use Firebuy's national procurement contracts, Firebuy must rely on persuasion. This puts Firebuy in a difficult position and progress has been slow: only five out of the fifteen contracts it has developed are used by more than half of the 46 Fire and Rescue Services. While in part this is due to some long-lived equipment not being ready for renewal, in many cases individual services continue to choose other procurement routes. The portfolio of contracts is not based on sound analysis of likely demand, and Firebuy lacks sufficient information to enable it to target and persuade Fire and Rescue Services to use its contracts.
- 5** The Department and Firebuy's agreed approach to developing framework contracts that will be attractive to local Fire and Rescue Services is flawed. The focus on common output based functions in contracts without common equipment type specifications, in combination with the inclusion of many suppliers within the frameworks, works against achieving high volume orders and discounts from suppliers, and allows Fire and Rescue Services to continue unnecessarily expensive bespoke procurement.

6 Establishing and running Firebuy's procurement contracts has cost the taxpayer almost £17 million to date, nearly double their resulting claimed savings and income combined. The Department and Firebuy believe that £6.5 million of costs relating to a legal challenge should be excluded from a cost/savings comparison. If excluded, however, costs still exceed the total of claimed savings and income. Firebuy's forecasts of future income and savings are unrealistic and the set-up and running costs of the procurement contracts as a whole are unlikely to be met over their lifetime. Firebuy's running costs are relatively high compared with those in the commercial world, because of the top heavy nature of its staff grading mix.

7 The Department has not exercised sufficiently clear leadership, direction and oversight of Firebuy to ensure it achieved its original objectives. The Department's irresolution over the future of the body in 2008 and 2009 created uncertainty, which further undermined Firebuy's capacity to persuade Fire and Rescue Services to use its contracts. A strategic review by the Department, which concluded in 2009 that it was cost effective to continue to retain Firebuy, was based on incomplete savings and cost evidence.

8 In the absence of significant income from supplier commissions through use of its contracts within the Fire and Rescue Service, the Departmental push for Firebuy to cover its costs has led Firebuy to chase business from other parts of the public sector such as the Prison Service, and compete with other public sector buying consortia, and as a result lose focus on its original objectives. However, Firebuy continues to be heavily reliant on grants from the Department to finance its operations.

9 Firebuy's approach to measuring the procurement savings achieved by the Fire and Rescue Service in using its contracts is inadequate. Firebuy does not know the scale of contribution made by its contracts to overall procurement savings within the Fire and Rescue Service. This gap in knowledge further works against its policy of persuading local Fire and Rescue Services of the benefits of its contracts.

Conclusion on value for money

10 The continued operation of Firebuy in its current form represents poor value for money. Firebuy has cost the taxpayer nearly twice as much to set up and run as the savings it claims to have helped local Fire and Rescue Services to deliver, and the cost of setting up and running the current frameworks are unlikely to be recouped over their lifetime.

11 The Department and Firebuy's agreed approach to setting up framework contracts acts against maximising savings in Fire and Rescue Service procurement. The contracts have no common specifications and involve many suppliers, so that they allow expensive bespoke equipment to be procured, while preventing suppliers offering lower prices through high volume orders. Firebuy's weak methodology for measuring realised savings from its activities further undermines its credibility and effectiveness.

Recommendations

- a** The current approach taken by the Department and Firebuy is not delivering necessary savings in Fire and Rescue Service procurement in a cost effective way. The Department should therefore quickly assess whether continuing with a nationally directed central procurement body is sensible. If it concludes that it is, the Department should assess how best to change the way Firebuy works to enable delivery of maximum savings cost effectively. If not, it should transfer Firebuy's operations to another Professional Buying Organisation, such as Buying Solutions, or to a Fire and Rescue Service with sufficient capacity.
- b** If it decides to continue with a nationally directed central procurement arrangement, the Department should ensure the procurement follows best practice, by:
 - establishing new contracts with limited numbers of suppliers and common specifications for each equipment type;
 - mandating Fire and Rescue Services to use the contracts; and
 - putting in place a robust, auditable and comprehensive mechanism for identifying and measuring savings generated and introducing arrangements to independently validate measurements made.
- c** The Department should also consider for non-fire specific equipment types, such as fire extinguishers and smoke alarms, alternative arrangements for provision such as Buying Solutions.

Part One

Introduction

Fire and Rescue Service specialist procurement

1.1 The 46 local Fire and Rescue Services in England spend between them about £120 million each year on specialist equipment, such as fire engines, protective clothing and breathing apparatus.¹

1.2 A series of reports since 1995 have shown that better procurement practice, including standardised equipment specifications and more collaboration between Fire and Rescue Services, would significantly reduce procurement cost without affecting service to the public (Appendix Three).

National Procurement Strategy and Firebuy

1.3 The Department for Communities and Local Government (the Department) is responsible for encouraging better procurement practice within the Fire and Rescue Service, including greater collaboration. Under the Fire and Rescue Services Act 2004, the Secretary of State has specific powers to intervene in local Fire and Rescue Services to promote economy, efficiency and effectiveness, and to require Fire and Rescue Services to use specific equipment or services. The accountability arrangements for the Fire and Rescue Services are set out in more detail in Appendix Two. In November 2005, the Department published the first Fire and Rescue Service National Procurement Strategy. The strategy acknowledged that significant Fire and Rescue Service procurement activity, including most generic procurement would continue to be more suitably carried out at a regional or local level, but it also “considered that maximum gain can be achieved by procuring at a national level”.

1.4 The Department established an arms-length body – Firebuy Ltd. – to help deliver the National Procurement Strategy for the Fire and Rescue Service, and to act as the specialist procurement agency.

Scope

1.5 In this report we assess the Department’s success in encouraging more collaborative procurement. We also examine whether Firebuy is helping to reduce the cost of Fire and Rescue Service procurement, in particular, by developing national framework contracts with suppliers.

¹ Estimated by the Department in 2008.

