

Building Better Local Services Together: Your Guide to the hub Initiative

Information memorandum

The hub is an initiative proposed by the Scottish Executive which is designed to enhance the delivery of local services and improve procurement through strategic public/private sector partnering.

This document outlines the hub programme and delivery methods. As such, Scottish Ministers hope that the information herein will engage stakeholders in the planning process and that feedback from interested parties will help develop the hub initiative in line with local needs and national strategic objectives.

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01 – What is hub?

hub is an initiative being developed by the Scottish Executive. It suggests a strategic long term solution to the development of stronger services for local communities.

By setting up local joint ventures (local hub Cos) supported by national delivery (hub Scotland), hub and its resulting infrastructure will be the focal point for pulling

together various local services, as well as providing the efficient procurement framework which makes such developments possible.

Whilst the hub initiative has close parallels with the NHS LIFT (Local Improvement Finance Trust) and BSF (Building Schools for the future) programmes in England, it has its own distinct objectives and desired outcomes. As with these programmes, hub is being established jointly with Partnership UK.

The key objectives of the hub initiative are:

- 1 To provide enhanced local services by increasing the scale of joint service working and integration between Community Planning Partners across Scotland;
- 2 To deliver a sustained programme of investment into community based infrastructure and developments so that more and more services are provided locally in communities through multi-disciplinary teams working (wherever possible and appropriate) from single sites;
- 3 To establish a more efficient and sustainable procurement methodology for public sector bodies including NHS Boards and Local Authorities that:
 - reinforces joint strategic planning and delivery;
 - is stable and long-term
 - delivers better value for money than current procurement arrangements;
 - is flexible in its ability to respond to evolving service strategies and in being able to deliver through different contractual/ funding routes; and
 - is able to generate sufficient project size, volume and deal flow to attract private finance into the delivery and long-term management of service; and
- 4 To share learnings and improve the procurement process for both public sector procurement teams and their private sector partners.

02 – The benefits of getting involved

hub is about improving the quality of services in local communities across Scotland and building infrastructure fit for a new vision of community-based services in Scotland - making a real difference to people's lives by delivering better access and seamless service in good quality facilities all for excellent value for money.

Increased Joint Working - The hub initiative offers the opportunity to develop modern integrated community and primary care facilities and services within local communities. The aim is to improve existing working environments but use existing Community Planning Partnerships and Community Health Partnerships planning networks as its core.

Efficient Procurement - Following the selection of a private sector partner, new arrangements such as standardised processes / documentation will create quicker, easier and lower cost procurement. In addition, private sector funding will be at risk in delivering facilities on time and on budget and in long-term maintenance.

Value for Money - More efficient procurement systems will accord with Best Value and Efficient Government policies and create savings that will help sustain improved services for local communities.

Property Ownership - By removing the risks of property ownership and maintenance public sector stakeholders will be able to focus on health, community and social care issues rather than landlord duties.

Flexibility - Primary and community care providers (e.g. GPs) need not be tied into long -term leases or occupation of inappropriate facilities. hub provides for a wider array of financial structures (Lease Plus, conventional) and offers potential for capital recycling.

This will translate into a number of potential benefits of the hub approach for public sector participants.

Enhanced Central Support - Expert procurement staff and funding for project preparation and site acquisitions will ease the development process.

Financial Interest - Local stakeholders will have a real stake in the long-term service development and in the investments/facilities available to the area. This provides a powerful incentive to participate in the planning of future investments and services to meet local needs.

Overall, the hub approach has significant advantages compared to existing methods of procurement. Requirements will change over the long-term and cannot be forecast with total accuracy. Therefore, planning and procurement approaches need to be flexible and responsive to changing circumstances. hub facilitates a more flexible approach through strategic partnering, while increasing the number of projects that emerge from joint service plans.

A national delivery vehicle (hub Scotland) will develop and disseminate standard replicable documentation and provide intensive support to the first schemes. This will offer economies of scale and scope. The standard documentation will only need minor tailoring to meet local requirements and to fit the requirements of future projects.

Private sector partners will bring access to capital, but also access to private sector skills in property management and project implementation allowing the public sector to focus on service delivery

03 – The private sector role

To meet the need for community-based premises, hub will help the private sector offer Scotland's public sector co-ordinated, value-for-money solutions.

First, hub will be a managed programme of co-ordinated, standardised procurements. This will reduce bid costs for bidders by shortening procurement periods, speeding up negotiations and reducing abortive bid costs.

Second, hub will increase the scale of transactions by fostering joint planning and delivery. Through the exclusivity provided by the hub Partnering Agreement (hPA) and the processes for developing and co-ordinating projects across a range of public sector partners, this will also increase certainty in the flow of projects. In turn, bid cost to reward ratio will improve substantially for bidders, resulting in more market interest and, ultimately, more cost-effective procurements for projects.

Third, the hub Co arrangements will give private sector partners a chance to develop a long-term relationship with Community Planning Partners. So far this is something that has proved extremely difficult to achieve due to the fragmented nature of premises planning and procurement.

The attractions of investing in local hub Cos will include the following:

- **Long term stable cashflows** with common clients on common terms creating low transaction costs for investments that, when aggregated, are significant;
- **A portfolio of investment opportunities** across a locality;
- **Returns** commensurate with risk and property development; and
- **Centrally supported revenues** with suitable covenant.

Across these four areas, hub will harness and deploy the skills and resources of the private sector to deliver for users while providing value for money.

04 – Why is it being developed?

The hub approach is not simply about addressing the premises needs of a particular part of the public sector. The aim is to establish a service-led model: one that can respond to changing needs and demands; demonstrate best value; and deliver against the 'efficient government' agenda.

In the practical application and demand for the hub approach, the continued emphasis is on efficient government, best value and breaking down traditional barriers to joint working and service delivery. In a wider context, the publication of "Transforming Public Services" by the Scottish Executive sets

out a vision for reform containing five fundamental elements. These are:

- user focus;
- driving up quality and encouraging innovation;
- improved efficiency and productivity;
- joining up services and minimising separation; and
- strengthening accountability.

