

THE HUB INITIATIVE

BRIEFING PAPER



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1. Background

The hub initiative was 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 that supports community services.

The SFT oversaw the roll-out of hub across 5 designated hub territories in Scotland: North, South East, West, East Central and South West. A map detailing the 5 hub territories is set out at Appendix 1 to this paper.

The hub model was 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.

All five hub territories have completed the procurement of their private sector development partners and are now operational.

South East Territory: Hubco established August 2010

North Territory: Hubco established January 2011

East Central Territory: Hubco established February 2012

West Territory: Hubco established April 2012

South West Territory: Hubco established November 2012

The key outcomes for hub 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.

The key objectives of hub are:

- Providing enhanced local services through increasing joint service working and integration between Community Planning Partnerships, including the third sector;
- Delivering a sustained programme of joint asset management and 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;
- Facilitating and improving the level of stakeholder engagement in the planning of services and development of community-based premises; and
- Increasing opportunities for local employment and training

These outcomes and objectives will be achieved through the joint venture arrangements between the local public sector organisations and the private sector.

2. Overview of the hub model

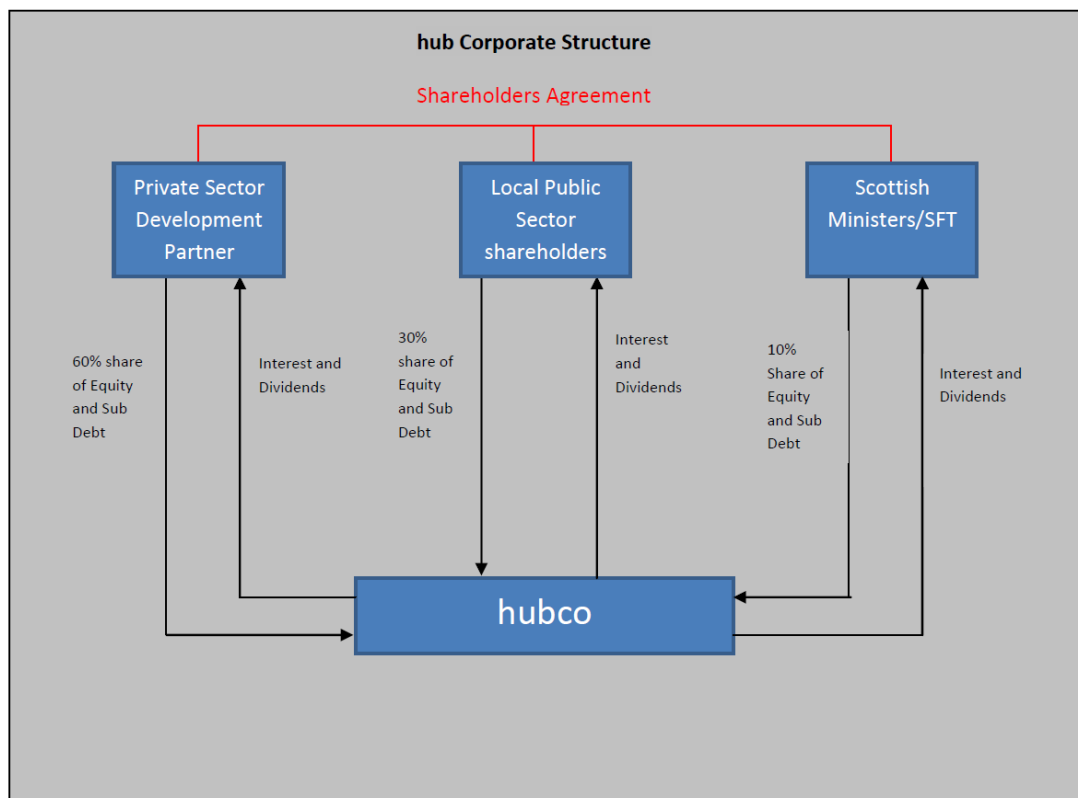
The hub initiative sees the public sector organisations (“**Participants**”) within a hub territory working in partnership with each other and with a private sector delivery partner, taking a strategic long-term planning approach to the procurement of infrastructure to support the delivery of community services (such as health, social care and education).