Part Two

The Department's sponsorship of Firebuy

The original governance and delivery model for Firebuy was flawed

2.1 The Department originally intended to establish Firebuy on 1 April 2005, with a Board made up of representatives from the local Fire and Rescue Services. However, this aim proved impossible, as the legal basis for Firebuy – a Non-Departmental Public Body company limited by guarantee – meant that all Board members had to undergo a competitive selection process, for which the originally nominated Fire and Rescue Service representatives did not apply. Firebuy was eventually established on 30 March 2006.

2.2 The Department agreed to provide grant of up to £3.6 million to the new body for start-up costs in its first two years of operation, but expected Firebuy to be self-financing by its third year (2008-09) through income generated from contracts and other business. The Department insisted that Fire and Rescue Services use Firebuy contracts to procure fire-specific equipment.

Firebuy got off to a slow start

2.3 During 2006 and 2007 responsibility for 52 single-supplier contracts were transferred from other public bodies to Firebuy. These contracts were for diverse equipment including breathing apparatus and fire extinguishers. The contract documentation was given to Firebuy in hard-copy. Many of the files were incomplete, missing terms and conditions and other important performance data. The majority of them were not well used, with only 16 of the 52 contracts being used by Fire and Rescue Services.

2.4 During 2007 and 2008 Firebuy replaced many of the inherited contracts that it considered did not properly meet Fire and Rescue Service needs, for example, because of outdated specifications or inflexible terms. Firebuy initiated a programme to create a catalogue of new frameworks to cover important Fire and Rescue Service fire-specific equipment. These frameworks specify the conditions and prices under which Fire and Rescue Services can purchase items from a shortlist of chosen suppliers. Firebuy intended that the new frameworks would contain a better choice of higher quality products that would appeal to all Fire and Rescue Services.

2.5 Two major factors delayed the setting up of these new frameworks – high staff turnover and management attention on legal proceedings. In 2006-07 and 2007-08 Firebuy's staff turnover rates were 68 per cent and 17 per cent respectively, against public sector averages of 13.7 per cent and 13.5 per cent². Consequently, temporary staff set up the framework contracts. At the same time, senior management were distracted from focussing on the new programme by a legal challenge related to the Integrated Clothing Project contract (**Figure 1**).

Oversight by the Department has been flawed

2.6 The Department's initial approach to its oversight of Firebuy was to be very prescriptive, assigning 66 separate targets for Firebuy to achieve. During 2006-07 and 2007-08, Firebuy's reporting of achievements against these targets was patchy, and it is not clear how Firebuy's Board or the Department monitored these reports and challenged performance. The NAO conducted its own research into achievement against Departmental targets, and we have concluded that only 29 of the 66 targets were monitored, and many of the targets were not met.

Figure 1

The Integrated Clothing Project contract

Detailed work on the Integrated Clothing Project, including trials, to find the right quality uniform and personal protective equipment to procure for all Fire and Rescue Services, was carried out initially by London's Fire and Rescue Service, supported by the Chief Fire Officers' Association. Firebuy took over this work on its establishment in 2006 and issued an invitation to negotiate. Four suppliers were shortlisted and Bristol Uniforms won the subsequent competition to secure the sole supplier.

One of the losing bidders took Firebuy to court, alleging 16 flaws in the procurement process. At a preliminary hearing the Court dismissed the application for an injunction to prevent the signing of the contract. Fourteen of the alleged counts were dismissed as being unarguable. The Court could not come to a conclusion on the remaining two allegations around the weighting of different factors in the methodology used to select the winning bid, and so gave leave for these to go to full trial. On leading counsel's advice, and following consultation with the Department and HM Treasury, in order to avoid a lengthy trial and very substantial legal costs, coupled with the risks inherent in any court case, Firebuy reached a confidential settlement with the unsuccessful bidder. The total legal and management cost of the case for Firebuy and the Department was about £6.5 million, including the settlement.

Many Fire and Rescue Services did not like the terms of the deal agreed with Bristol Uniforms on the grounds that prices were too high or there was too little flexibility. In the event, only five Fire and Rescue Services have so far used the contract. Other Fire and Rescue Services have continued to order separately, or have set up their own consortia.

Source: National Audit Office

2.7 A Firebuy internal audit report of November 2009 found that Firebuy Board members felt that the Department did not fully support them or their independence, it noted that the first Firebuy Chair had had only one performance appraisal with the Department in three years, and observed that the Firebuy Chief Executive had only recently started holding regular meetings with the Departmental sponsorship team to discuss performance issues. The report also noted that there were still no arrangements in place for the Chief Executive to meet more senior members of the Department's directorate.

2.8 A lack of procurement capability and expertise in the Department contributed to Firebuy's difficulties. The Office of Government Commerce (OGC) Procurement Capability Review of the Department in summer 2007 found that the Department needed to strengthen its approach to procurement, increase its expertise, and improve capability and performance. OGC recommended that the Department review the performance and future status of Firebuy.

2.9 In 2008, the Department asked an external consultant to conduct a detailed review of the National Procurement Strategy 2005-08 and Firebuy's performance to date. Internal audit also reported to Firebuy in May 2008. These reports concluded that neither the Strategy nor Firebuy were working well, and that fundamental changes were needed. The main concerns of these reviews are set out in **Figure 2**.

The Department eventually decided to retain Firebuy

2.10 Following the external review, the Department conducted a twelve week consultation on the future direction of national procurement strategy and Firebuy from August 2008. Stakeholders were asked 41 questions, including on key areas such as the mandate, funding mechanism, options for future delivery, and the Board. These areas repeated those examined during the review three months earlier. The responses confirmed the review's findings.

2.11 Over the next six months the Department considered what to do. Firebuy was told that it only needed to produce a short 'interim' business plan. Uncertainty during this time grew and some staff left, believing that their future employment was at risk. An Internal audit report to Firebuy of May 2009 criticised the delay, concluding:

- a** Indecision by the Department was posing a risk to Firebuy's business planning arrangements.
- b** The lack of longer term plans was hampering the Board's ability to direct future business activity.