The concepts and approaches underpinning the hub initiative are entirely consistent and supportive of these principles. The hub initiative is therefore not centred on one particular sector or agenda but on the common principles at the core of the Executive's delivery and reform agenda.

From a health and community care perspective, the publication of *Delivering for Health*, by the Scottish Executive in November 2005 signalled the clear intention to shift the balance of care provision away from District General Hospitals, towards locally provided healthcare, with services being provided locally by multi-disciplinary community-based teams. This implies a much bigger emphasis on joint service planning and delivery, with primary and social care teams working alongside community services from a common location, offering the consumer a 'one-stop shop' for care services.

For some time those involved in the development of community-based infrastructure have identified the difficulty and complexity of existing procurement models, as well as the appropriateness of their application. The Short Life Working Group on Joint Premises Development reported in July 2003 and recommended that, following appropriate consultation (conducted early in 2004) legislation should be enacted to let NHS Boards participate in the formation of joint ventures. These powers were already available to Local Authorities under existing legislative powers.

While some arrangements exist for joint planning, the current system for translating planning to delivery suffers from some shortcomings:

- joint service planning varies in effectiveness from area to area, and projects tend to be opportunistic rather than part of a strategic plan;
- delivery of community based premises is fragmented - partly as a result of above and partly because procurement is run by different client groups (some based in health boards, some based in GP practices, others based in Local Authorities); and
- as a result of 1 and 2 the care infrastructure sector is characterised by:
 - small sized projects (with transaction costs high in relation to capital cost); and
 - multiple contracting authorities.

This makes it harder for the sector to attract the private capital - or to provide contractual incentives for robust project management and whole life

maintenance - which could deliver community-based infrastructure at a larger scale and in a more efficient manner.

Current procurement arrangements are limited to conventional building contracts and/or (mainly GP-led) third party developer schemes. These too have limitations, which are summarised below:

Conventional design and build contracts/public capital:

- there are no systematic mechanisms for long-term lifecycle maintenance of facilities;
- such contracts tend to leave risk with the public sector procuring authority, resulting in time and cost over runs;
- while there is experience of procuring large projects through such arrangements, capacity and experience varies. Due to fluctuating need, retaining experienced staff is also problematic.

PFI:

- procurement is costly and time consuming relative to capital cost for schemes below £20m; and
- variations to existing contracts are more costly and efficiency is driven by certainty about future service requirements.

Third Party Developer schemes:

- developer schemes tend to be GP-led, restricting them to large GP practices and to areas where rental yields are high;
- the lease arrangements tend to be long-term and relatively inflexible; and
- performance risk typically remains with the tenant.

The expense of procurement by such arrangements (relative to capital cost and the related timescales) varies across Scotland. Our experience shows that excellent facilities can be developed using existing techniques but there is no 'best practice' value for money approach. Timescales for development also tend to be lengthy.

Ministers recognise that the current procurement strategy will not enhance joint working or help reconfigure primary care, intermediate care and community services. That is why hub is being developed.

To meet the objectives of the programme, hub will need to address the following:

- making joint service planning more effective at a strategic level;
- supporting the efficient government agenda;
- creating a common contracting interface for the private sector;
- accessing private sector skills to enable the public sector to concentrate

- on core services;
- bundling together small value projects into higher value transactions, to attract private finance on a systematic programme basis; and
- creating both speed and flexibility in procurement arrangements so that, depending on what delivers best value for money, infrastructure development can take place rapidly through either public or private funding routes.

An excellent precedent for hub exists in the NHS LIFT programme in England. LIFT addresses many of the same issues that are highlighted above with respect to Scotland. Crucially, however, it has also been shown to work well in practice. The LIFT programme was launched in 2001. By the end of 2005, 42 LIFT companies had been set up across England, delivering over £1bn of capital investment into primary and social care premises. 78 LIFT buildings are already operational.

That is why - rather than re-inventing the wheel - hub will use the LIFT procurement model, adapting it to the distinctive requirements and challenges in Scotland. hub will also build on the lessons learned in implementing LIFT in England including responding to the findings of reports already published by the National Audit Office (NAO) and Public Accounts Committee (PAC).

05 – Is hub backed by serious commitment?

Scottish Ministers have supported the formal consultation and subsequent enabling legislation in the Scottish Parliament¹.

Scottish Ministers have accepted the recommendation of the Joint Premises Project Board (JPPB) with regard to the appropriate model structure and publicly launched the hub initiative at the Outcomes Event in Edinburgh on 6 February 2006. Annex 1 provides a summary of the extensive work carried out to date on hub which has been approved by Scottish Ministers.

The need to engage key stakeholders across the public sector early in the process is one of the key lessons already acted upon. The development of the hub initiative has been led by the JPPB, established by Ministers to take forward the recommendations of the Short Life Working Group on Joint Premises which reported in July 2003. The JPPB comprises representatives of CoSLA, the NHS in Scotland, Scottish Executive and professional interest groups. The JPPB has examined the potential for alternative models and recommended that a LIFT type model focused on the wider needs of Community Planning Partners is more appropriate than any sector specific

¹ In response to the recommendations of the Short Life Working Group on Joint Premises Development and a subsequent public consultation exercise between February and May 2004, the Scottish Executive took forward legislation through Section 37 of the Smoking, Health and Social Care (Scotland) Act 2005 and The Functions of Health Boards (Scotland) Amendment Order 2006 (SSI 132/2006) to allow both Ministers and NHS Boards the ability to form and participate in the formation of companies for the purpose of delivering facilities and associated services. This enabled contracting authorities in Scotland to enter into LIFT-style arrangements.

approaches.

Ministers have now requested a business case to support key decisions on the establishment of delivery structures and required investment. In support of this activity both the Minister for Health and Community Care and the Minister for Finance and Public Sector Reform wrote to Chief Executives of NHS Boards and Local Authorities on 19th May 2006 seeking support for engagement in this development process.

