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ADDITIONAL CIRCULATION



ABERDEEN CITY COUNCIL

To: Councillors John Stewart and Kevin Stewart, Joint Conveners; and Councillors Boulton, Farquharson, Greig, McDonald and Young.

Town House,
ABERDEEN 7th September, 2009

BUDGET MONITORING BOARD

The undernoted items are circulated in connection with the meeting of the **BUDGET MONITORING BOARD** to be held here in the Town House on **THURSDAY, 10 SEPTEMBER 2009 at 12.00 pm.**

RODERICK MACBEATH
HEAD OF DEMOCRATIC SERVICES

B U S I N E S S

- 3 **Economic Analysis and Forecasting Pathfinder Project - Report by Chief Executive** (Pages 1 - 2)
- 4 **The Hub Initiative - Report by Chief Executive** (Pages 3 - 8)

Should you require any further information about this agenda, please contact Fiona Gardiner on 01224 522864 or email fgardiner@aberdeencity.gov.uk

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COMMITTEE	Budget Monitoring Board
DATE	10 September 2009
LEAD OFFICER	Chief Executive
TITLE OF REPORT	Economic Analysis and Forecasting Pathfinder Project
REPORT NUMBER	OCE/09/004

1. PURPOSE OF REPORT

The purpose of this report is to recommend to the Budget Monitoring Board that Aberdeen City Council participates in an Economic Analysis and Forecasting Pathfinder Project to assist us in our long term financial planning.

2. RECOMMENDATION(S)

It is recommended that the Budget Monitoring Board:

- i) Invokes the provisions of SO 69 (3)(i) to enable the Council to exempt this piece of work from the competitive procurement requirements of the Standing Orders to enable our immediate participation in the Economic Analysis and Forecasting Pathfinder Project which is being led by PriceWaterhouseCoopers;
- ii) Agrees that our subscription of £35,000 be funded through revenue savings accrued in the management structure in the 09/10 financial year;
- iii) Agrees that the findings arising from the Pathfinder project are reported to the Finance and Resources Committee

3. FINANCIAL IMPLICATIONS

There is a subscription of £35,000 to participate in this Pathfinder Project which will be funded through revenue savings accrued in the management structure in 2009/10.

4. SERVICE & COMMUNITY IMPACT

The aim of the Economic Analysis and Forecasting Pathfinder Project is to provide information to support future budgetary planning. This work is aimed at developing resilience in our financial strategy over the long term and will therefore support the Council in meeting its policy aspirations and statutory duties.

5. OTHER IMPLICATIONS

The external economic environment presents risks to the Council. There is uncertainty as to the duration and depth of the current recession and the effect that this will have on local government funding in general and on Aberdeen City Council in particular. This Pathfinder Project will enable us to participate with nine other Councils across the UK in this piece of analytical and forecasting work. There are no direct implications in respect of health and safety, property or equalities and human rights. The provisions of SO 69(3)(i) relate to the exemption of this piece of work from the requirement to procure competitively and the findings will be reported to the Finance and Resources Committee on completion.

6. REPORT

The Pathfinder Project will deliver an estimate for Aberdeen City Council which will help to forecast the timing and severity of impact of key issues identified. The issues will be grouped into themes which are:

- Pressure on local funding and income generation
- Implications of the impact of the (economic) downturn on citizens and businesses
- Impact of pressures on capital and reserves
- Pressure on central funding
- Impact of demographic and policy issues
- Impact of timing issues
- Impact on partner organizations

The Pathfinder Project will consider how the accumulation of these pressures will impact upon the Council and the final data, analysis and forecasting will be made available to the Council in a report which will become the intellectual property of the Council. The Council's lead officer for this project will be Stewart Carruth, Director of Corporate Governance.