Figure 2

Main concerns of the 2008 external and internal reviews

- The mandate to compel cooperation and collaboration in national procurement creates the wrong relationships between Firebuy and its customers, and is therefore counter-productive.
- Firebuy and Fire and Rescue Services/other stakeholders have a poor relationship: Fire and Rescue Services do not have confidence in Firebuy, as it is not seen as working on their behalf – “not of the service or for the service”. There is no consensus that Firebuy is undertaking the role required of it.
- Firebuy’s role is not clear: while the National Procurement Strategy is seen as too prescriptive, there is no consensus on whether Firebuy is the right vehicle to coordinate collaborative procurement between Fire and Rescue Services and how success is to be assessed.
- Firebuy’s governance structure is seen as cumbersome and is not representative of Fire and Rescue Services and other stakeholders. The decision to set up Firebuy as an arms-length body has hindered the development of the organisation, as it has resulted in disproportionate administrative constraints. (For example, the Board is too large with 10 members).
- There was too little support from the Department in the early days: The Department’s policy of devolution to sponsored bodies to deliver outcomes does not sit easily with a completely new organisation where a more direct management style may be more appropriate, at least in the early phases of implementation.
- The funding model is not working and not thought through. Unless its funding model changes, Firebuy is unlikely to ever be self-financing: The funding mechanism was not laid down in sufficient detail and too much time has been spent trying to find a solution.
- Firebuy’s costs are too high: corporate overheads should be no higher than 25 per cent of total cost base and are actually 30-35 per cent (≈£700,000). This is partly because of the administrative constraints placed on Firebuy by its legal status (as an arms-length body). Its effect is to further alienate Fire and Rescue Services, and reduce the chances of Fire and Rescue Services paying for Firebuy from their own budgets.
- Firebuy’s performance data is inadequate: Firebuy has not been able to satisfactorily demonstrate its worth either to customers/stakeholders or in the context of the review. Better data is needed on the fire market; Fire and Rescue Service spend and needs; and cashable and non-cashable benefits produced.
- Absence of a marketing strategy and stakeholder engagement policy compounds Firebuy’s difficult relationship with a number of stakeholders as there is insufficient clarity around business benefits. The company has not fully analysed the marketplace – including identifying stakeholder needs and their competing priorities and associated risks.
- The Department has created uncertainty in the marketplace and the mistrust of Fire and Rescue Services due to being slow in providing feedback from a consultative exercise.

Source: National Audit Office analysis of external and internal reviews

2.12 As part of its deliberations on Firebuy's future, in May 2009 the Department considered an economic appraisal of different options for national procurement.³ The appraisal considered five options in detail, ranging from no changes to closing Firebuy and transferring its functions to the Fire and Rescue Services. The appraisal concluded that all options would result in net savings over the next ten years, with option 3 – that of mandating the use of contracts realising the best returns (**Figure 3**). The Department eventually chose option 2 – to transfer Firebuy operations into an enlarged body with a wider remit – as it concluded that the option with best returns would be 'unenforceable', and that the other options would result in loss of control, and could be very costly.

2.13 The Department was aware of some uncertainty in the data underlying the appraisal's forecasts, but not its full extent. Its savings forecast was built on data for which an internal audit report only gave "limited assurance". And its cost forecasts were over-optimistic: for example, over the period April 2009 to March 2012 Firebuy net costs were assumed to stay below £4 million, whereas they had already reached £1.95 million one third of the way through the period; and some costs, such as re-branding, re-structuring, and new premises, identified as necessary work, were omitted altogether from the analysis.

Figure 3
Results of the Department's appraisal of Fire and Rescue Service national procurement options 2009-10 to 2018-19

	Cost to the Department (NPV)	Savings to the taxpayer (NPV)	Overall savings for taxpayer (savings less cost NPV)	Departmental decision
	(£m)	(£m)	(£m)	
Option 1 Continue current arrangements	-10.7	26.8 ¹	16.1	Reject – change is needed
Option 2 Continue as new larger arms-length body	-8.2	26.6 ¹	18.4	Recommends – allows admin cost reduction and practical
Option 3 Continue with current arrangements, but with mandatory use of contracts	-7.0	26.7 ¹	19.7	Reject – mandating use of contracts 'unenforceable'
Option 4 Closure and transfer to another Professional Buying Organisation	-12.0 ¹	27.1 ¹	15.1	Reject – potentially very expensive and loss of influence
Option 5 Closure and transfer to lead Fire and Rescue Services	-12.1 ¹	27.1 ¹	15.1	Reject – potentially very expensive and loss of influence

NOTES

1 Mid point of range taken.

2 NPV – Net present value which is today's value of future costs.

Source: National Audit Office analysis of Departmental information, May 2009

3 The economic appraisal was produced in March 2009.

2.14 In July 2009, the Minister for the Fire Service issued a statement confirming that “a national procurement body” would continue to exist for the foreseeable future, citing the need to “drive procurement efficiency at a national level”. At the same time, the Chair of Firebuy and the Department’s Director of Fire and Resilience issued a joint statement reassuring Firebuy staff. The Department had concluded that Firebuy should continue, but its structure needed to change as it was currently too small to operate as a standalone body, with limited resources to engage effectively in stakeholder management. Therefore, Firebuy should be subsumed into a larger organisation in the longer term which would potentially eliminate both the existing perceived brand problem and reduce its high running costs.

2.15 The newly constituted successor body will take responsibility for the management of the maintenance contracts for the Fire and Resilience Programme, once they become operational, such as New Dimension, FireControl and FireLink.⁴ The Department replaced the Board in December 2009 but as yet no announcement has been made detailing how Firebuy will operate in the future.

2.16 In August 2009, the Department published the new 2009-12 National Procurement Strategy. It heeded much of the Fire and Rescue Service’s concerns and marked a change of approach. Crucially, it removed the mandatory use of Firebuy contracts (see **Figure 4** overleaf).

2.17 There are no specific targets for Firebuy in the strategy itself, including no specific target for Firebuy’s self-financing, where the strategy states: “[the Department] will continue to support Fire and Rescue Service national procurement. Future costs of the function and the body delivering it will increasingly be met through income”. The Department told us that it is nevertheless measuring Firebuy’s success in three particular areas. These are:

- a** Savings – by contract and user.
- b** Take-up/turnover – by contract and user.
- c** Income generated – by contract and user – and reduction in dependence on Departmental grant.