06 – What will hub deliver?

hub is not just about health or local government services but is designed to be able to meet the premises development needs of a range of community planning partners.

The initiative hub will provide is a flexible approach to premises development that is focused on service benefits and capable of delivering across the length and breadth of Scotland in support of a broad range of public services. While the scope of premises that can be developed through hub covers the whole spectrum of community-based services, it is important for every programme to have a core focus.

At this stage in hub's development, we wish - not to limit aspirations or hinder potential delivery across the spectrum of services - to test core assumptions of viability and deliverability and to demonstrate that hub will deliver a long-term, sustainable, best value solution.

Therefore, the potential scope of the programme is split between core components and occasional elements. The delivery of premises (and investment) against the core scope will be common to all hub areas and therefore a key objective of the programme. The extent to which the programme delivers premises for additional functions or occasional elements will be a matter for local determination. By taking this approach we also recognise that the premises needs across Scotland will vary and also change over time.

For hub, community-based health and social care infrastructure is expected to be core. Our expectation is that premises will, in the main, focus on driving forward service integration and joint working. But hub is equally capable of supporting separate NHS or Local Authority premises development.

hub is flexible and can (depending on context and scoping in the initial procurement phase) also be extended to include additional service elements such as:

- social housing;
- leisure (healthy living facilities);
- other Local Authority and wider community infrastructure initiatives; and (e.g. regeneration)

- office accommodation.

The above list is purely illustrative and certainly not exhaustive. Local community planning partners are encouraged to consider how hub can deliver across a range of service areas and in this regard the approach is not meant to be prescriptive.

07 – How will hub work?

hub delivery plans and hub partnering forums

In each area, local public sector participants will need to work together to facilitate joint planning and delivery of projects. In particular, in order to work effectively, the local hub Co, will need a single formal interface with its multiple public sector clients. This interface will be created through the establishment of hub Partnering Forums (hPF's). hPF's will have membership from each Community Planning Partnership within the hub Co area and carry out the following functions:

- ownership of the hub Delivery Plan (hDP - see below);
- co-ordination of plans from each CPP for presentation to hub Co and incorporation into their business plan; and
- scrutiny-monitoring the performance track-record of the hub Co on approved projects.

Project approvals

Each year, every Community Planning Partnership area will review and sign off their identified future requirements that need to be developed through the local hub Co. All such requirements for the whole hub Co area will be brought together into a single document, which will set out the total requirement identified to be met by the hub Co. The hDP will set the basis on which the local hub Co will propose how to meet public sector requirements. This document serves two specific purposes. These are:

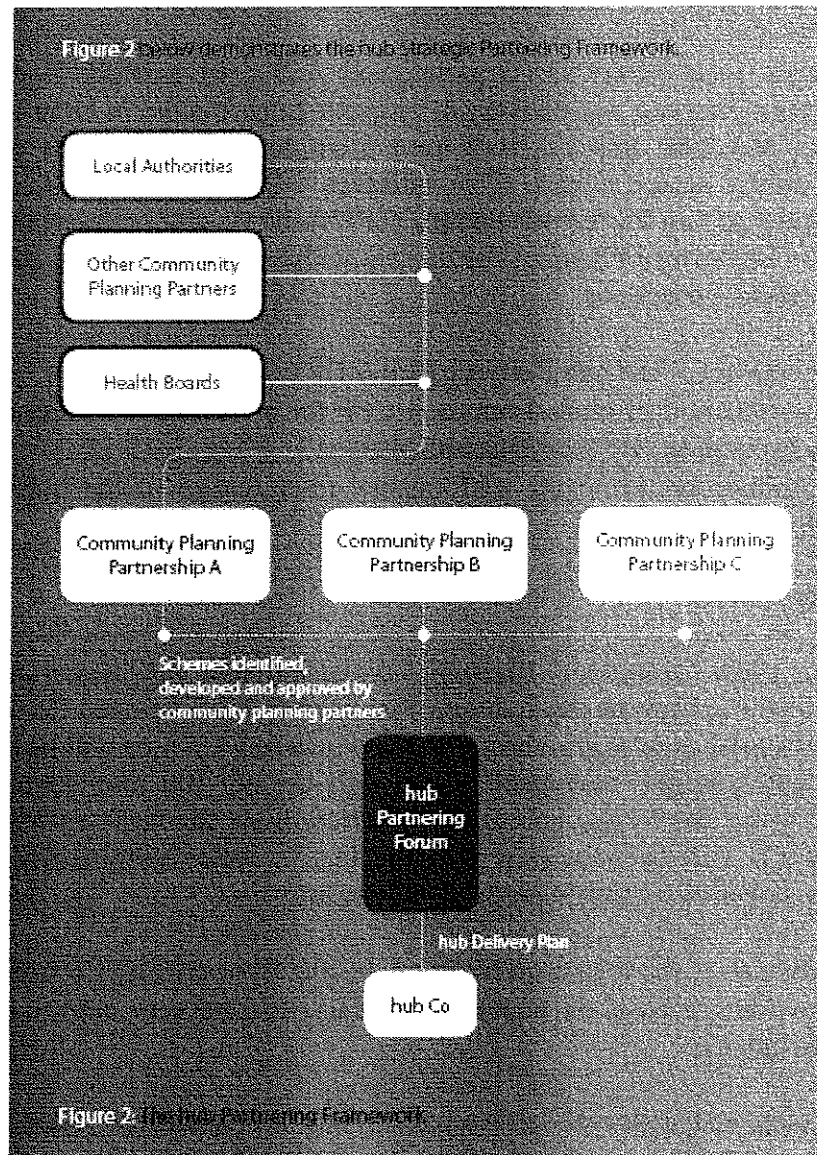
- articulating the total requirement to be met from the hub Co; and
- providing a basis on which to scrutinise the delivery performance of the hub Co.

