

# Independent Review and Comparison of Outline and Final Business Cases for the FiReControl Project

Report for the Fire Brigades Union

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IPF

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PUBLIC SECTOR



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## Contents

<b><u>1</u></b>	<b><u>BACKGROUND AND CONTEXT</u></b>	<b><u>2</u></b>
<b><u>2</u></b>	<b><u>ASSESSMENT OF METHODOLOGIES</u></b>	<b><u>5</u></b>
	OPTIONS APPRAISAL	5
	STAKEHOLDER ENGAGEMENT	6
	VISION, AIMS AND OBJECTIVES	6
	RISK	7
	EVIDENCE USED IN THE BUSINESS CASES	7
	OVERALL ASSESSMENT	8
<b><u>3</u></b>	<b><u>COMPARISON OF THE OBC AND FBC</u></b>	<b><u>12</u></b>
<b><u>4</u></b>	<b><u>IMPACT OF VARIATIONS FROM OBC TO FBC</u></b>	<b><u>14</u></b>
<b><u>5</u></b>	<b><u>OTHER ISSUES HIGHLIGHTED</u></b>	<b><u>16</u></b>
<b><u>6</u></b>	<b><u>CONCLUSIONS AND RECOMMENDATIONS</u></b>	<b><u>17</u></b>

## 1 Executive Summary

1.1 IPF have been commissioned by the Fire Brigades Union to undertake an objective review of the business case for the FiReControl Project – looking at the implementation of Regional Control Centres for the Fire Service nationally.

1.2 In reviewing the Outline Business Case (OBC) and draft Final Business Case (FBC) and supporting documents, and comparing the them with each other and best practice approaches, we would raise the following points:

- **Improving transparency and understanding** – to give readers of the business cases better clarity, more needs to be done in linking issues and figures between the FBC and OBC and any changes clearly explained and highlighted, together with reasons for the changes.
- **Validity of other options** – Whilst an options appraisal was carried out in 2003 and the RCC option was taken forward as the preferred option, it should be appreciated that the landscape of fire and rescue service provision has changed markedly since this date. Options that have been previously disregarded should be revisited (at least at a high level) to test their suitability, applicability and value for money in current circumstances.

It should not be automatically assumed that the RCC option and the current “baseline” option are the only ones that need consideration in the business case.

Clearer justification is also needed in relation to the number of regional control centres put forward.

- **Certainty around savings** – With the award of certain key contracts for ICT infrastructure and London RCC accommodation still pending the level of savings quoted in the FBC can only indicative at this stage. As soon as the outcomes of these procurements are known, the calculation of savings needs to be revisited.
- **Certainty around costs** – In a similar vein, updated costs from the Fire & Rescue Services are still awaited. Costs quoted in the documents are from 2004 and will need updating. This will affect the level of savings achieved and again, judgements cannot be made on the justification of the business case (in financial terms, at least) until these more accurate, up to date figures are incorporated.
- **Impact on Fire & Rescue Services** – The business case still needs more clarity on what the effect of the project and its outcomes will be on the 46 Fire & Rescue Services, particularly the impact of savings and costs and how these will be apportioned and allocated. This could have a significant knock-on effect on the levels of precept on

### Council Tax for Fire & Rescue Authorities.

1.3 Overall, best practice approaches and methodologies have been followed and applied in producing the business cases, but it is our view that more work is needed on:

- confirmation that regional control centres as proposed are the best option;
- levels of savings to be achieved, based on the latest and most accurate information; and
- transparency to aid understanding and accessibility for readers of the business case

before any major decisions are made.

## **2 Background and context**

- 2.1 The FiReControl Project has been developed by the Government to implement Regional Control Centres for Fire and Rescue Authorities nationally.
- 2.2 The concept arose from an initial study carried out by Mott McDonald in 2000 (subsequently updated in 2003). The aims of the project are:
- To develop and deliver processes and ways of working for the regional fire and rescue controls
  - To develop and deliver the people to operate and manage the regional fire and rescue controls
  - To develop and deliver the technology infrastructure and establish on-going support and maintenance services for the regional fire and rescue controls
  - To provide suitable accommodation from which the regional fire and rescue controls will operate.
  - To migrate existing fire and rescue controls (and other stakeholders interfacing with the fire and rescue service) to the new control centres enabling the specified benefits to be realised in accordance with the overall solution.
  - To develop and implement national functions to provide the ongoing services that are required to sustain the regional fire and rescue controls
  - To ensure that all aspects of the solution are fully integrated and comply with Critical National Infrastructure (CNI) requirements
- 2.3 An Outline Business Case (OBC) was produced in November 2004 which was approved and a draft Final Business Case (FBC) has now been produced for approval.
- 2.4 The Fire Brigades Union has commissioned IPF, in an independent capacity, to evaluate the economic rationale of the business cases and to highlight any key changes from the OBC to FBC stage and assess the impact of such changes.
- 2.5 The structure of this report is as follows;
- Assessment of methodologies employed in the OBC and FBC, as compared with best practice
  - Comparison of the two business cases
  - Assessment of the impact of changes between OBC and FBC
  - Other issues highlighted in analysis and comparison
  - Conclusions and recommendations for the way forward