2.18 The Department’s monitoring system takes the form of regular review of Firebuy reports on the key performance areas, plus review against other corporate targets agreed annually as part of the budget and business planning exercise. The Department also sits as observer at Firebuy Board meetings, but partly in response to criticism of its perceived ‘heavy touch’ during the previous strategy period, it is conscious of seeking to avoid making disproportionate, repetitive and time-consuming requests for information.

⁴ FireControl – a £423 million project to provide a resilient network of nine regional control centres in England supporting the mobilisation of Fire and Rescue Service equipment and personnel to incidents. Firelink – a £350 million project to upgrade each Fire and Rescue Service’s current main radio-communication system to enable them to talk to each other and with ambulance and police services on the same secure network. New Dimension – a £330 million project to provide specialist equipment and associated training for firefighters to tackle the consequences of terrorist and other large-scale incidents such as flooding.

Figure 4
Differences between the key elements of the two National Procurement Strategies

Strategy	2005-08	2009-12
Targets	10 detailed objectives and 111 targets (66 assigned to Firebuy), although none on efficiency savings	Four broad aims and three performance indicators (annual operational targets set by Firebuy)
Detail	Long and detailed – 72 pages	Broad in aim and short – nine pages
Use of Firebuy mandatory	Yes	No – emphasis on encouraging collaboration and Firebuy to act as ‘facilitator’
Firebuy’s role	Spearhead improving Fire and Rescue Service collaborative procurement	Chief Fire Officers’ Association’s National Procurement Board given main role to coordinate Fire and Rescue Service national and collaborative procurement
Other consortia	No mention of wider Professional Buying Organisations or consortia as viable options	Use to be made by Fire and Rescue Services of Professional Buying Organisations and consortia as a viable collaborative option
Firebuy funding	Firebuy to be self-financing within two years	Costs to be ‘increasingly met through income’
Wider public procurement role	No consideration to be given to wider public procurement agenda, focus on Fire and Rescue Service clients only	Specific reference to importance of Fire and Rescue Service procurement to wider public sector procurement, employment and training Encouragement to widen contracts to serve non-Fire and Rescue Service clients to drive up income

Source: National Audit Office analysis

Part Three

Developing framework contracts

Persuading Fire and Rescue Services to use its framework contracts has been challenging for Firebuy

3.1 Since 2006 Firebuy has set up 14 framework contracts, although in only five cases have more than half of the 46 Fire and Rescue Services purchased from them (**Figure 5** overleaf). This slow progress is in part due to some long-lived equipment not being ready for renewal, and some Fire and Rescue Services indicated to us their intention to use Firebuy in the future. It is also due to the fact that attracting additional Services has become more difficult as they are no longer mandated to use Firebuy's contracts, and Firebuy has to compete for business with other buying organisations, which it has done with mixed success. The majority of Fire and Rescue Services we surveyed told us that they do not have a policy to use Firebuy, and view it as just one of several options, and in many cases individual Services continue to choose other procurement routes.

3.2 Firebuy's contract work has, nevertheless, had some wider beneficial impact. A number of Fire and Rescue Services and suppliers told us that Firebuy has brought more discipline and professionalism to some Fire and Rescue Services' procurement activities. Some stakeholders also praise Firebuy's help in specific areas such as in dispute resolution and technical and compliance advice, and also its contribution to pan-Government procurement areas such as insurance and specialist vehicles.

The portfolio of framework contracts is not based on a sound analysis of likely demand

3.3 Firebuy's approach, supported by the Department, is to set up as many appropriate framework contracts as possible, and attract potential users to them. Many of the contracts to be set up were specified in the Department's 2005 National Procurement Strategy. But Firebuy has not tried to prioritise based on sound analysis of demand and likely returns, nor adequately justified its investment in setting up frameworks. Although Firebuy has attempted to put in place 'business cases', these lack crucial cost benefit considerations and other information, such as potential demand and volume of sales.

Figure 5

Number of Fire and Rescue Services that have used Firebuy framework contracts to March 2010

	Number of Fire and Rescue Services
Breathing apparatus	9
Compressors	5
Gas tight suits	9
Handheld radios	36
Foam	34
Thermal image cameras	21
Life jackets	4
Training dummies	22
Fire extinguishers	3
Smoke alarms	43
Pumping appliances (fire engines)	39
Aerial appliances	13
Special vehicles	12
Emergency response equipment	45

Source: National Audit Office analysis of Firebuy data

3.4 Firebuy has made very little progress in improving management information on Fire and Rescue Service procurement, the supplier base or the market, despite being tasked to do so by the Department in 2006.⁵ Firebuy primarily gathers intelligence on the procurement practice and demand of individual Fire and Rescue Services, and promotes its contracts, through advice from the National Procurement Board,⁶ attendance at conferences and industry shows, and face to face meetings between its Senior Management Team and Chief Fire Officers and procurement managers. It also holds ‘innovation days’, and sends monthly e-newsletters.

3.5 Nevertheless, Firebuy has insufficient information to enable it to target Fire and Rescue Services and other customers. A number of Fire and Rescue Services we surveyed told us that Firebuy needs to improve its engagement to better understand their needs. In addition, many suppliers we surveyed told us that Firebuy did not adequately promote its frameworks to Fire and Rescue Services. We found that Firebuy does not hold information on:

- when equipment contracts are due to expire;
- which Fire and Rescue Services are using other buying organisation contracts and why;

⁵ Amongst the 66 targets set for Firebuy in the National Procurement Strategy 2005-08, were those to: develop Key Performance Indicators for the measurement of performance in Fire and Rescue Services; benchmark the Fire and Rescue Service against public sector procurement; and develop common classifications of expenditure.

⁶ The National Procurement Board of the Chief Fire Officers’ Association meets quarterly and is made up of regional representatives from Fire and Rescue Services and representatives from suppliers.

- what products the Fire and Rescue Services are procuring from its own frameworks (making it impossible to estimate accurately its share of the market); and
- the usefulness of attending conferences and shows. (A recent internal audit report concluded these events were only ‘sometimes’ useful for Firebuy, and recommended that Firebuy create a system to determine the impact of each event, which it has not done).