The planning and approvals structures for hub are specifically designed to retain the planning integrity of each Community Planning Partnership and simply act as a basis for aggregating the plans and priorities identified by each partnership area. Depending on the identified service requirement, these projects may indeed be developed by an individual Community Planning Partner or range of partners.

This process is also designed to avoid additional bureaucracy. It is not intended that hub Partnering Forums and hDPs should duplicate existing structures which fulfil the same function, although they may be structured

differently in each hub area.

This approach demands that the public sector proposals are robust and rigorously assessed. The aim is not to delay the development of schemes but to ensure that proposed developments are adequately scoped and that appropriate stakeholder support and finances are in place (thereby minimising abortive work). To achieve this, a common development framework and approvals process will be put in place across all hub projects. This process will be set by hub Scotland and will ensure that, in considering planning timetables for new developments, key requirements and approvals are clear up front.



08 – National Delivery Vehicle

The hub model involves the setting up of a national delivery vehicle called hub Scotland responsible for programme implementation and delivery. It is anticipated that the national hub Company will be wholly owned by Scottish Ministers, but managed through a joint venture between hub Scotland and

Partnerships UK. hub Scotland will be responsible for:

- identifying, agreeing, or confirming hub areas and initial phase projects;
- market development;
- supporting local public sector bodies in joint service planning and ensuring a common approach to procurement issues by committing expert resources to support local procuring officers;
- national programme management and planning in conjunction with the Scottish Executive and a public sector advisory group to ensure that key stakeholder views are sought and can continue to influence the development of hub;
- overseeing and approving investments in local hubs;
- local business case approvals (in conjunction with SE) and value for money reviews (including benchmarking); and
- knowledge management and best practice sharing across the programme.

hub Scotland will work with local public sector teams to help establish hub Cos as quickly and efficiently as possible, whilst securing the best value for taxpayers money.

Local hub Companies (hub Cos)

At the local level, hub Cos will be set up as corporate joint ventures between local sponsors (Community Planning Partners e.g. Health Boards, Local Authorities, police, voluntary agencies, etc), hub Scotland and a private sector partner (PSP). The PSP will be selected through open competitive EU procurement procedures. The current working assumption for the shareholding structure in a local hub Co is expected to be 60% PSP, 20% hub Scotland and 20% local sponsors.

These hub Cos will be entirely focused on delivering the premises requirements of local populations within hub boundary areas, as defined by local public sector partners.

They will:

- work with public sector partners to plan local premises developments by contributing (through the skills and resources of the PSP) specialist asset management and property development expertise to this process;
- act as the single point of contact for both public sector clients as well as private sector suppliers, aggregating the demand from the dispersed clientele, procuring it efficiently from a competitive supply chain of appropriate providers and bringing in private finance as and where required;
- work with the local public sponsor partners to develop suitable new projects in response to evolving service requirements, ensuring that

- projects are well-scoped, affordable and deliverable;
- assist the public sector partners in complying with appropriate governance arrangements for the approval of new projects; and
- deliver approved new projects more quickly, cost-effectively and flexibly, using either conventional or private finance depending on the needs of the project and employing modern procurement and supply chain management techniques.

As a result of their key position as the bridge between public and private sectors, safeguards will be built into the local hub Co arrangements in terms of value for money, accountability and governance. Key elements of this will be:

- representation of the public sector joint venture partners (i.e. hub Scotland and the local participating authorities) on the board of the local hub Co; and
- the (contractual) strategic partnering framework within which the local hub Co will work with public sector authorities to develop, agree and maintain an ongoing programme of future developments in support of local service improvement (see below).

Figure 1 below summarises the national and local joint venture structures:

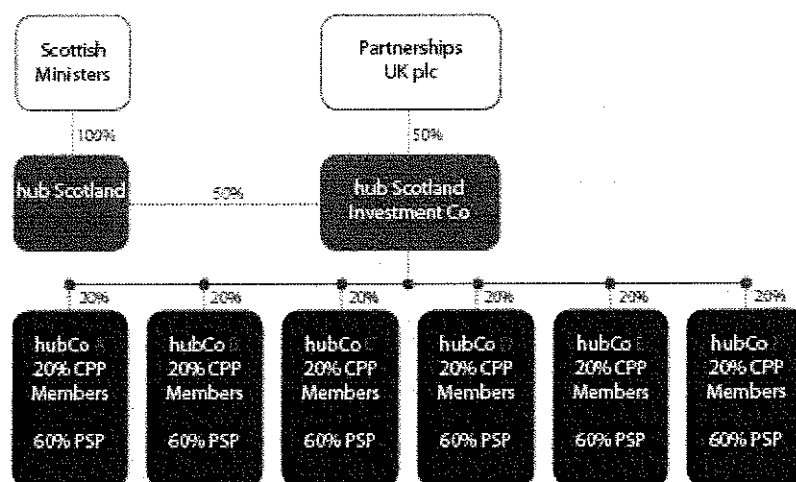


Figure 1: Joint Venture Structures in hub

09 – What will the strategic partnering framework look like?

Once a local hub Co is established, it will enter into a number of key contracts as follows:

Shareholders Agreement ('SHA') this agreement regulates the rights and obligations between the shareholders and the local hub Co. It also provides various protections for each of the shareholders. From an accountability point of view, two sets of provisions are particularly important:

- shareholder consent matters protect the interests of minority shareholders by ensuring that certain strategic issues pertaining to the activities of the company are reserved for consent from the majority of each class of shares. In such issues neither the public nor private sector shareholders can take unilateral decisions on these matters; and
- share transfer provisions regulate the manner and extent to which the shareholding of the private sector partner may be transferred or sold to a third party.

