

EAST AYRSHIRE COUNCIL

CABINET – 17 AUGUST 2011

PARTICIPATION IN SCOTTISH HUB INITIATIVE

Report by Executive Director of Finance and Corporate Support

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to seek approval from Cabinet for East Ayrshire Council to participate in the South West Hub Territory.

2. BACKGROUND

- 2.1 All NHS Boards and local authorities in Scotland have been asked by the Scottish Government (via the Scottish Futures Trust) to participate in Hub, an initiative which is intended to improve the planning, procurement and delivery of infrastructure that supports local services.

- 2.2 The Scottish Futures Trust is overseeing the roll-out of the Hub initiative across 5 territories in Scotland and it is proposed that East Ayrshire Council would form part of the South West Territory along with the following public sector partners :

- Ayrshire & Arran Health Board
- Lanarkshire Health Board
- Dumfries & Galloway Health Board
- North Ayrshire Council
- South Ayrshire Council
- North Lanarkshire Council
- South Lanarkshire Council
- Dumfries & Galloway Council
- Scottish Ambulance Service
- Strathclyde Police
- Strathclyde Fire & Rescue
- Dumfries & Galloway Police
- Dumfries & Galloway Fire & Rescue

- 2.3 Initial meetings of the potential South West Territory participants (Shadow Board) and the Scottish Futures Trust have already been held. A meeting of the Shadow Board on 23rd March 2011 consequently agreed to establish and constitute a South West Territory Programme Board based on those participants who had submitted Letters of Intent (nine at this time) inclusive of North Ayrshire and NHS Ayrshire and Arran. The Board appointed Craig Marriot from NHS Dumfries & Galloway as Chair, with Angus Bodie from North Ayrshire Council as Vice-Chair.

3. WHAT IS THE HUB INITIATIVE?

3.1 The Hub initiative involves a strategic long-term approach to the procurement of community-based infrastructure projects through the establishment of joint venture arrangements in 5 local Hub Territories across Scotland amongst the local public sector organisations and a private sector development partner.

3.2 The participants within each Hub territory are collectively responsible for managing a joint procurement process to identify a preferred private sector development partner with whom they will form a private public sector joint venture, referred to as "Hubco". The Hubco will deliver certain partnering services to the participants to support the planning, procurement and delivery of infrastructure projects within the Hub territory; developing proposals and, subject to satisfying certain tests including value for money, delivering those projects through its supply chain.

3.3 The participants in each Hub Territory will have the opportunity to propose individual projects that will be used to form a 'project pipeline'; the Hubco will then consider one of the following options to deliver the project :

- (i) Build contract where the commissioning participant has clearly defined the design objectives and quality thresholds (and where a novation of design and / or design team is advantageous) under a capital cost option;
- (ii) Design and Build contract (or build only for projects which have already reached design development) under a capital cost option;
- (iii) Design, Build, Finance and Manage under a revenue cost option;

3.4 The involvement of East Ayrshire Council in the Hub initiative is by voluntary inclusion and is not prescriptive. Whilst the Council can potentially utilise the opportunities available through the Hub model, it is essential to further develop an understanding with SFT and also more detailed consideration of the following measureable performance criteria prior to placement of any individual projects :

- Project financial efficiency.
- Cost of borrowing / financing charges
- Established quality thresholds, taking account of future running costs and maintenance cycles / costs
- Market testing and Key performance indicators
- Timescales for project delivery (at inception and commissioning stage, and the completion dates)
- OJEU notices and awards, with regard to Works and Service contracts
- Extent of exposure to increases in cost or revisions to timescales
- The further impact upon current delivery models utilising internal and external providers, comprising Council staff, and SME's

3.5 The Hubco can also be used as a price comparison model to allow the Council to benchmark any prices received through the normal tender process for a project.

4. PROPOSED NEXT STAGE

4.1 The South West Territory Hubco will, as the last region to be created within Scotland, follow a programme timeline that reflects both the main milestones and delivery expectations established by the sister Hubcos.

