

THE HIGHLAND AND ISLANDS FIRE BOARD

27 November 2009

Estate Management

Report by the Chief Fire Officer

Agenda Item	
Report No	

Summary

The report addresses a number of Estate and Property Management matters across the Board's Estate and some obligations and potential opportunities.

The hub initiative is a national project driven by Scottish Government linked to the establishment of the Scottish Futures Trust.

The current design of single appliance stations is under review and revision as discussed and agreed at the last Board meeting.

A component of the development of the Rousay Station is revisited for consideration and approval by the Board.

An opportunity has arisen at Sandwick in Shetland which could benefit the Service, the Community and the Board's Capital Investment Plan.

There are changes in the procurement and supply of Electricity which requires the Board's attention and approval.

Sites acquisition continues to make acceptable progress.

1. BACKGROUND

Previous reports to the Board have informed Members of progress on various capital and management projects relative to the development of the Board's estate. This report covers the same business and seeks to converge all the relative information, aspects and proposals on Estate Management into the one report. The background to each individual item of the report is included under each heading.

2. NORTHERN TERRITORY HUB

The hub has been developed as a means of procurement by the Scottish Futures Trust (SFT), established by the Scottish Government, to provide a catalyst and focus for the development of improved joint planning and delivery. The SFT will implement the hub across 5 designated hub territories in Scotland: North, South East, South West, West and East Central. The North Territory is one of two pathfinders leading the way in implementing the hub procurement model. The Territory comprise 18 public sector bodies including NHS Boards, Local Authorities, Police and Fire Services all of which have engaged in the hub initiative across the Grampian, Highlands, Islands and Argyle areas.

The hub initiative was established to enable public sector organisations to speed up procurement of community based projects through a number of options including use

of private finance. The initiative aims to improve the delivery of services through joined up planning, working and integration between local community planning partners. All new build, refurbishment and asset management services of existing infrastructure projects can be procured through hub, subject to Value for Money appraisal.

The hub model has been developed and tailored specifically to meet the community needs of Scotland whilst drawing on the approaches developed by and lessons learned from similar joint venture models developed in England, such as LIFT and Building Schools for the Future.

The hub

The hub initiative represents a strategic long-term planning approach to the procurement of local services through a joint venture arrangement of a private/public sector company, referred to as a hubCo. The long term partnership of the hubCo offers a flexible procurement route for the delivery of required infrastructure, achieving value for money by reducing both the expense and time of one-off procurements, particularly when developing small facilities. Unlike other traditional procurement routes in the public sector arena, it offers a "cradle to grave" relationship over the 20 year lifecycle of the hubCo. This will bring efficiency also to project delivery and where appropriate estate management. The appointed private sector partner will have the expertise to provide various construction procurement mechanisms tailored to meet participants' needs over the agreed lifecycle of individual projects.

Under the hub initiative, the North Territory participants will appoint a private sector development partner to enter into a 20 year hub partnering agreement, forming the "hubCo". The participant organisations have submitted individual projects which have been used to form a 'project pipeline'. The hubCo will then deliver the individual projects in the pipeline. The projects will be procured through either:

- a) Design and Build contract (or build-only for projects which have already reached design development) under a capital cost option;
- b) Design, Build, Finance and Manage under a revenue cost option (land retained model); or
- c) Lease Plus model using a revenue cost option under which the land is owned by hubCo.

Capital enabling funds of £30m nationally for project development and de-risking of projects has been made available across Scotland to participant organisations to support the hub initiative on a national basis over the first 5 years of the programme. Revenue funding of £1.4m is also available for the North Territory to assist with set up and ongoing running costs associated with hub.

As the hub is a joint venture company between public and private sector, the shareholding of the hubCo will be split as follows: 60% private sector partner; 30% public sector participants; and 10% Scottish Government. Each public sector participant will have the option of becoming a hubCo shareholder and making a Capital Investment into the hubCo for which it is anticipated that a competitive investment return will be received. Alternatively, the Territory participants have the option of not becoming shareholders but still having the ability of participants in the hubCo to procure/construct identified projects.

A shareholder agreement will document the rights and obligations between the shareholders and the hubCo.