These provisions will be based upon typical commercial corporate joint venture arrangements. This gives the local hub Cos management the necessary commercial freedoms to manage the business effectively, as well as aligning the interests of all stakeholders towards a common objective. The SHA is not time-limited. Many Local Authorities will already be familiar with such arrangements through their participation in corporate structures.

hub Partnering Agreement ('hPA') this is an agreement between the local hub Co and each of the local public sector bodies. The hPA creates a long term strategic partnership between the hub Co and each of the public sector parties to the hPA 'participants'. Under the agreement, the hub Co contracts to provide a range of estate management, estate planning and agreed associated services ('partnering services') for those premises it develops. The hub Co will also make proposals (and, if successful, deliver) to serve certain of the participants' accommodation needs in that locality.

The hPA will grant the local hub Co a degree of exclusivity on any projects that it (or the participants) brings forward, subject to it being able:

- to demonstrate that its proposals for future accommodation requirements meet participants' requirements, are affordable and provide value for money ('the approval criteria');
- to establish and maintain a satisfactory performance track record on previous schemes; and
- to demonstrate progress against a continuous improvement plan that is established at the start of the partnership and refreshed from time to time.

If the hub Co meets these criteria, it will have a right to provide such accommodation services, thereby eliminating the need for repetitive and costly procurement exercises.

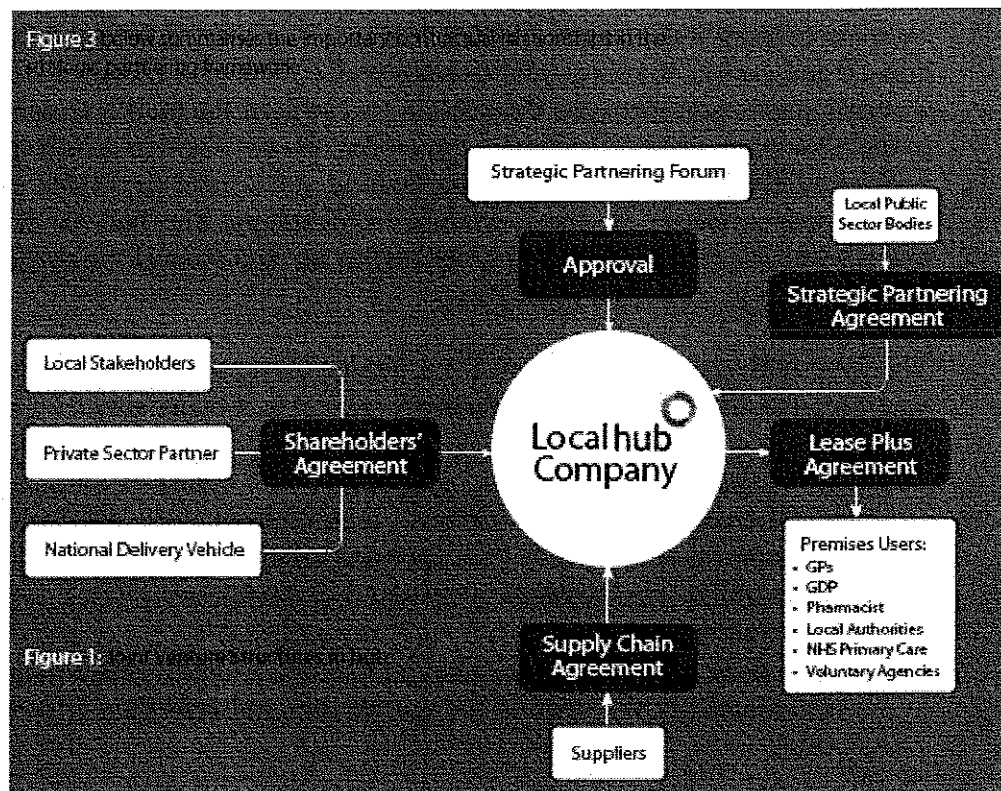
Where the approval criteria cannot be satisfied, the participants can choose to source the services elsewhere, or indeed may choose not to proceed with the proposed project. As a minimum, the exclusivity provisions are intended to cover the core services outlined above. However, individual public sector bodies may wish to consider the wider application of exclusivity. That will be a matter for consideration by local partners. Other elements out with the exclusivity provisions can be procured through the hPA on an optional as-required basis.

The idea behind offering exclusivity is to incentivise the private sector partner (through the local hub Co) to:

- invest expertise in estate management and new scheme development; and
- pro-actively propose (deliverable) new ideas which might improve the configuration of services, extract value from surplus assets and/or increase the efficiency with which the care infrastructure is managed.

The length of the hPA is expected to be at least 10 years, with an option to renew on the same terms for a further 10 years if the partners consider that the best route at the time.

Figure 3 below summarises the important contractual relationships in the strategic partnering framework:



10 – How will Health Boards and Local Authorities contract for projects delivered through the hub Partnering Agreement?

Contracts for projects could take a number of forms depending on the characteristics of the project and what sort of contract/financing is considered best value for money in a given situation. The following are expected to be standard options which authorities can choose from:

Lease Plus Agreements under which the hub Co will lease premises to users. Lease Plus contracts are a type of lease where the entire responsibility for designing, building, insuring, repairing and maintaining the facilities will rest

with the landlord (i.e. the local hub Co). In this way, end-users are provided with a modern, fully maintained hassle-free working environment and are freed from the worries and risks associated with property ownership.

Lease Plus Agreements will be based upon standard lease structures, modified to allow the hub Co to take the whole-life costing responsibility for accommodation. A payment mechanism will also be included, under which tenants are able either to deduct rent or exercise self-help remedies where accommodation is not provided to them at all, or to the standards required by the Lease Plus Agreement, or where associated accommodation services are performed inadequately.

Conventional design and build contracts: contract arrangements will be put in place to enable delivery through conventional design and build contract arrangements where this may offer better value for money than the Lease Plus contract (e.g. refurbishment of existing premises). The hPA will grant the local hub Co a degree of exclusivity on any projects that it (or the Participants) brings forward, subject to it being able.

Conventional design and build contracts: could choose to transfer parts of the Participant's existing estate to the local hub Co at open market value in return for cash, through Sale Develop and Lease-Back (SDLB) arrangements. This will provide an upfront capital receipt for the asset-owners which, subject to accounting rules, can then either be (at their choice):

- reinvested in premises development;
- used to offset the capital cost of any immediate improvements to the existing estate, thus reducing future lease charges; or
- invested back into the equity of the local hub Co.