Hubco

The Participants within each hub territory collectively ran their own procurement process to identify their preferred private sector development partner with whom they have formed a private public sector joint venture, referred to as “**hubco**”. Hubco delivers 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 proposals through its supply chain.

The shareholding of hubco are split as follows:

- 60% private sector development partner
- 30% Participants
- 10% Scottish Futures Trust.



The board of the hubco is made up of 3 directors appointed by the PSDP, 1 director appointed by SFT, 1 director appointed by local public sector partners and a non-voting Chairman (appointed with the unanimous support of all five directors).

Each Participant had 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. A shareholder agreement documents the rights and obligations amongst the shareholders in hubco.

Partnering

The Participants had the option of not becoming shareholders but still having the ability to partner with hubco for the development/procurement/construction of identified projects. All bar a very few Participants chose not to become shareholding members.

The provision of Partnering Services is the most significant feature of hub. In broad terms, these services include all that hubco can significantly contribute to the process of developing new projects to meet Participants' requirements and service needs including programme managing the delivery (and in some cases subsequent operation) of projects. Given that these services are delivered through a supply chain, and in some cases require private finance, the partnering services include those aspects as well.

It is important that the hub partnership runs for a significant period of time in order to:

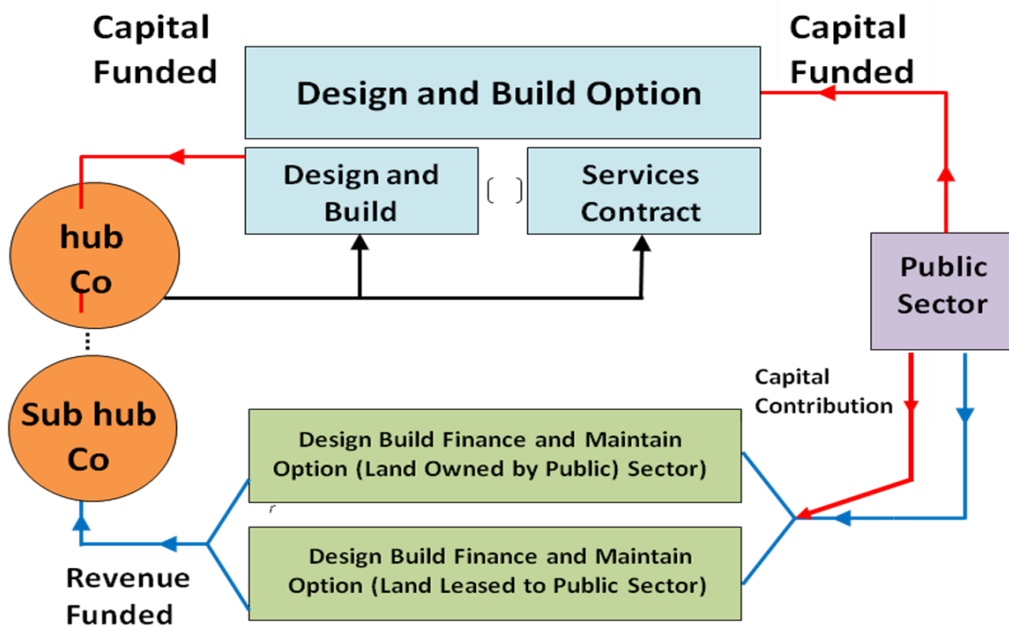
- a. realise the benefits of the hub programme including:
 - (i) procurement cost savings;
 - (ii) cost efficiencies through supply chain management and continuous improvement; and
 - (iii) economies of scale through joint public service delivery;
- b. provide a pipeline of projects of delivery and investment by the hubco, hence enabling the private sector development partner to achieve a suitable financial return; and
- c. 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.

The Territory Partnering Agreement has a term of 20 years, with an option to extend for a further 5 years where agreed between hubco and one or more of the Participants.

The Participants in each territory have the opportunity to put forward individual projects which will be used to form a 'project pipeline' which hubco will deliver through one of the following options:

- 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 for a revenue cost option under which the land is owned by hubco.