Benefits of the hub Initiative

The potential advantages to the public sector partners of hub over more traditional procurement methods are:-

- Faster and more efficient procurement as savings made on both the procurement timescales and costs through partnering arrangements, standardised processes and documentation - estimated 3% saving on procurement, 2% of capital cost and 2% for risk transfer to private sector.
- Service users accessing modern, integrated, fit for purpose services.
- Increased Joint Working – the opportunity to develop effective modern integrated community and primary care facilities and services within local communities, thus improving existing working environments.
- Local economic benefits - new build and refurbished community projects being delivered to support the local economy and community.
- Long term private sector and supply chain commitment to the Territory and to delivery of community projects, learning lessons project on project.
- The private sector partner will have a wide range of skills and expertise to provide diverse quality build projects.
- Enhanced value for money and risk transfer when compared to existing delivery methods.
- Value for Money – accords with the Scottish Government’s objectives with regard to delivering best value; achieved through the long term partnership and targets and the continuous improvement of the Private Sector Development Partner.
- No financial liabilities or commitment at this stage to participant’s organisations as the set up and revenue running costs of the Northern hub up to 5 years and up to £1.4 million will be met by enabling funding from Scottish Futures Trust.
- Access to additional Scottish Government capital enabling funding (£30 million) to assist in the development and de-risking of projects being delivered through hub.
- Supports joint working and integrated service delivery by simplified procurement of joint premises and property services and joint development of projects between participants.
- Enhanced central and Territory support through expert procurement and programme staff experienced in delivering large scale, long term contracts of this nature.
- Partnering – the involvement of a private sector development partner can provide access to private sector skills and innovation, foster a better understanding of the public sector client’s requirements and priorities and generate efficiencies through the use of integrated supply chains.

It is to be noted that, while the hubCo will be given the opportunity to develop proposals on projects listed in the development pipeline, the hub Company will require to demonstrate value for money on an individual basis. This would be demonstrated by an open book approach, benchmarking and/or market testing.

The HIFB is represented in the Northern hub without any formal agreement and at present without any obligations. It is possible that there are benefits and advantages in membership of the hub and this needs to be further explored.

The level of engagement between the hub and HIFB is not yet obvious and decided and will require some further investigation. It is intended to have representatives

from the Northern Territory hub at a future Board meeting to further inform the Members of the activity and benefits.

3. VALUE ENGINEERING

The review and revision of Fire Station design and construction initiated by the Shetland District has been given definition under the principles of Value Engineering and formalised to progress on a Project Management framework. As the project was initiated in Shetland, and the capital programme for 2009/10/11 has a significant focus in Shetland, it was considered expedient to continue with the review in Shetland.

The project is led by the Property Manager with stakeholders and domain representation from internal and external parties. The following schedule shows the project aspects and the review covered by each member of the team.

No	Aspect	Review - Domain	Representation and Organisation
1	Operational needs	Accommodation and function	Shetland District Offices
2	Site Selections	Locations	Property Manager HIFRS Capital Projects Manager, Shetland Islands Council
3	Design	Design brief and sustainability	Capital Programme Service Manager, Shetland Islands Council
4	Materials and Specifications	Lifecycle costs and durability	Surveyor, Highland Council
5	Architecture	Function, building, environment and climate	Architects, Shetland Islands Council and Highland Council
6	Construction	Comparative: methods and materials costs	Architects, Surveyors and Property Manager Shetland Islands Council, Highland Council and HIFRS
7	Cost	Cost profiling and analysis	Surveyors, Highland Council and Private Sector
8	Management	Process and project management	Property Manager HIFRS Property Manager Highland Council
9	Investment Management	Capital investment and risk management	SLT, Property Manager, Finance Manager HIFRS

The project is making good progress and it is programmed to complete by the end of this financial year and the outcomes will be applied to the development of Scalloway and Whalsay stations. The objectives in the project are to develop a design brief for Fire Stations which is efficient, affordable and fit for purpose at a lower cost than the current development plans. It is assumed that all the representatives are engaged and participating in a corporate role for the purpose of the project. Although the project is continuing in Shetland the outcomes must be applicable throughout the four constituent areas of the Service.

4. ROUSAY

The acquisition of the site for the Rousay Station comprised the purchase of a site on the landward side of the public road for the station and a wayleave on the seaside for the drainage soak away.

Considerable time lapsed from the purchase of the land to development of the site and the original design for surface and foul water drainage changed several times to meet site conditions and the landowner's requirements. It is understood that the changes were as a result of ground conditions and variations requested by the owner of both areas of land. The preferred solution now is to have drainage utilising a filter mound contained within an enlarged site on the landward side of the public road, under the ownership and control of the Board, rather than a long-term wayleave obligation involving a soakaway on the other side of the public road, as originally agreed, on land outwith Board control. This preferred solution necessitates buying an additional piece of land.