In many areas, this could help unlock significant amounts of capital that is currently trapped in under-utilised or poorly maintained premises.

11 – How will local hub Cos earn a return on their capital investment?

The core business of a local hub Co will be to develop, construct and manage a portfolio of flexible, fit-for-purpose, value for money, community-based infrastructure in its defined operating territory.

They will invest in commercially viable projects, raising significant levels of debt and equity from the banking and private equity markets to fund the construction cost. They will then manage the build, operation and letting of the completed facility, for which they will receive a regular lease rental from the public sector clients (and potentially, in the case of retail/commercial developments, from third parties). In cases where hub Cos deliver projects through design and build contracts, the revenue stream will come from the milestone based payments made under such contracts.

Rental income from space leased in the project facility and/or contract

payments for design and build projects will provide the income stream to cover the local hub Cos ongoing management costs and return on project investment. Space leased under a standardised Lease Plus Agreement is usually on better terms than those available to tenants in the third party developer market. For instance, procurement costs will be lower, whole-life cost risk will be taken completely by the local hub Co etc. The local hub Co will therefore be able to offer better terms to its tenants while still generating an acceptable shareholder return on investment through its adoption and consistent application of standard business policies, procedures and practices to all projects which form part of its local hub Development Programme. Public sector shareholders in hub Cos will benefit in proportion to their shareholding from any returns generated by the local hub Co.

12 – How will hub Cos be governed?

hub Cos will have two lines of accountability to the public sector sponsors of a local hub programme, albeit in different capacities:

- as the provider of partnering services through the hPA, the hub Co will be accountable to the hub Partnering Forum (hPF) on which the local public sector sponsors will be represented as clients. The hPF will monitor the performance of the hub Co on existing projects and act as a common interface on generic issues with the public sector participants. The track record of the hub Co on existing schemes will determine its eligibility to deliver future schemes; and
- as shareholders in the hub Co, the public sector sponsors will have the right to hold the management of the hub Co to account for its performance in delivering the business objectives of the company. These objectives will be to deliver a portfolio of flexible, fit for purpose, value for money facilities in the local community while generating a commercial level of return for investors. Through their vote on shareholder consent matters, public sector shareholders will effectively have a veto on key strategic matters related to the operation of the company.

13 – How will value for money be demonstrated by the local hub Co?

The hPA will require the local hub Co to demonstrate that its proposals deliver value for money through a combination of benchmarking and market testing. hub Co will need to de-construct its new project proposals into benchmarkable and market-testable elements in accord with agreed partnering processes.

The former will then be compared against appropriate comparators, including LIFT rates in England, commercial property rates in Scotland and third party developer lease rates for care premises. The methodology developed will ensure that a like-for-like comparison can be made between different procurement routes, taking into account the differing content and varying

responsibilities under alternative procurement routes. This will introduce an important element of contestability into the structure. Elements that can be market tested will be subject to a tendering process, through which the most competitive bid will be selected. Public sector shareholders will have approval rights over the tender design and specifications.

In addition, on the public sector side, value for money will be assessed in accord with SE Infrastructure and PPP Value For Money Assessment Guidance across the hub Programme, both during the initial procurement of a PPP partner, and throughout the life of a local hPA. This assessment will review the following aspects at programme, project and procurement levels:

- qualitative factors, in particular demonstrating:
 - viability - at the programme level and for individual projects can operable contractual documents be established with sufficient built in flexibility?
 - desirability - across the programme and for individual projects can the benefits of the PPP approach outweigh its higher finance cost and is the risk transfer profile appropriate?
 - achievability - is there sufficient resources and capacity to deliver the programme and individual projects?
- quantitative assessment:
 - at Project and Procurement levels
- consideration of other wider factors, for example:
 - capacity for initial competition in the private sector
 - affordability
 - quantification of non-financial benefits
 - balance sheet assessment
 - benchmarking and market testing.

14 – Who can access hub Cos?

All Community Planning Partners as well as individual user groups will have access to the services of a local hub Co.

There are potentially four levels of involvement or entry for public sector bodies and local participants. OJEU notices for the local hub procurements will be sufficiently broad to allow access at different levels and indeed at different times. For example, if a Local Authority does not initially take a local ownership stake, they will be able to do so at a later date. Similarly, even though an Authority does not procure any facilities in the initial tranche of investment, it could procure a scheme within the local programme at a time in the future. The levels of entry are as follows:

At Level 1 a public sector body signs the hPA which grants exclusivity for future projects within the core service definition.

At Level 2 a public sector body signs the hPA but without granting exclusivity to the hub Co. Note, it will be a requirement of the local hub arrangements that an appropriate volume of projects emerging from existing arrangements is achieved.

At Level 3 a public body takes up Lease Plus Agreements (e.g. as a tenant) in respect of individual premises without signing the hPA.

At Level 4 a public sector body could take shares in the local hub Co and initially or at a later date (this could combine with Levels 1, 2 and 3).

The hub Exemplar (provided as a separate document) demonstrates how these levels operate in practice. The level of entry will vary depending on the extent of individual stakeholders' long-term interests. It is important to recognise that those public sector bodies not party to the initial OJEU notice will not be able to participate as signatories to the hPA.

15 – How much will it cost?

More work will need to be done on the assumptions underpinning the programme to tie down the costs of local hub Cos in detail.

The approach in Scotland regarding the size and scope of hub Co areas will mean that the fixed cost element of operating expenditure will be spread over a wider base of activity and therefore reduce the level of overhead costs associated with hub's operation.

At the national level, preliminary estimates suggest that setting up the national delivery vehicle and running the initial procurements could cost between £800,000 and £1,500,000. If we assume that future tranches (for which repetitive procurements would not be required, but a level of design and development cost will remain) cost between £300,000 to £500,000 per year across Scotland, this translates into a total procurement cost outlay of £6m to £10m over the life of the entire programme. It is expected that to be sustainable, local hub Cos will require to generate over £10m of projects each year.