7. REPORT AUTHOR DETAILS

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8. BACKGROUND PAPERS

Summary of 'Perfect Storm' Project provided by PriceWaterhouseCoopers

COMMITTEE	Budget Monitoring Board
DATE	10 September 2009
LEAD OFFICER	Chief Executive
TITLE OF REPORT	The Hub Initiative
REPORT NUMBER	OCE/09/005

1. PURPOSE OF REPORT

The report advises of the creation of the hub initiative by the Scottish Government to assist in the procurement of public sector capital projects, advising that Aberdeen is included within the North Territory Pathfinder hub. It details the work undertaken to date and recommends that the Council participates in the next stage of the development of the North Territory hub.

2. RECOMMENDATION(S)

It is recommended that:

- i) the City Council agrees to the signing of appropriate documentation detailed in the Report, participating in the next stage of the development of the North Territory Hub Company;
- ii) reports are made on a regular basis to the relevant City Council Committees on the progress of this initiative and a detailed report be submitted in due course on the outcome of the procurement of a private partner and the consequences for the City Council in participating in the North Territory Hub Company.

3. FINANCIAL IMPLICATIONS

There are no immediate financial implications for the City Council; these can only be determined when a private partner has been identified. At that time it will be possible to consider whether or not this initiative assists the Council in bringing forward capital projects, particularly when reviewed with the possible creation of a Development Company.

4. SERVICE & COMMUNITY IMPACT

The Hub initiative will be a vehicle to assist the City Council and its partners in the effective delivery of capital projects.

5. OTHER IMPLICATIONS

As with paragraph 4 above.

6. REPORT

- 6.1 The Scottish Government has brought forward proposals to establish The Hub Initiative as a strategic long term programme approach to the procurement of community based infrastructure through local joint venture arrangements between public sector participants and a private sector development partner. It is currently been taken forward by the Scottish Futures Trust (SFT).
- 6.2 Two pathfinder initiatives have been established to lead in the development of “the hub initiative” in Scotland; the South East Area and the North Territory. The North Territory primarily consists of the geographical areas encompassed by Aberdeen, Aberdeenshire, the Moray, Argyll & Bute, Highlands, Western Isle, Orkney and Shetland Isle Councils. An interim Board was created consisting of senior officers from these Councils along with representatives of other major public sector partners (primarily the appropriate Health Boards, Police and Rescue Services) and has met on a regular basis over the last six months to develop the proposals. These meetings have been supported by the Scottish Futures Trust, whose programme delivery staff attend the Board’s meetings, providing advice on matters such as standardised structures for the commercial aspects of hub developments, as well as support in the preparation of documentation and procedures/processes to take the project forward. It is proposed that the lead officers for Aberdeen City Council will be Fred McBride, Director of Social Care and Wellbeing and Gordon McIntosh, Director of Enterprise, Planning and Infrastructure.
- 6.3 Hub has been conceived as a long term joint venture between a number of public sector bodies and one private sector development partner. A Hub Partnering Agreement (HPA), setting out the rights and obligations of the participating public sector bodies and private sector development partner would last for 20 years. For the first 10 years of the HPA, the Hub Company would have the first opportunity to deliver the projects named in an initial project programme. The Council would only be able to consider other procurement methods for these specific projects if the Hub Company was unable to meet the Council’s requirements. The criteria to be fulfilled would be set out in the HPA. Early termination of the HPA would only be permitted in strictly defined circumstances, including project abandonment, insolvency, and prohibited acts.
- 6.4 The Hub Company would interface with the public sector through a local Hub Partnering Board. The Hub Partnering Board would monitor the Hub Company’s performance and approve new projects to be taken forward through the Hub Company. It would link local plans into territorial plans and the Scottish Government anticipates that community planning partners would review annually their requirements from the Hub Company. It is proposed that a Sub Hub Company would be created for each individual

project taken forward through the hub structure. This model is designed to protect the Hub Company from any risks and liabilities associated with individual projects.