3.6 Recognising this particular weakness, the Department in May 2009 commissioned an external consultant to capture detailed information on Fire and Rescue Service procurement spending. The work is not due to be completed until summer 2010, but our analysis of the emerging findings shows that there are significant gaps in key Fire and Rescue Service procurement data, which could hamper Firebuy’s future work if not addressed (**Figure 6** overleaf).⁷

Firebuy’s approach has allowed expensive bespoke procurement to continue

3.7 For Fire and Rescue Service specific equipment Firebuy accepts user requirements agreed by the Chief Fire Officers’ Association’s National Procurement Board, and turns them into ‘output based specifications’ that focus on the desired operational function of products, rather than detailed technical specifications. The aim is to allow suppliers room to propose innovative solutions in supplying equipment while meeting basic legal and operational standards.

3.8 In practice we found that because suppliers can offer a huge product choice within the framework, Fire and Rescue Services can use Firebuy contracts simply as ‘a way to market’ to procure whatever bespoke equipment they like. For example, one Fire and Rescue Service we visited procured seven bespoke fire engines between 2007 and 2009 using Firebuy’s framework. In the wider South East region as a whole, there are 15 different fire engine specifications in use across the region, even though seven out of the nine Fire and Rescue Services use Firebuy (**Figure 7** on page 19).

3.9 Our analysis shows that the Firebuy framework allows for 54 possible combinations of supplier, chassis, water pump and body type within the framework contract, which allows a possible one million different specifications.

⁷ Emerging findings of May 2010.

Figure 6
Weaknesses in current information on Fire and Rescue Service procurement

Information needed	Current information being collected	Weaknesses
Up to date information on spend	40 out of 46 Fire and Rescue Services provided expenditure data for 2007-08. 28 did so for 2006-07.	Data are two years out of date.
Comprehensive supply of expenditure data	<ul style="list-style-type: none"> • Number and names of suppliers used • Fire and Rescue Service expenditure to each supplier • Number of transactions with suppliers • Value of transactions • Aggregated spend 	Details of expenditure by product item are not provided, which means opportunities to consolidate transactions cannot be identified (e.g. instances where different suppliers have been used for the same product types).
Detailed analysis	<p>Analysis undertaken shows:</p> <ul style="list-style-type: none"> • spend (core trade) • spend by product category (high level) • creditor count • invoice volume • spend distribution • spend per capita (for each Fire and Rescue Service) • spend vs. budget • pattern of spend over time • local spend • supplier risk assessment • projected spend <p>Analysis by Fire and Rescue Service Region, Family Group and Type (Metropolitan, County, etc.)</p> <ul style="list-style-type: none"> • A small amount of information was captured regarding the extent to which Fire and Rescue Services' use of Government Payment Cards and e-procurement systems. No usable quantitative data was provided. <p>Data provided for 'non-regular' spend by Fire and Rescue Services.</p>	<p>The data suggest that there are significant opportunities for collaboration, but these opportunities are not quantified due to insufficient detail of product categories and the lack of data collected on set-up costs.</p> <p>More information is needed to calculate further potential efficiency gains.</p> <p>Without knowledge of such expenditure, the scale of collaborative opportunities cannot be determined. One-off payments may skew the data, impacting upon the accuracy of the analysis.</p>
Contractual arrangements	None – no information is provided of the contractual details that Fire and Rescue Services have with suppliers (e.g. are all core suppliers on the same contracts, use of framework agreements, etc.).	Needed to determine the extent to which efficiency gains can be maximised through contract rationalisation. Similarly, such information can be used to inform best practice (e.g. whether a supplier should be managed regionally or nationally).
Amount of expenditure through Firebuy contracts	None.	Needed to identify spend in the categories for which there are Firebuy contracts and alternative sources.

Source: National Audit Office

Figure 7

Fire and Rescue Services in the South East use many different types of fire engine

Attribute of fire engine	Fire and Rescue Service								
	Bucks	East Sussex	Hants	Isle of Wight	Kent	Oxon	Surrey	Royal Berks	West Sussex
Make of chassis/cab	Scania	Volvo	Volvo	Scania	Scania/Volvo	Volvo	Scania	Mercedes	Scania/MAN
Crew number	6	6 to 8	6	6	6	6	6 to 8	6	6 to 8
Wheel base (metres)	4.3	4.1	4.4	4.3	3.9	4.1	4.3 to 3.9	4.2	4.2
Body material	Aluminium	Aluminium/Plastic	Non-aluminium	Co polymer	Aluminium	Plastic	Aluminium/Plastic	Aluminium	Plastic
Gearbox	Auto	Auto	Auto	Auto	Auto	Manual	Auto	Auto	Auto
Location of hose reels	Mid high	Rear low	Mid high	Middle		Rear low	Rear low		Rear low
Pump	Godiva, 3 outlets	Godiva	Godiva, 4 outlets	Rosenbauer/Godiva	Godiva, 2 outlets	Godiva	Godiva	Rosenbauer	Godiva
Purchase method	Firebuy	Firebuy	Firebuy	Firebuy	Firebuy	Fire Services Authority Consortium	Firebuy	Fire Services Authority Consortium	Firebuy

Source: National Audit Office analysis

3.10 Tighter specifications, especially for complicated long-lasting items such as fire engines, would reduce a large range of associated costs (**Figure 8** overleaf). Both Regional Procurement Managers and suppliers told the NAO that a standard set of specifications would improve the effectiveness and efficiency of the Fire and Rescue Service by improving inter-operability and providing better resilience response to regional or national incidents. The recent use of New Dimension equipment at major incidents demonstrates the usefulness of inter-operability across Fire and Rescue Services.