Turning to the cost of the premises themselves, these will vary from project to project. Equally, the lease rentals will reflect the underlying design and construction cost of the facilities required, the risks being borne by the hub Co and long-term lifecycle costings. It is likely that lease rental rates for hub Cos will be slightly higher than lease rates for general commercial space, because the Lease Plus contracts would generally:

- deliver custom-made fit-for-purpose design solutions (as opposed to a standard construction); and

- price in long-term lifecycle maintenance, which would not typically feature in most commercial lease contracts. Moreover, lease rates will also vary from area to area, based on the local property markets. Again, as a benchmark from LIFT, the range of Lease Plus rates in England has varied from £220 per sq.m to £270 per sq.m.

16 – Deliverability issues

The following deliverability issues have been identified, to which a provisional response is noted below, but all these issues will be tested further in the development of the hub model over the summer.

ISSUE:

- Stakeholder 'buy-in' at local levels.

RESPONSE:

hub Scotland will support, inform and guide potential local participants as the programme is developed and rolled out.

Stakeholders will be able to participate at different levels. OJEU notices will be sufficiently flexible to accommodate varying requirements of Community Planning Partners. No commitment to a level of engagement is required in order to be a Contracting Authority on an OJEU notice.

ISSUE:

- Funding limitations.

RESPONSE:

The Scottish Executive will make funding available for:

- enabling and set up costs;
- land acquisition; and
- local development and support costs (including revenue and capital).

Other programme support requirements will be considered in the context of spending reviews.

Local Authorities and Health Boards will already have capital and revenue funds identified in future plans to support planned premises developments. Those funds could be used to fund premises delivered through hub.

ISSUE:

- Local preference to take forward planned premises developments through existing procurement routes. Existing other service developments that Health Boards or Local Authorities are initiating, the scope of which may overlap with investment through hub.

RESPONSE:

hub will provide a quicker, cheaper and more flexible procurement arrangement that can deliver a competitive advantage and increased scale when compared to other procurement methods.

As stated above, development funding will support the use of hub to encourage participation.

ISSUE:

- Delivery and programme management capacity in the local public sector.

RESPONSE:

A standardised procurement process together with hub Scotland central support will enable reasonably straight forward PPP type procurements.

Private sector expertise and project management will complement public sector skills.

Standardised approach to development will maximise available resources. The creation of dedicated local capacity to implement a strategic programme.

ISSUE:

- Integration of Community and Health Care planning at local levels delivering projects.

RESPONSE:

Current CHP and CPP practices will be at the centre of local hub developments through the hub Partnering Board and the hDP. Existing practices and networks will be used where possible.

ISSUE:

- Critical mass and ongoing viability of investment as viewed by private sector interests and attractiveness of the programme.

RESPONSE:

The size of local hub territories will be structured around certain key assumptions, based on the experience and lessons of other similar programmes in the UK. The need to ensure a critical mass of future projects (early projects may be identifiable, those in the longer term will not) is essential in maximising the benefits of a partnering approach through minimising overheads and driving efficiency.

It is therefore assumed that as a minimum requirement each local hub territory will be based around population sizes of at least 500,000 and projects with an annual capital expenditure of £10m over the hub Partnering Agreement period to justify the overheads of the hub procurement arrangements.

The geographic and demographic characteristics will be taken into account when considering viability.

ISSUE:

- Property issues.

RESPONSE:

Property development interests are at the centre of hub. The hub arrangements may involve the transfer of public sector land and property to the hub Co. To ensure value for money on disposals is achieved, external property advice will be utilised.

17 – How will localities and partnering be decided?

The success of the Programme will require both local partnering of Health Boards and Local Authorities as well as an ongoing level of take-up (in terms of an investment programme that warrants the infrastructure being established to deliver it).

A partnering mapping process of potential groupings of Health Boards and Local Authorities together with consideration of their alignment with Community Health Partnerships (CHPs) and Community Planning Partnerships is fundamental to the shape of the Programme. Based on experiences from NHS LIFT in England, a key current assumption within this mapping is that local hub territories should have a minimum population base of 500,000. Estimates suggest this is the population required to create a critical mass of projects in a hub territory.

It is envisaged that an appropriate operating territory for a local hub Co would satisfy the following criteria:

- the territory should be able to provide a commercially viable flow of projects over the programme period (20 years);

- no Local Authority or NHS Board should have to participate or contract with more than one hub Co;
- the territory should be sufficient in size to remain viable and ensure that the overall flow of projects is not over-dependant on a single public sector body;
- the territory should not be so large as to undermine private sector competition for participation in local hub Cos or be overly complex in bringing together the projects from existing Community Planning Partnership areas;
- partnering organisations in the territory must be a cohesive unit;
- the territory should be comprised of local planning units that fit with existing public sector planning structures and decision-making arrangements (where possible); and
- the territory should be able to support efficient and responsive planning processes.

Processes to develop territories and related strategic planning will be taken forward directly with Health Boards and Local Authorities.

18 – How will standardisation be implemented?

The hub initiative is predicated on standard documentation that avoids reinventing wheels, reduces bid costs and procurement time and therefore provides more effective and efficient delivery. The development of the standardised documentation will be regulated by hub Scotland and the approval of any proposals will be on the basis that only those changes reflecting the specific aspects of a local project warrant a different approach.

A comprehensive suite of standardised documentation and guidance will be prepared, freely available to all participants within the public and private sectors. This suite of materials will include documentation that will be used before and during a hub procurement process, and will cover both the initial procurement (including the selection of a private sector partner) and the procurement of subsequent tranches of schemes following the establishment of the local hub Co. This will include:

- drafts of agreements that will be entered into under hub including those to establish the local strategic partnership and in relation to individual premises or services, and
- guidance on specific issues that will need to be addressed in hub including the powers of the public sector bodies involved, tax, accounting and land issues etc.

