

ABERDEEN CITY COUNCIL

COMMITTEE	Finance & Resources
DATE	28 th September 2010
DIRECTOR	Gordon McIntosh
TITLE OF REPORT	North Territory Hub Programme
REPORT NUMBER:	EPI/10/227

1. PURPOSE OF REPORT

The purpose of this report is to provide an update to Members following on from a report presented Elected Members of the Budget Monitoring Board of 10th September 2009 (Article 4 refers) on the North Territory hub programme.

This report seeks to update Members on the procurement process to select a private sector development partner to join with the North Territory participants and the Scottish Futures Trust (SFT) to improve efficiency and provide better value for money in delivering community infrastructure projects in the North Territory.

2. RECOMMENDATION(S)

- (a) That Elected Members note the satisfactory progression of the North Territory procurement process to identify a Private Sector Development Partner; and,
- (b) Agree that the outcome of the North Territory procurement process be reported to Elected Members of the Enterprise, Planning & Infrastructure Committee on 9th November 2010 to decide on the level of participation the Council wishes to take in the hub.

3. FINANCIAL IMPLICATIONS

Other than through the development of new projects under the hub initiative, no new financial implications are identified for Aberdeen City Council at present. Management of the procurement process and taking forward initial schemes in the procurement stage has been met from within the resources allocated to the hub North Territory Programme Board. The costs for working capital and shareholder equity at the formation of the hubco will also be met from budget allocated to the North Territory hub Programme Board.

4. OTHER IMPLICATIONS

None at this stage.

5. BACKGROUND/MAIN ISSUES

Introduction

- 5.1 The 'hub' programme is being developed by the Scottish Futures Trust (SFT) on behalf of the Scottish Government, as a means of improving the planning, procurement and delivery of infrastructure in support of community services. The commercial/contractual structure of hub will be broadly similar to NHS LIFT in England (albeit developed to better align with Scottish circumstances and developing best practice in the field of public sector procurement).
- 5.2 hub is a procurement vehicle supporting a long term programme of investment in community infrastructure for local authorities, NHS Boards and other public sector bodies across Scotland. It will provide a mechanism for supporting the efficient services through delivering assets more effectively through a single partner, with continuous improvement leading to better value for money. The opportunity for a private sector delivery partner is to be part of a systematic approach to infrastructure planning and delivery in the North Territory over an extended time period.
- 5.3 Public sector organisations across the North hub territory will work in partnership with each other and a private sector delivery partner in a joint venture delivery company called 'hubco'. 'hubco' will take a strategic, long-term planning approach to the procurement of infrastructure to support the delivery of community services. It is envisaged that "hubco" will provide a mechanism for delivering and managing assets more effectively with continuous improvement leading to better value for money.
- 5.4 Continuous improvement (relating to, for example, improved project delivery times year on year) will be measured through detailed key performance indicators, with which the 'hubco', including the selected private sector development partner, is obliged to comply.
- 5.5 While projects will mostly be new buildings (ranging from, for example, GP practices to large combined community, health and sports centres), 'hubco' projects can also include refurbishment and asset management services of existing infrastructure dependent upon the needs and requirements of individual 'hubco' participants.

North Territory Hub

- 5.6 The SFT is co-ordinating the roll-out of hub across five designated territories in Scotland: North, South East, South West, West and East

Central. Each Territory has a population of about 1 million people and each is co-terminous with constituent NHS Board and Local Authority boundaries. Appendix 1 to this report provides a graphical representation of each of the respective Territory areas and of the respective public sector participants.

- 5.7 The logic of having such large Territories is that there is likely to be a significant and sustained pipeline of projects required in each. The size of the Territories means that there are a significant number of public bodies in each and hence the hub structure has been developed so that bodies can participate at different levels.
- 5.8 The North Territory is one of two pathfinder areas in Scotland announced by the Cabinet Secretary for Finance and Sustainable Growth, John Swinney MSP, the other being South East. The North Territory pathfinder expects to bring forward infrastructure projects worth approximately £445 million in the North Territory over the next ten years to support the delivery of community services such as health, education and social care.
- 5.9 The North Territory comprises eighteen public sector bodies including five NHS Boards (Grampian, Highland, Orkney, Shetland, and Western Isles), eight Local Authorities (Aberdeen City, Aberdeenshire, Argyll and Bute, Eilean Siar, Highland, Moray, Orkney and Shetland Islands Councils) two regional Police forces (Grampian Police and Northern Constabulary, two regional Fire and Rescue services (Grampian Fire and Rescue Service and Highlands & Islands Fire and Rescue Service) and the Scottish Ambulance Service.
- 5.10 By virtue of the decision of Elected Members of the Budget Monitoring Board (10th September 2009, Article 4 refers) Aberdeen City Council has signed a Memorandum of Understanding (MoU) to act as a participant in the North Territory hub Programme. The Council is represented on the Territory Programme Board by the Director of Enterprise, Planning & Infrastructure acting as the Council's Senior Responsible Officer (SRO).
- 5.11 This commitment to the North Territory hub MoU was made on the understanding that this involved no financial commitment by the Council at the time. While this remains the case, the Council will be asked to decide on the level of participation in the hubco it wishes to take. The anticipated costs for public sector organisations to become participant shareholders in hubco will be met from budget allocated to the North Territory hub Programme Board and not from individual participants.
- 5.12 The Council, and other North Territory Participants, will have the option to access the services with 'hubco' for the development/procurement/construction of identified projects through the Territory Partnering Agreement. In addition the Council can