### **3 Assessment of methodologies**

- 3.1 The approach taken in both the Outline Business Case and the Final Business case has been assessed to ensure that the methodologies used and undertaken are in line with best practice across the public sector and beyond.

#### **Options Appraisal**

- 3.2 Appraisal of Options should be against a set of pre-agreed criteria and applied to each option in a consistent manner. It is good practice to apply weightings to the criteria and apply overall scores for each option.
- 3.3 All advantages and disadvantages of each option need to be considered and any opportunities or constraints that may apply. Analysis of each of the options from a risk management perspective is also essential, as is getting the views of all relevant and identified stakeholders.
- 3.4 There has been an appraisal on the Regional Control Centre (RCC) option, however it is still unclear to the reader from the two business cases, what the pre-agreed criteria are that the option is being considered against. In addition no weightings/scores have been used, which would clearly illustrate to the reader the preferred option.
- 3.5 There has also been minimum detailed analysis of the status quo option. It is questionable whether the status quo option is an option that has been fully tested, due to one of the key messages from the full business case stating 'doing nothing is not a viable option.....'.
- 3.6 Effectively, only one option has been considered, being RCC, and this option was 'born' from an Mott Macdonald study in 2003.
- 3.7 A crucial question which must be asked, considering this study was three years ago, is whether the evidence and assumptions (upon which this original conclusion was reached) have been recently scrutinised or challenged?
- 3.8 The tri-service pilots option has not been considered in the OBC or the FBC but it is briefly mentioned in the Government's response to the CLG Select Committee report (para. 20).
- 3.9 Other options which are not referenced to are:
- Those making use of existing control room accommodation in the 46 FRAs (and possibly some of the infrastructure)
  - Options looking to merge existing control rooms
- 3.10 It is not clear what assumptions were used in making the judgement that these options would not be considered alongside the RCC option, apart from the conclusions reached in the Mott MacDonald study.
- 3.11 As the Select Committee and indeed the Government's response to the

Committee's report state, the landscape today is radically different to that of 2003, taking examples such as;

- The threat of terrorism and responses to incidents such as 7/7
  - The impact of climate change (flooding and other environmental incidents)
- 3.12 Other options have not been fully considered as **current** options (i.e. the tri-service pilots), and then subsequently fully considered along side the RCC option, in terms of assessment against the pre-agreed criteria etc. In our view this disregard for all other options is very wide-reaching assumption that requires further testing or at least, further justification.
- 3.13 In a similar vein, neither business case fully addresses why there has been a selection of 9 regional control centres. With this number there is parity with the number of Government Offices, but in countries where the proposed system has been implemented, the ratio of control centres to population and indeed the distribution of control centres is much higher. In Sweden, there are 18 regional control centres for a population far lower than that in England.
- 3.14 Since resilience is now a major factor to be considered, a relatively small number like 9 control centres may also present a risk in the face of coordinated terror attacks or the potential for systems failure.
- 3.15 The rationale for the choice of 9 control centres needs to be better justified and explained in the business case.

### **Stakeholder engagement**

- 3.16 It is imperative that the views of all relevant and identified stakeholders are sought for any 'change agenda'. It is clear that in the OBC the views of the stakeholders had not been sought fully and the implications of the project had not been communicated.
- 3.17 This was highlighted in the CLG Select Committee report in June 2006 and has been subsequently acknowledged by the Government in its response to the report. As a direct consequence, the FBC (para.37) sets out the methods of communication with stakeholders. However, the Government is now 'playing catch up' in terms of 'selling the benefits of RCC' and it is questionable whether the key stakeholders (i.e. the FRS) can be 'brought on board' at this stage in the project.