Figure 8

Associated long term cost reductions from tighter specifications

- Fewer spares required
- Cheaper maintenance and repair rates (through greater economies of scale)
- Cheaper training costs for firefighters (who need to train on various specifications currently)
- Reduction in equipment numbers, as shorter repair and maintenance times would increase availability rates
- Less storage space and cost of capital if fewer numbers of capital items and spares needed
- Lower testing costs

Source: National Audit Office analysis of regional procurement managers and suppliers evidence

The inclusion of many suppliers in Framework contracts works against value for money

3.11 Guidance set out by the Office of Government Commerce states that where frameworks are chosen over single supplier contracts, there should be at least three, but not too many, suppliers. Most of Firebuy's framework contracts allow for supply by more than three suppliers. Firesa – the UK trade association for suppliers to the Fire and Rescue sector – told us that having many suppliers “limits the opportunity to deliver genuine procurement value and resulting cashable savings”. Stakeholders have identified a number of adverse effects. For example:

- If Fire and Rescue Services choose to use a Firebuy framework, they must run their own mini-competitions from the Framework to select a supplier in accordance with EU procurement regulations. For contracts with a large number of suppliers, this can be time-consuming and expensive.
- Some Fire and Rescue Services surveyed told us that Firebuy's support to them in navigating the supplier selection process was poor.
- Each supplier has price schedules that vary considerably. The price variance between the cheapest and most expensive type of fire engine in 2008-09 was £93,000 (£144,000 to £237,000).
- The suppliers on the frameworks cannot forecast demand, either in terms of timing or volume. This lack of 'committed volume' means that there is less chance to reduce prices from driving efficiencies in their production processes. The majority of suppliers we surveyed told us that more certainty of sales volumes through the framework would help them offer up to 10 per cent lower prices.

Part Four

Savings and income generated

Firebuy's procurement contracts have cost £7.3 million more than related claimed savings and income combined

4.1 Since 2005, when its work began, Firebuy's procurement contracts have cost £16.8 million to the taxpayer.⁸ Firebuy claims that it has saved Fire and Rescue Services £8.5 million in their procurement costs over the same period, and has secured £1.0 million in income from suppliers (**Figure 9**). Firebuy has entailed a net cost to the taxpayer on that basis of £7.3 million. Therefore its contracts have cost nearly double their resulting claimed savings and income combined. The Department and Firebuy believe that £6.5 million of costs relating to a legal challenge associated with the Integrated Clothing Project (Figure 1) should be excluded from a cost/savings comparison. If excluded, however, costs still exceed the total of claimed savings and income.

Figure 9

Firebuy contracts: net cost to the taxpayer 2005-2010

	2005-06 (£m)	2006-07 (£m)	2007-08 (£m)	2008-09 (£m)	2009-10 (£m) ¹	Total (£m)
Cost ²	1.8	2.2	3.4	7.2	2.2	16.8
Income ³	(0.0)	(0.0)	(0.1)	(0.3)	(0.6)	(1.0)
Net position: cost/(income)	1.8	2.2	3.3	6.9	1.6	15.8

NOTES

- 1 2009-10 figures are provisional.
- 2 Costs in 2007-08 and 2008-09 include about £6.5 million of legal and related costs associated with the Integrated Clothing Project.
- 3 Includes income from outside the Fire and Rescue Service.

Source: National Audit Office

⁸ Firebuy's total costs are £19.2 million, of which £2.4 million do not relate to its procurement contracts: it cost £1.8 million to set up and manage the maintenance contract for the New Dimension programme, and £0.6 million for non-contract work funded by Fire and Rescue Services.

The figure for savings claimed by Firebuy is unreliable and subject to a wide margin of error

4.2 Firebuy has claimed that different amounts of savings have been generated in Fire and Rescue Service procurement from its contracts at different times (**Figure 10**). An internal audit report estimated savings to be £3.78 million up to 31 March 2009, but this was not based on a systematic validation exercise.

4.3 Our review of Firebuy's internal working papers shows that Firebuy's estimates of savings it has helped Fire and Rescue Services make are based on incomplete information, especially for 2006-07 and 2007-08. The information that does exist is mostly unreliable: for example, because it is based on suppliers' estimates that have not been validated (**Figure 11**), or because it compares framework costs to an inflated open market price (**Figure 12** on page 24). For these reasons it is difficult to estimate the margin of error in Firebuy's savings figures. This uncertainty is further reinforced by the failure of the Department and Firebuy to implement the Communities and Local Government Select Committee's recommendation in 2006 "to set a baseline against which the future performance of Firebuy can be measured". In considering the measurement of Firebuy's potential procurement savings the committee had noted in its report: "In the absence of historical data on procurement expenditure, it is hard to see how the claims that Firebuy will result in savings can be substantiated."

4.4 In 2008-09 Fire and Rescue Services reported to the Department that they had reduced their procurement costs by about £9 million. This information lacks the detail necessary to enable Firebuy's role in such savings to be validated. Only 11 Fire and Rescue Services make specific mention of Firebuy when describing how savings have been achieved. Seven Fire and Rescue Services did not specify any savings derived through improved procurement, but, nevertheless, an estimated saving has been identified by Firebuy. Ten Fire and Rescue Services have an estimated savings calculated by Firebuy to be greater than the procurement savings identified by the Fire and Rescue Service.

4.5 In December 2008 Firebuy received accreditation in principle for some areas of savings from the Office of Government Commerce, such as volume discounts and economies of scale in the vehicles contract. No validation of actual calculations has, however, taken place. In addition, Firebuy has no system in place to calculate its wider benefits to Fire and Rescue Services, such as from its work in technical support and dispute resolution. Although some other savings have probably been achieved, we have only been able to validate £1 million: related to avoiding the tendering costs associated with European contract rules, which Firebuy currently does not count. In our survey, the majority of Fire and Rescue Services said that Firebuy help them improve value for money by avoiding tendering through the Official Journal of the European Union (OJEU).

Figure 10

Savings claimed by Firebuy

Date	Total savings claimed	Source
18 December 2008	£3.6 million	Paper to sub-group of Departmental Board
14 April 2009	£3.5 million	Firebuy's 2009-10 Commercial Plan
22 September 2009	£8.5 million ¹	Firebuy website

NOTE

¹ The £8.5 million figure includes a provisional forecast for 2009-10 of £3.3 million.