decide to subscribe and become a 'hubco' shareholder by making a capital investment into the 'hubco' for which it is anticipated that a competitive investment return will be received.

- 5.13 Should this option not be chosen, the Council would not benefit from any investment returns that may accrue and neither would it have any direct input into the direction and operation of the hubco partnership. The anticipated costs for public sector organisations to become participant shareholders in hubco will be met from budget allocated to the North Territory hub Programme Board and not from individual participants.
- 5.14 A final recommendation about whether the Council should become a Participant shareholder in 'hubco', based upon the outcome of the North Territory procurement exercise, will be presented to Elected Members of the Council's Enterprise, Planning & Infrastructure Committee on 9th November 2010 for decision.

Procurement & Selection of Private Sector Development Partner

- 5.15 The North Territory Participants, through the Programme Board, are currently engaged in an Official Journal of the European Union (OJEU) competitive dialogue procurement process. The aim of the procurement exercise is to identify a Private Sector Development Partner with whom to partner for an initial period of 20 years with an option to extend for a further 5 years where agreed between 'hubco' and one or more of the Territory Participants.
- 5.16 The procurement process seeks to identify a private sector development partner who can bring the best combination of project development, supply chain management and funding capabilities for new facilities and the experience to provide management of the ongoing maintenance of operational buildings if this is required. Demonstration of these skills with a strong partnering ethos is being sought.
- 5.17 For the selected private sector development partner, the hub programme within the North Territory will provide an attractive investment opportunity. The selected Private Sector Development Partner will have the opportunity to form a long term relationship with key local organisations in the North of Scotland tasked with public service delivery to communities – such as local authorities, health boards, the fire, ambulance and police services.
- 5.18 By working closely with the public sector partners, 'hubco' will be expected to deliver improvements in the way that projects are developed and delivered and the supply chain is managed, including better design, lower construction and maintenance costs and the increased speed of delivery of new community infrastructure facilities.

- 5.19 These improvements will be monitored through the value for money demonstration process for new projects and by measuring performance against contractually binding Key Performance Indicators and continuous improvement targets.
- 5.20 This continuous improvement is achievable due to the long term nature of the relationship and by all parties working in partnership – the public sector organisations, hubco itself and hub Co's supply chain. The hubco is expected to drive this process and provide a key link between a series of projects which may each involve different public sector clients.
- 5.21 Three bidders have been selected through a pre-qualification stage and have now completed the competitive dialogue stage in the process. The three bidders were invited to submit their final tenders on 30th July 2010 and these are due to be returned on 10th September 2010.
- 5.22 The three bidders are:
- 5.22.1 **Alba Community Partnerships** - Cyrill Sweett Investments Limited and Miller Corporate Holdings Limited;
 - 5.22.2 **Space** - Galliford Try & Fulcrum Infrastructure Management Ltd & Davis Langdon LLP; and,
 - 5.22.3 **Amber Blue** - Amber Infrastructure Limited & International Public Partnerships Limited, Robertson Capital Projects Ltd and Forth Holdings Ltd & FES Ltd.
- 5.23 A preferred bidder will be identified by the North Territory hub Programme Board on 29th October 2010 and approvals from the participant organisations, including Aberdeen City Council, will then be sought to reach the programmed Financial Close by 13th December 2010.

North Territory Project Pipeline

- 5.24 For the first 10 years of any partnership with hubco, hubco will have an exclusive right to develop proposals for (and, subject to meeting certain criteria, deliver through its supply chain) certain projects. This exclusivity applies differently to participant groups as detailed below and can be removed if defined performance criteria are not met by hubco.
- 5.24.1 **NHS projects:** all front-runner projects specifically named at the point the partnering agreement is signed; all primary/community health facilities with a capital value exceeding £750,000; and any other projects specifically allocated to hubco;

