

**NORTH LANARKSHIRE COUNCIL
REPORT**

To: POLICY & RESOURCES (PROPERTY) SUBCOMMITTEE		Subject: REPORT ON HUB PROPOSALS COUNCIL POSITION
From: HEAD OF PROPERTY SERVICES		
Date: 3 May 2011	Ref: IN	

1. INTRODUCTION

- 1.1 This report concerns the proposal to set up Hubco, a development company, by the Scottish Futures Trust. The proposal involves the Council in a partnership with a private sector development partner together with a number of public sector Council and agencies in the area designated as the South West Hub.

2. BACKGROUND

- 2.1 The Scottish Futures Trust (SFT) has proposed that a strategic long-term approach to the procurement of public sector based infrastructure projects is required across Scotland. The proposal is that 5 geographically based public/private joint venture companies are established to provide development support local hub Territories across Scotland.
- 2.2 North Lanarkshire has been allocated to the South West Hub together with Councils and Health Boards from Ayrshire, Lanarkshire, Dumfries & Galloway, plus Fire, Police Ambulance for the respective areas.
- 2.3 The key outcomes for hub, as identified by SFT are:
- Improving the efficiency of delivery of community-based facilities;
 - Delivering economies of scale through shared facilities;
 - Making the best use of public resources; and
 - Providing continuous improvement in both cost and quality in public procurement.
- 2.4 The key objectives of hub, as identified by SFT, are:
- Providing enhanced local services through increasing joint service working and integration between Community Planning Partnerships;
 - Delivering a sustained programme of investment into community-based facilities so that more services are provided locally in communities through multi-disciplinary teams working from single sites;
 - Establishing a more efficient and sustainable procurement methodology for public sector bodies, principally NHS Boards and Local Authorities;
 - Delivering facilities that meet public sector policy objectives for design quality and sustainability; and
 - Facilitating and improving the level of stakeholder engagement in the planning of services and development of community-based premises.

- 2.5 Working closely with the public sector partners, Hubco will be expected to deliver improvements (including better design, lower construction and maintenance costs and the increased speed of delivery of new facilities) in the way that projects are delivered and the supply chain is managed. These improvements will be monitored by the setting of performance targets, KPIs and the periodic use of market testing.
- 2.6 The long term partnership between the participants and Hubco offers a flexible procurement route for the delivery of community infrastructure, achieving value for money by reducing both the expense and time associated with one-off procurements, particularly for small facilities. The appointed private sector development partner will have the expertise to provide various construction procurement mechanisms, tailored to meet the participants' needs over the agreed lifecycle of individual projects.

3. PROPOSED COMPANY STRUCTURE

- 3.1 To deliver the proposals, two organisations are to be formed; the Territory Programme Board (TPB) and Hubco. The extent to which North Lanarkshire Council participates is identified below, however, with regard to the structure, each is described in more detail below:
- 3.2 The TPB will consist of representatives of the public sector participants and will have two phases:
- Phase 1 - To establish Hubco and procure a private sector development partner.
 - Phase 2 - To manage the project pipeline, monitor Hubco's performance and ensure partnership working across the public sector participants within the South West hub Territory.

Once Hubco is formed, the Territory Programme Board will transform into the Territory Partnership Board to deliver Phase 2.

Each public sector participant is expected to appoint one member and one substitute member to serve on the TPB, each with sufficient knowledge and authority to contribute effectively. The role is expected to be fulfilled by a Senior Responsible Officer. For information, this is currently operating on an informal basis.

- 3.3 Hubco (the working title for the company) will be set up by Scottish Futures Trust (10% shareholding) together with the public sector partners (with a total of 30% shareholding) and a private sector partner (more likely to be a consortium), who will hold a majority share (60%) in the company.
- 3.4 Once established, the company will be able to lead on developments on behalf of some/all of the public sector partners through the utilising joint venture arrangements amongst the local public sectors within a hub Territory and a private sector development partner.

4. OUTLINE PROPOSALS

4.1 Territory Programme/Partnership Board (TPB)

- 4.1.1 The public sector Participants within each hub territory will collectively run their own procurement process to identify their own preferred private sector development partner with whom they will form a private public sector joint venture, referred to as "Hubco".
- 4.1.2 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 £1.4m is available over 5 years to address set-up/procurement support, public sector recurrent/scheme development, programme management and organisational development activity.
- 4.1.3 Given the length of the proposed contract to Hubco (20 years) and the funding probably, at best, being for 5 years, there is the potential for further revenue support in the mid to long term. As an indication of the extent of this liability is £10/20,000 per year per participant, most likely post year 5.