This final solution for building and site drainage was not agreed with the landowner until after the construction had started. The landowner was involved in the consultation for this change and influenced and acquiesced with the proposals for the filter mound land outwith the original site. However, there is no formal record of these discussions to provide a clear view as to any terms of agreement proposed, particularly as to the value and basis of valuation of the additional land.

In late August 2009 a demand was received from the landowner for twenty five thousand pounds (£25,000) for the additional land. This demand was based on an independent valuation for the additional site requirements for the filter mound. In response the Valuation Office Agency (VOA) was instructed by HIFRS to give a professional opinion and a corresponding valuation for the additional requirements. Although the VOA report is not yet available it is understood that there is a differential in the two valuations, between that of the VOA and the independent surveyor instructed by the landowner.

The additional cost of the filter mound is significant but is offset by the contract allocation for the soakaway and the road crossing. In the long term it is better to have all the drainage managed on one site, as the cost and obligations of maintaining the soakaway on wayleave could be equal to, or in excess of the cost of the additional land. The issue in this case is the disparity between the valuation and the lack of accurate record of the actings of the parties in contract.

The remedies for resolving the matter are in negotiation of a settlement with the landowner, agreement to proceed to Alternative Dispute Resolution or by a court of law in Scotland. The preferred option is to resolve the issue by negotiation, and even if the cost is above the VOA valuation it is most likely to be of lesser cost than the other two options.

5. SANDWICK

The station at Sandwick in south Shetland has been identified in the IRMP Risk Review and Capital Programme for upgrading. Several sites have been considered and evaluated for development of a new station to house a larger modern appliance. Although the project has not been allocated any development capital in 2009/10/11, funds are identified in the capital allocated for site acquisition.

The site search has produced a site with an existing building in good condition and available for sale or lease at Swinister, Sandwick. The building was previously used as a joinery workshop and is currently available vacant possession for lease or sale. It should be noted that the owner would prefer to sell the assets or contract for a long term lease.

The building is stone walls cement rendered with a profile metal sheet roof cover on timber rafters with sarking. The floor area is 190m² on a large site with ample space for parking and possible future development, accessible from the public road. The Open Market Value of the subjects is fifty five thousand pounds (£55,000).

The availability of this building presents a feasible opportunity for the Board to acquire the subjects and convert the building to a Fire Station, at significantly lower cost than the provision of a new building on a new site. Following are the main criteria that would be applied to a new build development and are presented for comparison:

No	Criteria	New Build	Acquisition
1	Community Location	Sandwick	Sandwick
2	Site Access/Egress	Off public road	Off public road
3	Site Size	Larger	Adequate
4	Site Services	Utility connection nearby	All utilities connected
5	Building Floor Area	130m ²	190m ²
6	Facilities	Standard	Same
7	Cost	£400k	£200k (estimated acquisition and remodelling costs)
8	Lifespan	30 years	30 years
9	Development Opportunity	Standard	Standard
10	Residual Value	Land Value	Land value and residential development value
11	Functionality	Standard	Standard

12	Public Access	Standard	Standard
13	Parking	Could be restricted	Unrestricted
14	Availability for Service	2014	2010
15	Community Benefits	Standard - 2014	Available in 2010

The criteria for comparison are not exhaustive and there is a wide range of generic issues that may need to be considered before deciding on the best outcome for Service Delivery for the community of Sandwich. The following list is in principle relevant comparatives to conclude the appraisal.

No	Criteria	New Build	Acquisition
1	Strategic Impact	Scale of impact is the availability of the larger appliance.	Scale of impact is the availability of the larger appliance.
2	Economic Rationale	Community safety and public service.	Community safety and public service.
3	Affordability	Cannot be defined until a suitable site is procured.	Affordable in Capital Allocation for 2009/10/11.
4	Achievability	Achievable at a later time.	Achievable now.
5	Commercial Considerations	Costs may increase with changes in the component markets.	Market condition known.
6	Regulatory and Legislation	Planning and building control.	Planning and building control.
7	Community Safety	Adequate	Improved.
8	Environmental Impact	High carbon footprint.	Low carbon and sustainable.
9	Equality	Deferred.	Advanced.
10	Health and Safety	Deferred.	Advanced.
11	Cost	Higher.	Lower.
12	Design Quality	Defined and controlled.	Adequate.