- 4.2 In this regard it is anticipated that the South West Hubco will be in operation to start delivering projects by August 2012 following the process of SW Territory Board formation with OJEU notification being issued May 2011 through tendering and competitive dialogue to a position of appointment in 2012. The joint venture partnership will last for 20 years, with an option to extend for a further 5 years where agreed between Hubco and one or more of the participants.
- 4.3 There are four initial tasks for implementing the Hub initiative in the South West Territory. These are as follows :
- **Signing the Letter of Intent** - the letter of intent is not legally binding but will set out the Council's commitment to work together with identified public sector organisations towards establishing a successful Hubco and functioning South West Territory Board.
 - **Establishing the South West Territory Board** - a Territory Board will be established to oversee the development of Hub in the South West Hub Territory i.e. the procurement of the private sector development partner and the development of pipeline of projects. Each public sector participant is expected to appoint one member and one substitute member to serve on the Territory Board, each with sufficient knowledge and authority to contribute effectively. It is proposed that this primary role be fulfilled by Head of Corporate Infrastructure with the Capital Programme Manager as substitute.
 - **Commitment to the South West Territory in the form of a Memorandum of Understanding** – the Memorandum of Understanding is not legally binding but will set out the commitment for each public sector participant to work together towards the procurement of a private sector development partner for the Territory. It is important that the East Ayrshire Council representative on the Territory Board carries the delegated authority of the organisation such that the Territory Board can take key decisions relating to the procurement of a private sector partner (decisions of the board will include the issue of the OJEU and PQQ, approve the short-list and issue the tender documents, approve the close of dialogue and approve the preferred bidder).
 - **Preparation of the Programme Initiation Document** - the Programme Initiation Document will be prepared jointly by the public sector participants and will set out the resource plan and management arrangements for the Territory. The Programme Initiation Document will be signed-off by the Territory Board.
- 4.4 The process of establishing a South West Territory has already commenced with a number of the public sector partners. In order for East Ayrshire Council to participate in the on-going development of the South West Territory it is therefore recommended that the letter of intent is signed, that the Council nominate the Head of Corporate Infrastructure to attend the Territory Board meetings, and to delegate authority to the Head of Corporate Infrastructure to make decisions on behalf of the Council.
- 4.5 On the establishment of the South West Territory Board, and at the end of the procurement process, East Ayrshire Council will have the option to be part of the Hubco.

5. FINANCIAL IMPLICATIONS

- 5.1 The Scottish Futures Trust has confirmed that financial support will be provided to assist with the Hub set-up and procurement costs for the South West Territory. Funding of £1.400m is available in the following four streams :
- Set-up / procurement support - £0.500m per territory
 - Public sector scheme development - £0.100m per annum per territory for 5 years

- Programme management - £0.300m per territory over 3 years
- Organisational development activity - £0.100m per territory

- 5.2 The Hub National Programme Board will oversee the release of these funds based on an undertaking from organisations confirming their participation, and the completion of a Territory Programme Initiation Document. The receipt of letters of intent from all organisations in the Territory will provide the trigger for the release of the first £0.125m of this funding.
- 5.3 As a member and participant of the Territory Programme Board a representative of the Council will require to attend monthly board meetings and be involved in the approval and acceptance of all key project documentation. Although provision has been made by the Scottish Government to the extent of £1.400m over 5 years for the running costs of the Territory Programme Board, the Council may be required to contribute in the event of a shortfall arising. However, the Council can withdraw from the Territory Programme Board at any time, subject to the giving of notice.
- 5.4 The Scottish Futures Trust has also confirmed that a national capital enabling fund of £30.000m is available to support projects across all five Hub Territories. Individual Hub Territories can apply to use this fund for project development / enabling purposes such as land acquisition, land mobilisation demolitions and site investigation surveys. Application for these funds will be via a formal process through the PDO and approved by the Hub National Programme Board.
- 5.5 No financial support is required from the public sector participants for setting up the Hub Territory other than a nominal share capital investment for establishing the Hubco.

6. **LEGAL IMPLICATIONS**

- 6.1 Signing the initial Letter of Intent imposes no legal obligations upon the Council. The Memorandum of Understanding which follows likewise imposes no legal obligations on the Council but is indicative of a willingness to work with other local authorities and agencies to provide efficient and financially viable community based infrastructure.
- 6.2 The Territory Programme Board will be involved in the procurement of a suitable private sector partner to form a public / private Hubco who will be responsible for the overall delivery of future projects. The Territory Programme Board will therefore be involved in the preparation and issue of the OJEU Notice, the Prequalification Questionnaire and the Prequalification Shortlist. It is important to note however that the OJEU Notice will be issued in the names of the public sector partners and accordingly, should there be any failure or omission in the procurement process, the public sector partners could be held liable for any subsequent third party losses.
- 6.3 On formation of the Hubco, East Ayrshire Council as part of the Territory Programme Board will have the option of utilising the established Hubco to deliver projects and services without recourse to further OJEU Notices or procurement tenders. In the event of the public / private Hubco failing or being wound up, any costs arising in excess of the available funds, will require to be borne equally between the existing public / private Hubco shareholders not the Territory Programme Board.

7. POLICY IMPLICATIONS

- 7.1 The integration of East Ayrshire Council within the proposed Hubco compliments existing policy in respect of procurement, assuring best value and integration of service delivery with community partnership organisations.

8. COMMUNITY PLANNING IMPLICATIONS

- 8.1 The establishment of the South West Territory Board and subsequent formation of the Hubco company will ensure that as a facilitation and delivery company for public sector projects it will enhance the existing community partnership project planning and encourage wider opportunities for future community projects.

9. RECOMMENDATIONS

- 9.1 It is recommended that Cabinet :

- (i) Notes the progress and next steps within the established South West Territory.
- (ii) Approves the signing of the Letter of Intent and Memorandum of Understanding by the Chief Executive on behalf of East Ayrshire Council
- (iii) Approves that the Head of Corporate Infrastructure is nominated to attend the Territory Board meetings, and for the Head of Corporate Infrastructure to be given the appropriate delegated authority to take decisions on behalf of the Council.

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8 August 2011

BACKGROUND PAPERS - NIL

Implementation Officer – Malcolm Roulston, Head of Corporate Infrastructure