4.2 Hubco

- 4.2.1 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.
- 4.2.2 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 as it is considered important that the hub partnership runs for a significant period of time in order to:
- realise the benefits of the hub programme including procurement cost savings, cost efficiencies through supply chain management and continuous improvement and economies of scale through joint public service delivery;
 - provide a pipeline of projects of delivery and investment by the Hubco; and
 - deliver performance improvement and added value as the public and private sector partners learn from each other and the Hubco develops a thorough understanding of the public sector requirements and existing estate of assets.
- 4.2.3 The participants in each hub Territory will have the opportunity to put forward individual projects which will be used to form a 'project pipeline' which Hubco will, most likely, deliver through one of the following options:
- Design and Build contract (or build only for projects which have already reached design development) under a capital cost option;
 - Design, Build, Finance and Manage under a revenue cost option.

4.3 Overall Proposal

- 4.3.1 From the information currently available, it would be appropriate for the Council to participate in the South West Territory Partnership Board. This would mean that Council would participate in the OJEU and PQQ process and thereby have the benefit of the option of utilising Hubco in the future. The Council will have the usual legal obligations in participating in OJEU and the subsequent procurement process.

- 4.3.2 Given the above, a Senior Responsible Officer (SRO) is required to represent the Council on the Territory Partnership Board and take key decisions relating to the procurement of a private sector partner (decisions to issue the OJEU and PQQ, approve the short-list and issue the tender documents, approve the close of dialogue and approve the preferred bidder). The Head of Property Services will identify an appropriate officer to initially serve on the TPB.
- 4.3.3 There remains the option of the Council taking a shareholding in Hubco with the anticipated share being derived from the total public sector 30% allocation. Given the anticipated number of organisations participating is currently 14, the proportionate shareholding is likely to be of the order of 2%. The benefits of this may become more apparent at a future stage, however for the time being, no obvious advantage is identifiable to adopt this stance. Consequently, the recommendation is not to take a share at this time, however this will be kept under review as matters progress.
- 4.3.4 To conclude this proposal, a number of documents require to be signed on behalf of the Council i.e.
- Letter of Intent
This document will set out the public sector participants' willingness to potentially utilise Hubco and will allow participation in the OJEU process.
 - Memorandum of Understanding
This document will set out the public sector participants' commitment to each other to work together towards the procurement of a private sector development partner for the Territory.
 - Programme Initiation Document:
This document will be prepared jointly by the public sector participants and will set out the resource plan and programme management arrangements for the Territory. The Programme Initiation Document will be signed-off by the Territory Board.
 - Territory Partnering Agreement
This document will formalise the relationship between the TPB and Hubco.

5. CORPORATE CONSIDERATIONS

- 5.1 Within the Council, a short term working group has been established, including expertise from Legal Services, Design Services, Finance & Customer Care and Property Services together with discussions with Learning and Leisure Services as a potential major customer of Hubco, to consider the Council's position on this matter.
- 5.2 It should be noted that geographically, the South West Hub does not match the boundaries of the current focus on shared services determined by the Clyde Valley proposals. It may also deliver the anticipated efficiencies in a different manner from that anticipated by the Clyde Valley proposals.
- 5.3 The Council's existing framework agreements to deliver Schools and Centres 21 meets much of the efficiency agenda expected to be delivered by these proposals. They do not, however, deliver the public sector aspect or the funding mechanisms, particularly the option for revenue funding.

5.4 The benefits that will initially accrue to North Lanarkshire Council are perhaps not immediately obvious, particularly given the extent of development activity across the Council in the last 10 years. This has resulted in the very range of expertise and partnership working that Hubco seeks to deliver. It should however be recognised that the Hub format is a national structure and a public sector solution rather than purely local authority. As such, the scale, viability and potential to deliver across the public sector gives it considerable merit. It is also increasingly being seen as both a development company and a financing vehicle, either bringing funding from the Scottish Government or from the private sector, again a further attractive feature. Should it develop in the manner anticipated, internal efficiency savings could be anticipated.

5.5 It should be noted there is currently no revenue stream identified to sustain this proposal in the long term, should such prove necessary.

5.6 The Head of Legal Services concurs with this report.

6. RECOMMENDATIONS

6.1 It is recommended that:

6.1.1 The Council participates in the Hub proposals to the extent of participating in the Territory Board.

6.1.2 Participation in Hubco, to the extent of taking a shareholding, continues to be under review and, if required, will be the subject of a further report.

6.1.3 Utilisation of Hubco as the Council's development agent is commended to all Services as an option when considering development vehicles.

6.1.4 The necessary documentation is concluded to deliver these recommendations.

6.1.5 All other terms and conditions to be adjusted by the Head of Property Services.



IAN NISBET
Head of Property Services

Members seeking further information on the contents of this report are asked to contact Ian Nisbet, Head of Property Services, on 01236 616305.