### **Vision, aims and objectives**

- 3.18 The Vision & Scope for the FiReControl project as set out in the FBC (para.22) is:

' An integrated Fire Control Service which improves England's resilience against major incidents and helps Fire & Rescue Services to save lives'.

This vision has been placed within the context of being delivered by RCC

(FBC para.23). However, it is not clear from the FBC that alternative options have been considered in order to achieve or deliver this vision.

- 3.19 Following the Best Practice Model for Option Appraisals, the Vision of the FiReControl Project should have been clearly stated at the start of the project. This would make it transparent to key stakeholders as to how the option of RCC has been chosen having considered alternative options. In addition, the criteria considered appropriate in delivering this vision should have been determined (i.e. the benefits set out in the FBC para. 45 could have been used). In turn, the agreed criteria should have been used to make the informed judgements as to the best option to be chosen.

## **Risk**

- 3.20 The FBC includes an 'Economic Appraisal of Risk'. Three areas of risk have been identified as needing action. 'Critical Dependencies' (para.84) is one of those risks in which the importance of aligning FiReControl with Firelink is emphasised and that 'interim arrangements might need to be in place for prolonged periods'. However there is no detail as to what form these interim arrangements will take. It is our opinion that it is imperative to the success of the project that these interim arrangements are fully understood and tested. In addition it is not clear if these interim arrangements have been factored into the overall costs of the project.
- 3.21 In para. 85 of the FBC, another identified risk is 'Governance & Management Capacity' in which it is recognised that the local authority owned companies may not be formed/locally agreed in time for the first wave regions. However, the FBC does not address the question of what the interim governance arrangement will be.

## **Evidence used in the Business Cases**

- 3.22 The current position figures upon which the forecast annual savings are based (contained in the FBC para. 69) are calculated on information provided by Local Authorities in 2004. As a result until these figures have been revisited (the FBC contains a statement that the figures are to be revisited), the annual savings must be treated as **indicative**.
- 3.23 In terms of governance arrangements, what other options were considered along side the chosen option of local authority controlled companies owning and operating the RCC and why was the option of local authority controlled companies chosen?
- 3.24 It is not clear what are the assumptions and evidence that have been considered in order to state that the 'overall, the commercial deals sought for accommodation and ICT infrastructure services improve the discounted cash flow (net present value) by £45m' (FBC para. 78).
- 3.25 It is not clear from the FBC para. 93 what impact (in financial terms) the commercial deal sought has had on the total cash cost and discounted

cash flows, and hence affordability. It is our considered opinion that a summary table illustrating the figures would provide the evidence and provide transparency.

- 3.26 Some specific comments within the business cases are questionable and are not backed up with any clear evidence, such as:
- FBC para. 102 (the last bullet point) - what evidence/assumptions is there to support the statement 'the forecast savings are based on very prudent assumptions. There is scope to do better'.
  - OBC para. 127. - what evidence was used to produce the estimated numbers of control room operators required? Has this estimate been matched to the duties of RCC set out in para. 33?
  - OBC para. 139. - what evidence suggests that the accommodation costs for the current operation of control centres 'could be underestimated by as much as 20%'.

### **Overall Assessment**

- 3.27 In our assessment of the Economic Case overall, techniques have been appropriately used and are in line with best practice i.e. Cash Flows, Net Present Values (NPV), Sensitivity Analysis, Risk Analysis.
- 3.28 It should be noted that both the OBC & FBC assume a high level of technical knowledge and therefore it would aid transparency of the Business Case to explain the technical terms used i.e. Net Present Value, Parentheses etc.
- 3.29 The 3.5% discount rate used to calculate the NPVs is the correct rate to be used (i.e. represents the rate recommended by the Treasury). The impact of inflation on the overall costs seem prudent and reasonable.
- 3.30 The benefits/business objectives of the project have been consistently applied in both the OBC (para. 72 & 100) and FBC (para. 44). However, it is difficult to make links and references to common themes and issues between the two business case documents to make a comparisons due to the fact that the OBC is detailed, whilst the FBC is more summarised.
- 3.31 It would aid transparency for the reader, if the changes between the documents, in particular the financial costings, are explicitly set out in detail in the FBC.
- 3.32 The Government has made a commitment to fund the one-off transitional cost of the RCC (FBC para. 96) however, there is still uncertainty on how any on-going savings will impact on individual FRA (FBC para. 105) and hence any impact on individual precepts on Council Tax.
- 3.33 In conclusion the economic case within the OBC & FBC are based on the use of techniques and models, that have been appropriately used to test the value-for-money of the RCC option, however there are a number of issues which in IPF's considered view need addressing. These issues are

listed below:

- Para.70 of the FBC states that the savings ' represent very significant economies which could be used to deliver the priorities of the Fire & Rescue Service ....' It is not clear, however, whether this saving will be "top-sliced" from the FRS grant settlement (i.e. grant funding will be reduced) or whether it will be available for the FRSs to reinvest into their front line services.
- The two business cases do not deal with the issues concerning the legacy of the current control centre buildings i.e. if the accommodation is on a long lease who will fund these costs? This clearly has an impact on the level of overall savings indicated in the business case
- The 'Efficiency Savings' section in the FBC para.101/102 states that the 'operating costs for the national network will be about 30% lower than currently'. However, the FBC does expand on this to state that: 'at this time it is not possible to make a firm prediction on the costs for individual regions...'. There may be a situation in which one region's costs actually increases, therefore clarification needs to be made as to who will fund this additional cost, should this situation arise.
- To aid transparency, the objectives of the FiReControl project (FBC para. 107) should be mapped against the examples put forward in the FBC document, in terms of the ways that these objectives are to be met.
- FBC para. 127 states: 'this will generate a cost and performance baseline for all 46 FRSs'. This statement has to be put into context in terms of the current costs outlined in the table in para. 69. If these current costs cannot be used as a baseline (which it is assumed is the position) then it calls into question the accuracy of the savings set out in para. 69.

The table is reproduced below:

***Forecast annual cash costs and savings for local authorities under the new control arrangements:***

	<b>Current position (cost)</b>	<b>Regional controls (cost)</b>	<b>Net saving</b>	<b>Change (%)</b>
<b>Cost per head of population (£/1000)</b>	1,700	1,200	(500)	30
<b>Annual cost (£M)</b>	85	60	(25)	30

Notes for table:

i. The unit cost is the annual cost of providing control services (under steady state operating conditions) divided by the population served (in 1000s). This is consistent with the Fire Formula Spending Share and the recommendations of the FiReControl Finance Working Group.

ii. All figures are based on 2006 prices.

iii. Current position figures are forecast from information provided by individual authorities in 2004 – these figures are being revisited.

iv. Regional controls figures are for a fully-networked resilient solution for the nine regions in England, including London.

As the notes clearly state, the “Current Position” figures provided in 2004 (the shaded column) are being revisited – and as indicated in earlier sections of this report, the picture of fire and rescue service provision is markedly different from that time. There could be a significant shift in costs (either up or down) which needs to be taken into consideration, since the quoted savings could rise or decrease significantly.

- It is not clear whether the FBC has addressed the potential additional resourcing issues for FRSs concerning 'out of scope' activities or identified the detail of these activities (this issue was raised by the CLG select committee report).
- The OBC para. 29 states that 'there may be limited regional or local variations in service provision. The scope of non-core services and any regional variation are the subject of further investigation with regional stakeholders.' It is unclear from the FBC whether this further investigation has taken place and what the impact will be.
- The FBC para. 98 states that 'New Burdens' support will be made in the form of a grant for each financial year, in advance of expenditure. However clarification needs to be sought as to the funding of actual expenditure above the grant support.
- FBC para. 102 (the second bullet point) recognises that some of the operating costs of the RCC 'need to be fairly distributed'. It states that the mechanism is 'yet to be determined' but 'it needs to be transparent, easy to administrate and avoid cross subsidising'. It is important to point out that the mechanism also needs to take account of the impact on individual FRA precepts on Council Tax having regard to para.104 'the net annual saving is expected to vary between regions and between the FRAs within each region'. This means that in relation to the Council Tax precepts charged by the 46 FRAs, there may be significant differences in how much Council Tax will decrease (or potentially increase) as a result of Regional Control Centres.
- To aid transparency the detail of the £25m Net Present Value (NPV) savings within the FBC para. 69 should be made available, in order to illustrate the changes against the detail of the of £23m NPV shown within the OBC para. 79. (For information, Net Present Value represents the savings that are estimated to be achieved over the

period of the implementation, expressed in today's prices)

- Para. 81 of the OBC refers to charts that do not appear in the document (although it is accepted that the OBC examined in this report was only a draft).
- In the FBC para. 78, it would aid understanding and add value to have replicated the two graphs in the OBC para. 94 & 96.