Source: Firebuy

Figure 11

Weaknesses in the way Firebuy calculates savings from the purchase of vehicles through its framework contracts

- Savings are based primarily on suppliers' calculations that are not checked or validated by Firebuy. There is a risk that suppliers could deflate their efficiencies to maintain pressure to keep the framework prices higher.
- Firebuy does not provide detailed guidance on how the efficiencies should be calculated, and therefore data provided by suppliers may reflect very different criteria.
- The savings from increased efficiency reported by the suppliers may not be passed on in reduced prices to Fire and Rescue Services.
- Firebuy's record of the savings it achieves does not always accurately reflect information provided by suppliers. For savings claimed between 2007 and 2009, Firebuy used a flat rate of £3,500 saving per vehicle, whereas letters from suppliers indicate that savings range from £4,000 to £4,500 per vehicle.
- Firebuy assumes a standard saving of £11,000 on each batch of vehicles ordered because it, rather than, the local Fire and Rescue Service has tested the vehicles. However, Fire and Rescue Services told us that testing costs would actually be £2,000 to £4,000; the £11,000 figure is not reduced to take account of Firebuy costs; and these savings are assumed in cases where legacy equipment is procured and no testing would have been needed.
- The Fire Services Authority Consortium is Firebuy's main competitor for fire engine sales. The Consortium has 13 members and sells approximately 20 fire engines each year through its own framework contract. If Firebuy used the same methodology for fire engines as it did for other frameworks, i.e. comparing prices to an alternative open market price, the Firebuy framework would be 4 per cent more expensive or £6,000 per fire engine.

Source: National Audit Office

Figure 12**Weaknesses in Firebuy's approach to comparing the prices of items in its framework contracts against 'open market' prices**

- Savings calculated include all customers, not just Fire and Rescue Services, as before 2009-10 Firebuy has limited information on who was using its frameworks. Firebuy only asked suppliers for volumes of sales, not which customer had purchased from the framework.
- Firebuy has not systematically compared every product's price on the framework to the 'open market' price. For two of the frameworks we studied in detail, fewer than half of the items had a price comparison.
- The 'open market' prices used do not take into account the price reduction Fire and Rescue Services would secure for ordering more than one item purchased. Also, only a single price has been compared, not the 'open market' price.
- It is not clear whether VAT has been treated consistently in the price comparison.
- Firebuy does not have any data on the actual prices Fire and Rescue Services are getting from its frameworks. The actual prices Fire and Rescue Services pay will depend on the prices secured from the mini-competitions they hold between suppliers on the framework to decide which one to choose.
- Firebuy does not compare prices consistently. When looking at the three specific case studies, smoke alarms and fire extinguisher savings are derived from just a straight average, but for breathing apparatus, the average is weighted against volume. For most products, a small order (buying 1-10 units) has a significantly higher unit cost than an order of over 1,000. For breathing apparatus, the averages are heavily weighted towards buying larger volumes. Firebuy has only used one 'open market' price from a single supplier and it is therefore difficult to say whether this price is an accurate reflection of the market place.
- Firebuy does not evaluate its frameworks' competitive position in the market place as it does not routinely benchmark its framework prices against other available frameworks.

Source: National Audit Office

Firebuy's income does not cover its costs and it is dependent on grants from the Department

4.6 Firebuy earns a percentage commission from suppliers when Fire and Rescue Services (and other public bodies) use its frameworks. Based on an initial assumption of a 1 per cent commission on £300 million spent on Fire and Rescue Service procurement, in 2006 the Department set Firebuy the target to achieve income from this source sufficient to cover costs. In fact, the spend potentially subject to Firebuy contracts is around £100 million, which would provide Firebuy with £1 million of income, enough to cover only half its running costs.

4.7 Since 2006, Firebuy has earned £1.03 million from its frameworks (Figure 9). This earned income represents around 5 per cent of Firebuy's financing. Firebuy's main funder is the Department, which has provided Firebuy with 92 per cent (£17.6 million) of its funding.⁸

4.8 Firebuy is reliant on suppliers notifying it of sales through its frameworks and does not check these reports for accuracy. In August 2009, an internal audit report found that controls over income needed to be strengthened “There is no formal process in place to ensure that the information provided is complete, accurate and true. There is the risk that Suppliers may manipulate the information for personal gain, whilst impacting on the ongoing business of Firebuy.”

4.9 Firebuy’s key management information on the use of its framework is driven by returns from suppliers. Firebuy’s contracts do provide audit access, although Firebuy has not used this right of access to validate supplier returns. From our survey, we have identified that at least three Fire and Rescue Services are using frameworks of which Firebuy is unaware. This situation represents significant lost income for Firebuy.

4.10 Some of Firebuy’s largest and most expensive frameworks, such as that covering fire engines, do not earn Firebuy any income. It is unlikely that the frameworks will cover their cost in the future as many will come to an end and need replacing in 2012. Firebuy would need to earn over £3 million per year for the next two years in order for it to recoup the full costs of its current frameworks. This achievement would represent an increase in income of over 500 per cent more than it earned in 2009-10 in each of the next two years.

4.11 Firebuy is expensive to run. The 2008 Review found that Firebuy’s corporate overheads were 30 per cent to 35 per cent, against an industry norm of 25 per cent.⁹ This is in part due to the high average cost of staff, reflecting the senior staff mix within Firebuy, where nearly a third of staff are in manager or director grades.

The drive to cover costs from income is diverting focus from Firebuy’s core business

4.12 Firebuy is marketing its frameworks to a range of other public bodies to increase future income (**Figure 13** overleaf). This drive to generate income is stretching Firebuy and diverting its focus from the Fire and Rescue Service. Contract Managers now spend less time working on improving the service Firebuy can provide to the Fire and Rescue Service. For example, Firebuy staff are leading on pan-Government frameworks for insurance and specialist vehicles. Firebuy will share any commission income from these frameworks, but the 46 Fire and Rescue Services will be a very small user of these frameworks.