The different funding and contractual mechanisms are illustrated in the diagram below.



Working closely with the public sector partners, hubco are 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 are being monitored by the setting of performance targets, KPIs and the periodic use of market testing.

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 has the expertise to provide various construction procurement mechanisms, tailored to meet the Participants' needs over the agreed lifecycle of individual projects.

In short, hub represents a fast, efficient, flexible and enduring procurement vehicle for delivering a range of community infrastructure projects and services.

Through the Pathfinder territory procurements, the SFT has developed a standard form shareholder agreement and territory partnering agreement, D&B agreement and DBFM agreement.

Further background information can be obtained from the SFT's website
www.scottishfuturetrust.org.uk

3. Non Financial Benefits of Participation in hub

Benefits from Joint Planning and Delivery

Prior to the creation of a delivery mechanism like hub, it had proven difficult to create joint planning and delivery of services. As a result, services had tended to be planned opportunistically and procured through fragmented routes by individual procuring authorities. The scale of investment in joint facilities is therefore likely to be much lower using current procurement processes than it will be with hub.

hub provides a catalyst and focus for the development of improved joint planning and delivery. By increasing the scale of investment in joint facilities, hub brings substantial service benefits and presents a more comprehensive approach to infrastructure development. In doing so, it allows the wider non-financial benefits of investment to be consistently and systematically captured. Importantly, existing CPP and CHP planning networks will be at the core of hub.

Wider Non-Financial Benefits

The key non-financial benefits that arise from the hub approach to facilities development and service delivery are:

- **Service improvements for users:** user demands for accessible, fast, flexible and effective services make a carefully planned, local network of high-quality facilities a key component of delivery. hub supports joint working and integrated service delivery and provides public sector organisations with the opportunity to innovate, act flexibly and respond quickly to changing user-demands.
- **Improved access to services:** co-located and integrated services
- **Environmental improvements:** fit for purpose facilities that improve the service experience for users and the working environment for staff (controlled programme for better building functionality, aesthetics and efficiency)
- **Design quality:** better building functionality, aesthetics and efficiency which can be tested through independent review; shared learning through a co-ordinated knowledge management and dissemination programme will also drive continuous improvement
- **Social and community improvements:** public service buildings providing a focus for communities, supporting sustainability by keeping and attracting services into communities; wider regeneration opportunities and private sector investment in deprived communities driven through premises investment
- **Employment and economic well-being:** providing local training and work opportunities through the building and service developments and a sustained programme of premises investment

The development and retention of people with service-planning, procurement and project management skills is essential for the successful delivery of a sustained programme of investment in community-based premises. hub is based on a long-term programme for which such skills are required on a continual basis which offers greater incentive to develop and retain personnel (in both the public and private sectors) over the long term. The size and make-up of the hub territories also provides an opportunity for skills and experience to be shared across a range of public sector organisations and projects – enabling **skills and knowledge transfer** as well as increased efficiency.

A joint approach to premises development, involving a range of public sector organisations, increases opportunities to consider the impact of projects on broader policy objectives such as regeneration, sustainability and an improved environment.

Hub also provides **better value for money** solutions for community-based infrastructure by encouraging high-quality competitions on a scale that is large enough to attract a wide range of providers from the private sector. A similar market response would not be feasible with fragmented procurements. In providing a long-term flow of projects for the private sector to deliver, hub is developing a market that has, to date, been episodic and un-coordinated.

Hub also requires the private sector to respond to a wide range of premises requirements, both in terms of size, use and geographic location. The local hubco structure requires the assembly of a supply chain capable of responding to those needs and providing opportunities to private sector suppliers who, to date, have had little incentive to involve themselves in primary care and community infrastructure investment.