## 4 Comparison of the OBC and FBC

- 4.1 We outline below, in tabular format, the key changes identified between the Outline Business Case and the draft Final Business case, together with comments and an assessment of the impact of these changes.
- 4.2 One general comment is that it has been problematic to make direct comparisons between the OBC and FBC due to the differing lengths of the two documents. The OBC is 110 pages and the FBC is a mere 30 pages.

Outline Business Case	Full Business Case	Changes	Impact of Changes
<b>Strategic Case:</b>			
Vision - as set out in paras. 27 - 34 however there is no clear 'definition'	Vision - ' An integrated Fire Control Service which improves England's resilience against major incidents and helps Fire & Rescue Services to save lives'	Detailed vision set out in OBC, but short definition set out in FBC para. 22.	Confusion as to the what is the true 'Vision' of the Project.  Effective project implementation relies on a clear and accepted vision.
<b>Economic Case:</b>			
£42m NPV net cashflow during period of construction (para. 73/75)	£50m NPV net incremental cost (para.68)	£8m NPV	It is unclear whether the two amounts are directly comparable i.e it is unclear in the FBC whether the £50m NPV represents the net cashflow during the period of construction
30% or £23m annual savings (para. 73)	30% or £25m annual savings	£2m increase in savings (per annum)	The periods upon which the cash flows have been based are different within each of the business cases, together with the fact that the FBC savings have been rebased to 2006 prices and the FBC includes refinements to the figures to deliver greater support for the resilience and modernisation agenda, thus making the figures not directly comparable.

Above annual saving equates to £438 per 1000 head of population served each year (para.73/74)	Above annual saving equates to £500 per 1000 head of population served per year	£62 annual savings increase per 1000 population served each year	See above comment
Additional cost associated with the accommodation of the lease option as opposed to one-off capital sum of £23m NPV (para. 92)	Additional cost associated with the accommodation of the lease option as opposed to one-off capital sum of £15m NPV (para. 78)	£8m NPV decrease	No explanation of reasons for decrease in cost NPV

- 4.3 Whilst the shifts noted in predicted costs and savings are in a positive direction (i.e. lesser costs, greater savings) the difficulty in comparing figures between the OBC and the FBC undermines the credibility of the costs and savings quoted.
- 4.4 There needs to be far better explanations of why figures have changed from one document to the next. Such changes may be perfectly valid (such as changes in price base, etc), but do need to be explicitly drawn out for the sake of clarity.
- 4.5 Some of the other issues within in the table are considered in more detail in other sections of the report, but a common theme is the lack of transparency in how the difference in figures came about – indicating that more can be done in the area of reconciliation between the OBC and the FBC.

## 5 Impact of variations from OBC to FBC

- 5.1 The main impact of identified changes between the two documents is that there is no easy correlation or reconciliation between the figures quoted in either one.
- 5.2 There **are** clear justifications for changes, such as differing price bases and more up to date information on costs, trends and assumptions. However, what is missing is a clear description of the “journey travelled” from OBC to FBC and where (and why) figures have changed. This would aid the reader’s understanding, particularly those who have read and analysed the OBC and are now considering the FBC.
- 5.3 One crucial issue in relation to the overall savings assertions made in the FBC is that until such time as the ICT infrastructure and London Accommodation & Facilities Management Contract have been awarded, the economic business case for RCC, contained in the current draft final business case cannot be considered a **final** position in terms of one-off costs & annual savings (and hence the pay back period/NPV calculation).
- 5.4 Therefore the overriding objective of securing value-for-money cannot be judged at this point in time with any certainty. This is clearly illustrated by the tables in the OBC para. 131 & 135 which show the sensitivity of the overall costs and NPV associated with differing ICT infrastructure costs and London Accommodation costs.
- 5.5 In FBC para.78, the commercial deal in respect of RCC accommodation is through the adoption of a Private Developer Scheme (PDS) i.e. where the capital cost is converted into annual rent. However, the cost of this option is higher than the estimated capital cost (NPV £15m).
- 5.6 Clearly this although this option is more *affordable*, it does not represent the best value for money. This means that the move from capital costs to revenue for the RCC accommodation (through annual rent payments rather than capital expenditure) is easier to afford and is better in cash flow terms, although over the long term, it would be cheaper to make use of capital expenditure.
- 5.7 There are a number of advantages and disadvantages of taking the PDS route that are discussed in the FBC document, acknowledging that this is a more expensive option, but considering that this is more than compensated for by the transfer of risk and smoother cash flow.
- 5.8 However, this seems to be at odds with the statement in the FBC para. 33 ‘...it must be demonstrated that all public sector investments are both affordable and value for money’. In terms of proposed RCC accommodation, only one of these objectives is being met.
- 5.9 A further question is whether the potential of borrowing has been considered.
- 5.10 In response to the CLG select committee report, the Government

accepted that they needed to provide full cost information regarding the financial implications of the move to RCC. However, the FBC provides very summary information and does not provide this full cost information. Without this full cost information, key stakeholders will not have any certainty regarding the financial implications of the FiReControl project.