- 5.24.2 **Local Authority, Police and Fire Authority projects:** all front-runner projects specifically named and accepted at the point the territory partnering agreement is signed; any other projects specifically allocated and accepted by hubco;
- 5.24.3 **Joint NHS/Authority projects:** all projects with a capital value exceeding £750,000 involving primary/community health facilities where the NHS is lead procurer; and any other projects specifically allocated to hubco.
- 5.25 The Participants in the North hub Territory have submitted individual projects which have been used to form a proposed project pipeline which hubco may then deliver through one of the following options. It should be noted that the pipeline has been presented as an indication of the number, scale and type of projects which hubco must be capable of delivering, and does not represent any commitment against these schemes. It is clearly understood by all bidders that the public sector participants in the North Territory hub programme are currently reviewing priorities which will influence future investment programmes.
- 5.25.1 **Design and Build** contract (or build only for projects which have already reached design development) under a capital cost option; or
- 5.25.2 **Design, Build, Finance and Maintain** under a revenue cost option (the structure has flexibility to adapt to situations where the land is to be transferred to or otherwise owned by hubco, as well as the more "standard" position of land retained by the public sector).
- 5.26 If the hubco fails to satisfy the public sector partners' identified and prescribed requirements, then the right is reserved for the Participants to procure through other means. This exclusivity arrangement will be withdrawn if hubco performance is poor based on agreed targets for performance and continuous improvement.
- 5.27 A capital enabling fund of £30m has been made available to support the hub programme on a national basis. This fund is for use by Participants across Scotland for project development such as site acquisition and demolition works.
- 5.28 Revenue funding of £1.4m is also available specifically to assist the North Territory hub Programme with set up and ongoing running costs associated with hub over the first five years of operation.
- 5.29 The project pipeline for the North Territory hub Programme includes four front runner projects which have been identified as opportunities

for the hubco to develop and deliver these early in the Delivery Plan. The front runner projects are as follows:-

- Woodside Medical Group (NHS Grampian);
- Aberdeen Health Village (NHS Grampian);
- Tain Replacement Health Centre (NHS Highland); and,
- Ardseileach Core and Cluster Resettlement (CN Eilean Siar)

5.30 Capital enabling funds of £6.5M were approved for the North Territory hub Programme at the meeting of the hub National Programme Board on 21st January 2010.

Hubco corporate structure

5.31 The hub structure will encompass both private project finance and traditionally publicly funded developments. The equity and working capital of hubco will be split among the private sector development partner, the North Territory Participants and the Scottish Futures Trust (60%, 30% and 10% respectively).

5.32 A Shareholders Agreement will be signed by the private sector development partner, the North Territory Participants and the Scottish Futures Trust which regulates the respective rights and responsibilities of each party and sets out the matters in relation to which hubco must first obtain the consent of each category of shareholder.

5.33 A hub Territory Partnering Agreement among the Participants and hubco will set out the rights and obligations of the parties, including the provision of partnering services by hubco to the Participants and the exclusivity provisions granted by some of the Participants to hubco.

5.34 Details of the proposed Shareholders Agreement, the associated Territory Partnering Agreement and details arising from the North Territory OJEU procurement process will be reported to Members of the Enterprise, Planning & Infrastructure committee in the next committee cycle as the North Territory hub initiative gains Participant approvals in November 2010.

Conclusion

5.35 The North Territory hub programme offers a significant opportunity for delivery of high quality cost effective public services through a long term partnership approach with a Private Sector Development Partner in conjunction with other public sector partners in the North of Scotland.

5.36 By working closely with an identified Private Sector Development Partner, hubco will be expected to deliver improvements in the way

that projects are developed and delivered and the supply chain is managed, including better design, lower construction and maintenance costs and the increased speed of delivery of new facilities.

6. IMPACT

Corporate - The North Territory hub programme is a procurement model to assist the City Council and its partners across the North of Scotland in the effective delivery of joint services through community assets in conjunction with a Private Sector Development Partner. By focusing on joint delivery, hub is expected to act as a driver for the development of joint planning and joint asset management throughout the public sector.

In this regard the hub operating model is closely aligned with the Scottish Government's Shared Services agenda and the conclusions within its recently published review of Public Services in addition to the Council's ongoing efforts to develop a 5 year costed business plan.

Public - The hub programme is being developed by the Scottish Futures Trust, on behalf of the Scottish Government, as a means of improving the planning, procurement and delivery of infrastructure in support of community services, such as health, education and social care. This is of direct interest to the public as the North Territory hub initiative aims to assist public agencies to work together with their respective communities to plan and deliver better services which make a real difference to people's lives at best value.

The hubco will be required to operate an equalities and diversity policy to ensure that it will not unlawfully discriminate either directly or indirectly on such grounds as race, colour, ethnic or national origin, disability, sex or sexual orientation, religion or belief, or age or otherwise unlawfully discriminate within the meaning and scope of The Equalities Act 2010 or other relevant or equivalent legislation, or any statutory modification or re-enactment thereof.

7. BACKGROUND PAPERS

None.

9. REPORT AUTHOR DETAILS

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APPENDIX 1 – hub Territories