Other benefits include:

- **Value for money:** the procurement framework put in place accords with Scottish Government objectives with regard to delivering Best Value, driving forward increased efficiency in the delivery of public services and improved outcomes in local communities
- **Efficient procurement:** following the selection of a private sector development partner, quicker, easier and lower-cost procurement is emerging through partnering arrangements and standardised processes and documentation
- **Flexibility:** resulting from primary and community care providers (e.g. GPs) not being tied into long-term leases or occupation of unsuitable facilities, a mixed economy of procurements (e.g. conventional or private finance) and the potential for capital recycling
- **Enhanced central support:** through expert procurement staff and enabling funding for project preparation and site acquisitions
- **Governance:** local stakeholders are party to the governance arrangements of the local hubcos through their shareholding in hubco and representation on hubco's board of directors
- **Partnering:** the relationship with a private sector development partner brings access to private sector skills; the long-term commitment of a private sector development partner to a particular hub territory helps foster better understanding of the public sector clients' requirements and priorities, generating efficiencies through the use of integrated supply

chains, allowing lessons to be learned project by project and bringing access to additional investment and capital

- **Financial interest:** the Participants can take a financial stake in the projects that hubco delivers
- **Risk transfer:** the risks of property ownership and maintenance is moved away from the Participants, allowing them to focus on service-delivery issues
- **Budgeting and asset management:** the processes and payment mechanism arrangements around hub align to planning for financial consequences, including planned maintenance of investment over the life of a project.

4. Benefits on Local Projects

Approach

The hub initiative is being pursued because its partnering approach provides enhanced VfM and risk transfer when compared to other existing delivery methods. Various elements contribute to the VfM advantages that hub offers. Alongside the significant non financial and qualitative benefits of hub, there are tangible financial benefits derived locally.

To articulate the financial benefits, hub procurement can be contrasted to non hub procurement. As is the case with economic appraisal, care must be taken to assume the comparison is undertaken on a like for like basis or appropriate comparability adjustments are calculated or are considered when comparing hub and non hub procurement.

Example hub Project

The table below sets out potential savings achieved at a local level if a Participant were to procure a £10m community infrastructure project through hub. The financial and accounting implications of this, together with for comparison purposes convention procurement, are shown in the table below.

Area	Detail	Indicative Benefit
Procurement cost saving – ex reduced procurement times	<p>It is anticipated that on-going hub procurements, on average, take 6 to 12 months less to procure than non hub projects (e.g. savings from no requirement to OJEU, set standard processes, specialist delivery teams etc).</p> <p>If procurement costs (i.e. internal staffing and advisers) are assumed to be £50k per month for a conservative 6 months are not incurred, a direct saving is generated.</p>	3% of capital cost
Construction inflation saving – time	<p>Quicker procurements mean that capital costs of projects are less exposed to construction inflation.</p> <p>Assuming a conservative 6 months reduction in procurement time, and a construction inflation level of 6%, a direct saving is generated.</p>	3% of capital cost
Cost efficiencies	<p>Efficiencies and economies of scale are generated by the private sector development partner and supply chain e.g. via competition in supply chains, cost improvement plans, benchmarking, VfM procedures, integrated design and lifecycle approach, standardised processes and documents across sustained deal flow.</p> <p>Assuming the above realise a 2% benefit, a direct saving is</p>	2% of capital cost

Area	Detail	Indicative Benefit
	generated. (In relation to existing partnering arrangements such as Procure 21 in England and Designed for Life in Wales this estimate is considered conservative).	
Risk transfer	<p>Hub projects procured under the hub standardised contacts have minimal if any exposure to post FBC optimism bias compared with other existing contract forms which have exposure to post FBC optimism bias in the range of 2% - 5%.</p> <p>Assuming that non hub contracts are exposed to 2% greater post FBC optimism bias, a saving is generated.</p>	2% of capital cost

5. Frequently Asked Questions and Answers

1. ***What projects are being delivered through hub?***

The hub model has been structured to give the potential to deliver a wide range of facilities to improve the provision of community services. Projects could include community health centres, dental surgeries, doctor surgeries, debt and citizens' advice facilities, employment advice and a range of other community services, primary and secondary schools and police and fire service facilities.

2. ***Do all projects have to envisage the delivery of joint services?***

No. Individual Participants are able to use hub to deliver their own facilities as well as facilities that they want to share with other Participants or third parties. Nevertheless, a central theme of the hub initiative is that opportunities to share facilities with other Participants are maximised where at all possible as this introduces cost efficiencies for all parties involved.