- 6.5 The Scottish Government proposes that ownership of the Hub Company would be split as follows:– 60% private sector partner, 30% public sector participants and 10% Scottish Government - with a shareholder agreement to regulate the rights and obligations between the shareholders and the local hub company. To become a shareholder, the Council would be required to provide share capital in the Hub Company and any Sub Hub Company depending on the structure of the project arrangements. It is anticipated that the initial total share capital from all shareholders into the Hub Company is unlikely to exceed £100,000 - the size of the council's share would depend on how much of the local public sector share the City Council decided to take up. The share capital requirement to each Sub Hub Company would be no more than 1% of the total project cost. It is important to note that public sector bodies could participate in the HPA without taking a shareholding in the Hub Company.
- 6.6 The shadow North Territory Board has now provisionally agreed a Memorandum of Understanding (MoU) and a Programme Initiation Document. The former sets out the preliminary governance arrangements for the territory and a proposed constitution, which will eventually be superseded by defined hub governance arrangements. The Programme Initiation Document sets out the governance arrangements for the procurement of a private sector development partner and the procurement of individual projects. Copies of these documents are available in the Members' Library.
- 6.7 The Scottish Futures Trust is making revenue development funding and capital enabling funding available to territories to support the implementation of the hub initiative.
- 6.8 Revenue funding of £1.4m is being made available by the Scottish Government to assist the North Territory to become established, procure a private sector development partner and initiate the development of the initial tranche of community facility projects. This funding is ring fenced under four streams, as follows:-
- £500,000 for initial set-up costs;
 - £100,000 per annum for five years for recurrent public sector running/project development costs;
 - £300,000 over three years for programme management; and
 - £100,000 organisational development.
- 6.9 To date £124,925 has been received by the North Territory from the Scottish Futures Trust. The balance of the £500,000 start up funding will be released following confirmation that the MoU has been signed by all territory

members and that the PID has been approved by all territory members. The Funding for the North Territory is being held and administered on behalf of the territory by NHS Grampian.

6.10 Although SFT funding should also meet the Hub Company's operating expenses in the short term after a Hub Company has been established, in the medium/long term the ongoing operational costs would be shared by the territory members.

6.11 Capital enabling funds of £30m are to be made available to support the hub initiative on a national basis over the first six years of the programme. The territory can apply to use some of these funds for land acquisition, land mobilisation and for enabling works or as a contribution towards the direct construction costs of initial projects.

6.12 The SFT consider that Hub Companies would provide value for money in principle and offer the following attractions for a private sector development partner:-

- lower transaction costs that, when aggregated, are significant;
- a long term portfolio of investment opportunities across a territory with an underlying public sector revenue stream;
- long term opportunities to develop partner relationships and deliver continuous improvement and efficiencies.

The SFT has advised that each development project brought forward through a Hub Company would require to demonstrate value for money on an individual basis. This would be demonstrated by an open book approach, benchmarking and market testing.

6.13 The next stage in the creation of a North Territory Hub Company would require the approval/signing of the Memorandum of Understanding and Programme Initiation Document by each participating public partner. This would allow the North Territory to proceed with arrangements for the procurement of a private sector development partner, including:-

- Publication of an OJEU notice
- Issue a pre qualification questionnaire to interested parties
- Approve a tender invitation short list
- Prepare and issue tender documents
- Nominate a successful bidder

6.14 Concurrently, the North Territory would proceed to appoint a Programme Director. Although the Programme Delivery Office would provide legal, technical and financial advisors to support Territory participants through this process, the Board could appoint further staff to support the Programme Director and/or seek specialist support from participating members.

6.15 There would be no financial or legal commitment on the City Council to continue with Hub to the point of nominating a successful bidder and officials would report back to members to consider the appointment of a

private sector development partner, the terms of a hub partnering agreement and potential participation as a shareholder in the Hub Company, all of which would be legally binding commitments.

7. AUTHORISED SIGNATORY

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8. REPORT AUTHOR DETAILS

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9. BACKGROUND PAPERS

None

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