## **6 Other issues highlighted**

- 6.1 Beyond the economic perspective, there are a number of wider strategic issues that we would like to draw attention to.
- 6.2 The potential for the use of this Regional Control Centre model as a platform for effective management of communications at a regional level (for the other emergency services and other bodies) has only been considered at a very superficial level by the FBC.
- 6.3 Whilst it has been referred to in the Select Committee report and the Government's response, there has been little in the way of detailed analysis (financial or otherwise) in to this.
- 6.4 There may be validity in assertions that this model will allow subsequent expansion to cover alternative methods of service delivery such as tri-party control centres, but there also needs to be recognition of additional costs that would be incurred and the potential for "cul-de-sac" developments and investment.
- 6.5 This could be avoided through designing provision at the start to account for these kinds of changes.
- 6.6 The issue of resilience and how this relates to the current location choices for the regional centres needs to be highlighted. There needs to be a better focus on how a national resilience provision will work, making use of the resources of the nine regional centres to coordinate nationwide responses where this is necessary.
- 6.7 Clearly the initial selection of site for the London centre has been found to be inappropriate and the financial (and indeed the non-financial) impact of a new location needs to be factored into overall considerations.
- 6.8 A final aspect which does not appear to have been addressed in the documents is how the wider modernisation agenda for Fire Services will impact or align with the regional approach to control centres. There may be synergies (or conversely risks) associated that have yet to be thoroughly examined in relation to this.

## **7 Conclusions and Recommendations**

### **Conclusions**

- 7.1 It is our opinion that in developing the Outline Business Case and the Final Business Case, there has been proper use of methodologies that are recognised as best practice in the field of business cases and options appraisal.
- 7.2 However, both key documents that have been examined leave a lot to be desired in terms of transparency and accessibility for the reader. There are a number of critical assumptions in the FBC which refer back to the OBC, but are not explicit or covered in sufficient detail.
- 7.3 Key to this is the absence of reconciliation between figures quoted in the OBC and in the FBC – there may be valid justifications for the changes, but these are not clearly referred to.
- 7.4 A specific issue relates to the objectives of “affordability” and “value of money” and how they can both be satisfied in areas such as accommodation, where the proposed solution provides affordability, but does not demonstrate value for money.
- 7.5 Another crucial aspect which need to be clarified and addressed is the impact of updated costing information which is still expected, namely:

- Updated costs in relation to the FRAs across the country
- The outcomes of the outstanding award of contracts for accommodation and ICT infrastructure services

Since sensitivity analysis carried out in the OBC has indicated that the level of savings is susceptible to change, the savings that are quoted in this draft FBC can only be regarded as indicative.

- 7.6 If savings are adversely affected by these issues, the validity of the business case and how it meets its key objectives (including affordability and value for money) could be called into question.
- 7.7 A linked issue is the fact that the only option currently under consideration is the RCC option, as measured against the status quo as a baseline. In the light of the changed circumstances within which FRSs now operate (an increased resilience focus and more responses to environmental incidents and terrorism threats), more assurance is needed that all other options disregarded at the earlier stages – back in 2003 - are still not comparable with or more suitable than the RCC option now on the table.

### **Recommendations**

- 7.8 In terms of recommendations, a lot will depend on what is addressed or rectified in the final version of the business case and what the outcomes of contract awards and updating of key cost information will bring.

- 7.9 If there are mechanisms where our views and highlighted issues can be fed into the preparation of the next version of the Final Business Case, then these should be utilised as a matter of urgency.
- 7.10 We are confident that the authors of the Business Case will share our views that transparency and ease of understanding in these crucial documents is a key factor in the successful adoption and ultimate implementation of the project.
- 7.11 Whilst some of the issues raised in this report may be seen as “muddying the waters” on some issues where the prevailing opinion is that progress on FiReControl is a given, we feel that they are important questions which need a satisfactory answer, even it is only confirmation and justification for the current course of action.

### **Acknowledgements**

- 7.12 We would like to take this opportunity to thank all contributors to this report for their time and input.