Figure 13

Organisations Firebuy plans to market its frameworks to in 2010-11

	Fire and Rescue Services	Defence	Other Emergency Services	Local Authorities	Housing Associations and Arms Length Management Organisations	Central Government Agencies	Civil Aviation Authority	Other
Special Vehicles	✓		✓	✓				
Fire Extinguishers		✓	✓		✓	✓	✓	✓
Smoke Alarms	✓	✓	✓		✓			
Breathing Apparatus	✓	✓	✓					
Foam	✓	✓	✓				✓	
Handheld Radios	✓	✓	✓	✓		✓		✓

Source: Firebuy's Marketing and Communications Strategy 2010-11

Appendix One

Methodology

The main elements of our fieldwork, which took place between April and June 2010, were:

Method

1 Survey of Fire and Rescue Services

We surveyed 23 of the 46 Fire and Rescue Services in England by email. Sixteen Fire and Rescue Services, or 70 per cent, of our sample responded. The seven non-responders were both geographically dispersed and diverse in size, reducing the risk of bias in the results.

Purpose

To assess use of Firebuy frameworks and other consortia/arrangements; Fire and Rescue Services' views on Firebuy's management of framework contracts including our case study frameworks in particular and their contribution to improving value for money.

2 Survey of Suppliers

We surveyed all 50 suppliers on Firebuy's frameworks. Sixteen suppliers, or 32 per cent, responded. The non-responders were both framework dispersed and diverse in size, reducing the risk of bias in the results.

To gauge suppliers views on how Firebuy manages its framework contracts and their contribution to improving value for money across Fire and Rescue Services.

3 Literature Reviews

We examined all previous reviews completed on Fire and Rescue Service procurement and Firebuy by external review and internal audit, and the Department and Firebuy's strategy and other documents.

To gather evidence to inform our findings across the different areas of our study scope.

4 Framework case studies and use of procurement expert

We selected a sample of four of the fifteen frameworks Firebuy has put in place, for detailed review, reflecting the range of Fire and Rescue Service participation, item values, and responsibilities in Firebuy. We selected Smoke Alarms, Fire Extinguishers, Pumping Appliances (Fire Engines) and Breathing Apparatus frameworks. With support from an external procurement expert, we examined procurement practices using desk-based research and interviews.

To assess how Firebuy has set up and managed its frameworks, including against best practice.

Method	Purpose
<p>5 Semi-structured interviews with regional procurement leads and Fire and Rescue Services We conducted interviews with a sample of regional procurement leads and Fire and Rescue Services.</p>	<p>To gather evidence to inform our findings across the different areas of our study scope.</p>
<p>6 Detailed analysis of Firebuy and Audit Commission data We completed a detailed review of Firebuy's working papers on income, costs and savings. We also completed a detailed review of Audit Commission performance data.</p>	<p>To gather evidence to inform our findings on costs, income and savings.</p>
<p>7 Interviews with key officials We interviewed 15 key officials in the Department and Firebuy. These included key Departmental officials responsible for setting national procurement policy and overseeing the work of Firebuy, and the CEO of Firebuy and his senior management team.</p>	<p>To gather evidence to inform our findings across the different areas of our study scope.</p>

Appendix Two

Accountability for Fire and Rescue Services

- 1** Local Fire and Rescue Authorities are responsible for the delivery of Fire and Rescue Services in their areas. The Department is responsible for setting national strategic policy and direction, and for managing various national projects and assets. Its strategy is set out in the National Framework, which was introduced in the Fire and Rescue Services Act 2004 (the Act).
- 2** The Act states that Fire and Rescue Services should 'have regard' to the Framework in carrying out their activities. Responsibility for delivery of the Framework is shared between the Department and the locally accountable Fire and Rescue Authorities.
- 3** The Secretary of State must report to Parliament on the extent to which Fire and Rescue Services are acting in accordance with the Framework; and any steps taken by them for the purpose of securing that Fire and Rescue Services act in accordance with the Framework.
- 4** The Department introduced a National Procurement Strategy as part of its Framework in 2005, and required Fire and Rescue Services to implement this strategy – The National Framework stated that "Fire and Rescue Services must support the arrangements set out in the [Procurement] Strategy and procure through Firebuy Ltd. where directed."
- 5** The Act allows the Secretary of State to intervene if he or she considers that a Fire and Rescue Service is failing, or is likely to fail, to act in accordance with the Framework. Specifically, they have the power to require Fire and Rescue Services to act if it would promote economy, efficiency and effectiveness or public safety. The Secretary of State seldom uses their significant powers to act at a local level.

Appendix Three

Studies have shown that savings can be made in Fire and Rescue Service procurement

Year	Report	Finding
1995	In the Line of Fire (Audit Commission)	Cost and efficiency issues re: procurement.
1997	Home Office review	Cost and efficiency issues re: procurement.
2001	A Uniform Approach (Audit Commission)	Identified the 1999-2000 Fire and Rescue Service spend on procurement of goods and services at around £300 million, of which £63 million was spent on vehicles. It was further identified that although use of consortia was common, each Fire and Rescue Service continued to conduct general research, development and evaluation independently. Hidden within these procurement activities was work on conducting risk assessments for equipment and on producing technical and operational notes. The report concluded that immediate savings of £5.5 million could be made through a reduction in procurement overheads and more efficient procurement of commodities such as fuel, energy and clothing. However, it also found that additional, more significant savings and quality improvements could be made through better national and regional collaboration. The major savings identified would be realised through driving out duplication of effort on research, development and procurement, rather than simple reductions in unit price alone. It was noted that achieving these efficiencies required greater standardisation of specifications, but that this was being hampered by personal and local preferences.
2003	White Paper 'Our Fire and Rescue Service' (Office of the Deputy Prime Minister)	Set out the need for much greater collaboration and cooperation across the Fire and Rescue Service on procurement matters.
2004	Specialist Fire and Rescue Service procurement. (Cap Gemini Ernst and Young /The Improvement and Development Agency)	The studies concluded that fire-specific procurement is best carried out nationally and that an appropriate institution should be established to do this.
2008	Rising to the Challenge (Audit Commission)	Identified £8 million of savings from more collaborative procurement, but concluded that most Fire and Rescue Services believe that Firebuy 'hinders rather than helps their procurement work'.



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