Although the IRMP modelling does not accommodate cost benefit analysis and Service Benefit Ranking analysis it does provide the criteria for station development and therefore forms the dominant model for investment.

The Service and Community impact of a new build and an acquisition can be measured and quantified and the cost benefit for the organisation in an acquisition is considerably greater than the new build option. Non market impacts are not considered in this case, and based on the available information it is recommended to develop the “acquisition option” over “new build”, provided the proposals meet the obligations and requirements for planning and building control regulation and an acceptable bargain can be concluded with the owner.

6. HEADQUARTERS BUILDING.

Following discussion at the September Board on the review of accommodation and assets on the Harbour Road site, a scoping exercise is in progress to produce a future investment development plan. Since then an unsolicited expression of interest in the site has been received from an agency acting for a leading private Finance and Investment house. This overture is accepted as preliminary and speculative although it may have potential for future benefits in development capital. It is expedient to respond and explore all opportunities and this new potential will be explored to a satisfactory conclusion with the agency.

7. ENERGY

The supply and procurement of electricity in the Scottish public sector has changed considerably in the last two years. Procurement Scotland acting in the capacity of agency is procuring and managing supply for the public sector consumers which include the Board. As a result of the new arrangements it is necessary for the Board to contract with the Agency to receive all the benefits of supply tariffs and economies of scale and quantity. Although some of the administration of supply will remain with Highland Council's Energy Office there are changes in the division of responsibility and the Board will have increased obligations in the new contract

The Scottish Ministers (The Authority) is to enter into a framework agreement with suppliers of electricity in terms of which electricity is to be supplied to the Authority within the agreed terms and the Board (The Client) is invited to give formal authorisation to the Authority to purchase electricity and manage supply arrangements on the client's behalf.

It is considered to be in the best interest of the Board to contract with the Authority for electricity as there are a number of cost benefits.

8. SITE ACQUISITION

8.1 Bayhead

At the time of producing the report a progress report was not available, despite several reminders having been issued to external agency, dating back to May 2009. If a satisfactory report is not received by the end of November it would be expedient and productive to consider other options.

8.2 Baltasound

The purchase of the site and building is progressing and an application has been made to the Planning Authority for consent for a change of use of the existing assets. It is anticipated to conclude by the end of the year and have the site fully operational by the end of March 2010.

8.3 Fair Isle

The Heads of Terms for the lease of a new site for a new station on Fair Isle have been agreed with the National Trust for Scotland and the Local Planning Authority have given outline consent for development on the said site. The Highland Council's Legal department have been instructed to agree the lease based on the agreed Heads of Terms. The Board should be in possession of the site before the end of December 2009.

8.4 Foyers (Gorthleck)

An application for outline planning consent has been submitted for development on the site and the valuation and acquisition will be instructed on receipt of development consent.

8.5 Kinlochewe

The boundaries of the required site have been agreed and confirmation sent to Legal for title search in preparation for acquisition. Confirmation of the availability of services and drainage on site remain outstanding, along with the revaluation of the site with revised boundaries. There are a number of external matters influencing the progress of the acquisition.

8.6 Scalloway

The site acquisition is progressing to conclusion of the bargain without any known further impediments.

8.7 St. Margaret's Hope

The acquisition of this site is progressing to a conclusion at the earliest opportunity without any known outstanding matters or impediment at this time.

8.8 Torridon

There is no significant progress on the acquisition of this site and it is recommended that an external agency be instructed to progress the project to a satisfactory conclusion with or without a partnership agreement.

8.9 Uig

There is no significant progress on this site since the last Board and no further development is anticipated in the next two months.

8.10 Whalsay

The site is considered suitable for the purpose and the asking price is broadly within Open Market Value and the owner is willing to sell to the Board. The development feasibility report is favourable, and, subject to outline planning consent, an instruction will be issued this month to progress to conclusion of the bargain.

RECOMMENDATION

It is recommended that the Board:

1. Note the development of the Northern Territory hub and approve engagement with the hub to explore opportunities for future participation in full partnership or membership.
2. Note the progress on the Value Engineering project on Single Appliance Station design and construction.
3. Note the additional requirements at Rousay and approve the proposed remedy.
4. Consider available option for early development at Sandwick and approve further investigation to develop the acquisition option.
5. Note the expression of interest in the HQ site.
6. Note the requirements for the new arrangement for procuring electricity and approve the agency agreement.
7. Note the progress on site acquisitions.

BRIAN MURRAY
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18 November 2009