3. ***How much did it cost to be part of hub?***

There were costs incurred in the procurement of a private sector development partner and setting up hubco, as well as costs normally associated with the development of projects. Some central funding was available to support these costs.

The Participants that wished to take a share of the 30% public sector participant shareholding in hubco were required to contribute to the share capital of hubco and a share of hubco's working capital (although this should be considered as an investment and not a cost). The actual value of these costs depended on the individual bids received during the procurement process and the territory had the opportunity at that stage to consider the cost implications in detail prior to appointing its private sector delivery partner.

4. ***What are the cost benefits of delivering projects through hub?***

hub has the potential to increase the speed and reduce the cost of community infrastructure procurements. Subject to meeting certain requirements (including demonstrating value for money) hubco will have the right to develop detailed solutions and deliver individual projects on the basis of a standard set of contract documents. This streamlined procurement process leads to efficiencies and improvements that do not arise on one-off procurements. hubco is required to demonstrate value for money throughout the development of new projects and in the delivery of the project pipeline and to demonstrate continuous improvement over a series of projects.

Efficiencies also arise through the use of joint/integrated facilities with complementary services being provided by different Participants from one location.

5. ***Who works for hubco?***

hubco is responsible for providing certain partnering services and delivering projects identified in a delivery plan (developed for each territory) and employing the staff required to do so. During the procurement, tenderers were required to submit their proposals for the staffing of hubco, recognising that there may need to be a degree of flexibility depending on the number and timing of projects. These require an interface with staff from Participant organisations whose remit may be full or part-time dependant on project activity.

6. *Can hub be used to deliver projects partially developed outside of hub?*

Yes. Projects that have been partially developed through, for example, HFS Framework Scotland can be delivered through hub. There is a process established to novate designs at key stages in the development such as OBC or FBC level approval.

7. *Can an organisation be part of hub without having projects to deliver?*

Yes. An organisation can be a shareholder in hubco and party to the partnering agreement with hubco without necessarily having any projects initially identified in the project pipeline. By signing up to the partnering agreement, organisations gave themselves flexibility to deliver projects through hub in the future. It should be noted that NHS Boards are required to be a signatory to the partnering agreement and to provide a level of exclusivity to hubco for primary health care projects (see FAQ 9 below).

8. *How are the development of projects paid for?*

hub projects are developed on a 2 stage basis. Stage 1 develops the design to a level similar to OBC and is undertaken at risk by hubco. Should the project be rejected for any other reason than it does not provide value for money or is not within the affordability cap, the relevant Participant is liable to pay these Stage 1 development costs. Stage 2 sees the development of the design to a level similar to FBC and the costs of this are paid (subject to a cap) using an agreed payment process.

Costs incurred during project development are prepared using a schedule of rates submitted by the successful tenderer, hence achieving a competitive price. Rates are reviewed annually by reference to RPI, to other relevant local and national trends and to the rates and prices actually paid by hubco for similar services.

9. *What are the “exclusivity” arrangements under hub?*

For the first 10 years of the partnership, hubco has an exclusive right to develop proposals for (and, subject to meeting certain criteria, deliver through its supply chain) certain projects:

- NHS projects: all front-runner projects specifically named at the point the partnering agreement is signed; all new build primary/community health facilities with a capital value exceeding £750,000 in South East, North and East Central Territories and £3.5 million in the West and South West Territories; and any other projects specifically allocated to hubco;
- Local Authority, Police and Fire Authority projects: all front-runner projects specifically named at the point the partnering agreement was signed; any other projects specifically allocated to hubco;
- Joint NHS/Authority projects: all projects with a capital value exceeding £750,000 in South East, North and East Central Territories and £3.5 million in the West and South West Territories involving primary/community health facilities where the NHS is lead procurer; any other projects specifically allocated to hubco.

10. *Who owns the buildings procured through hub?*

In most cases it is anticipated that the land is provided by the Participant(s) and licensed to hubco (or the Project Service Provider on a particular project) for the purposes of performing its obligations and this is the basis on which the standard contracts have been drafted. In these cases, the land is owned throughout the life of the project by the Participant(s) and remain with the Participant(s) at the end of the project. In cases where it is deemed

appropriate (e.g. where there is a meaningful residual value risk to transfer) the land may be owned by hubco (or the Project Service Provider) and the facilities leased to the occupying Participant(s), in which cases the facilities will be owned by hubco (or the Project Service Provider) when that lease comes to an end.

11. Who takes the risk of cost increases on D&B projects?

hubco is required to provide fixed contract sums for individual projects (subject to provisions for client breaches/compensation events etc.) and that payments are made against defined milestones.

12. How does hub fit in with existing community planning arrangements?

The intention is that hub complements (rather than adds to/replaces) existing joint working arrangements. It is an avenue through which proposals for joint facilities (identified through existing community planning arrangements) can be developed and delivered. Hub also offers the opportunity for private sector skills/experience to be brought into joint community planning arrangements.

13. Does hubco determine how, when and what projects are required?

No. Hub is not;

- a replacement for the intelligent client function
- a commissioner of new projects or
- an approver of final project proposals.

It remains the Participants' right and responsibility to identify the requirements for community infrastructure investment within their territory (albeit with the opportunity for hubco to assist with asset management and planning processes). The Participants involved in a specific project being developed/delivered by hubco retain the client role that they currently have on individual one-off procurements. A Participant can therefore have two separate identities within hub – one as the procuring body (i.e. client) on a specific project and one as a minority shareholder in the company (i.e. hubco) delivering that project.

14. What is a "sub hubco"?

Some projects (including any that are wholly/partially debt funded) are delivered through a special purpose vehicle (sub hubco) established for a single project. The reason for setting up a separate sub hubco is to limit recourse to hubco on any default of sub hubco and insulate hubco from any issues of cross default – i.e. default on one project will not bring down other projects. Any sub hubco will be a wholly owned subsidiary of hubco.

15. Why does the private sector have 3 directors on the board of hubco?

hubco has 3 private sector appointed directors and 2 public sector appointed directors (one SFT appointee and one local public sector appointee) to reflect the fact that the private sector development partner is the majority (60%) shareholder in hubco. Normally the interests of the two public sector shareholders are generally aligned. It is the intention that the private sector shareholders have control over day to day decisions as it is their skills that are being sought as part of the procurement. There are, however, substantial minority protections built into the documentation to prevent changes to the business plan, remuneration, share structure etc without public sector consent.

16. Are the Participants able to procure the delivery of new projects from hubco without going through a further competitive tendering process in accordance with EU Procurement Law?

Yes. The initial procurement exercise covered the selection of a private sector development partner to form a hubco that will provide partnering services (including the delivery of new projects) to the Participants. Provided a new project is of a type that falls within the scope of the partnering agreement (as described in the initial OJEU notice and procurement documentation) it is permissible for the Participants to procure that new project from hubco without going through a new procurement exercise.

17 ***What ability does an authority have to participate in a hub project if it is named on the OJEU but does not sign the Territory Partnering Agreement?***

If an authority is named on the OJEU but did not sign the Territory Partnering Agreement it is not able to procure, either jointly with another authority or on its own, any projects from hubco. It is, however, still entitled to rent or lease space in a facility procured from hubco by another Participant.

However, it left open the opportunity for that authority to become a signatory to the Territory Partnering Agreement (with the consent of the other signatories to the agreement) at a later stage. If it does so become a party to the Territory Partnering Agreement, it will have the same rights to procure projects from hubco as the original signing authorities.

18 ***What ability does an authority have to participate in a hub project if it signed the Territory Partnering Agreement but did not become a shareholder in hubco?***

If an authority is not a shareholder in hubco but has signed the Territory Partnering Agreement, it is still be entitled to use hubco to procure projects on its behalf. It does not, however, have any obligation or entitlement to buy shares in hubco nor provide subordinated debt to hubco and as such will not get the share of any returns generated by hubco. It will also not have any rights as a shareholder in relation to the operation and management of the hubco.

Appendix 1: hub territories