The role of hub Scotland in supporting local procurements, together with the equity stake that hub Scotland will have in each of the local hub Cos will assist in maintaining and supporting this standardised approach.

19 – What capital funding support will participants receive?

Details of Enabling Funds to meet national and local set up costs are as follows:

Capital enabling funds of £15m have already been identified to support the Programme.

It is expected that revenue development funds will be made available to support the establishment and operation of the local hub Cos. Funding has been considered in four streams. These are:

- set up/procurement support;
- public sector recurrent/scheme development;
- programme management support; and
- organisational development support.

The terms of the application of these funds will be firmed up within the development of the business case.

20 – How will hub be rolled out?

Engagement, consultation and development

In preparing both the supporting guidance and standard documentation for the delivery phase, there will be consultation with key stakeholders to ensure a common understanding of the hub concept and approach to procurement. The involvement of the public and private sectors is key to the success of hub and continued engagement is at the heart of our implementation strategy.

For the private sector the key commercial issues will largely have been considered within the context of the NHS LIFT and Building Schools for the Future (BSF) programmes in England. Unlike the LIFT initiative, we are not starting from a blank sheet of paper and we recognise that the consultation already undertaken on the LIFT approach provides us with considerable learning from previous developments and a firm foundation on which to build. While the commercial arrangements are along the same lines of the LIFT and BSF programmes we will want the focus of our consultation effort to be on tailoring the hub approach to the Scottish context.

Procurement and delivery timescales

It is likely that there will be at least five local hubs across Scotland. It is envisaged that there will be a minimum of two pathfinder hubs in two different localities. These initial projects will test and demonstrate key assumptions. Localities that have well advanced joint planning and working processes and which meet the requirements as outlined under the section covering hub territories will be candidates for the initial phase of projects. Initial procurements are expected to take 18 months from OJEU to financial

close.

In the period up until the launch of hub in localities, it is recognised that existing projects will be taken forward and will need to be delivered. Guidance will be issued to cover this interim period. At this stage it is expected that a second block of hub areas will be released to the market nine months after the pathfinders.

The detailed timetable for development and roll out will be made available following consideration of the business case.

21 – Next steps and feedback

Over the course of the development period of hub, a series of meetings will be held with public sector and private sector participants. There will be meetings focused on strategic and service planning within local areas, on early engagement and market promotion and on building awareness among both public and private sectors.

These meetings will act as a catalyst to shape early local delivery of the programme. A representative working group has been established to take hub forward. A steering group will oversee the working group and programme development.

In accord with Scottish public sector procurement guidance, a business case for the hub programme will be submitted to Ministers for their approval. This is due for submission in October 2006 following an initial period of engagement with the public sectors to verify and test economic and delivery assumptions. Upon business case approval, the detailed business planning for the programme will commence. Key milestones will be:

- formation and incorporation of the national delivery vehicle will commence;
- appointment of national company advisers;
- drafting of standard documentation;
- approval of the business plan by the national partners; and
- roll out to local hubs.

This process is expected to be completed in the six months post business case approval. Consultation will continue throughout this period. Any feedback on this information memorandum is welcomed.

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22 – Glossary and definitions

NHS LIFT is a type of Public Private Partnership, a relationship between the private sector and the NHS in England with the aim of improving the community based health and social care infrastructure in England to facilitate a step-change in the strategic delivery of community care services.

Community Planning Partnerships (CPPs) derive their authority from the Local Government (Scotland) Act 2002 where a responsibility is laid on Councils to establish and lead community planning partnerships in their area to integrate service planning. This duty runs only as far as planning – they have no delivery role. That is for the individual public sector agencies that are part of the partnerships.

Community Health Partnerships (CHPs) derive their status from the NHS Reform (Scotland) Act 2004 where they are to set up through schemes of establishment and will influence wider NHS Board strategic planning, engage in community planning and act as the delivery unit for primary and community health services. In effect, CHPs are expected to contribute on behalf of the NHS Board to its CPP responsibilities with partner Councils.

CPPs are wider than CHPs which deal with the community health/health improvement functions. CPPs will include community safety (Police), housing (Communities Scotland), social inclusion (Development agencies/Scottish Enterprise etc) and environment etc.

Partnerships UK is developing the hub initiative jointly with the Scottish Executive, having previously developed NHS LIFT jointly with the Department of Health in England. Partnerships UK is the Company established by UK government with the purpose of accelerating the development, procurement and implementation of any type of public private partnerships (PPP), involving an interface between the public and private sectors, committing human and financial resources in pursuit of high quality, cost effective and sustainable public services and investments. The Company works exclusively with and for the public sector. The Company is a joint venture between the public and private sectors and so is itself a PPP. Scottish Ministers own 4.4.% of the shares in Partnerships UK.

PFI is the UK government Private Finance Initiative which was launched in 1992. PFI is a widely used public/private procurement model where a procuring public sector body runs a competition between private sector consortia to (typically) design, build, finance and operate public sector infrastructure assets and provided associated asset management services over a 25 to 30 year contract period.

Building Schools for the Future is the government's plan to bring all secondary school facilities in England up to 21st century standards. The national programme is being rolled out across the country over a 15 year period in a new strategic approach to capital investment in school buildings which will create the environment for the government's agenda of educational reform.

Joint Premises Project Board (JPPB) comprising NHS, Local Authority (nominated by COSLA) and Scottish Executive interests was established to take forward the implementation of the recommendations of the Short Life Working Group on Joint Premises which reported in July 2003 and the development of joint ventures is included within its work-plan.

Delivering for Health sets out a programme of action for the NHS, as the Service seeks to shift the balance of care from reliance on episodic, acute care in hospitals for treating illness, increasingly through emergency admissions, towards multi-disciplinary, community based teams who will be able to provide preventative, anticipatory care rather than reactive management and thus ensure sustainable, high quality and safe local services.

23 – Annex 1 – Work carried out up to end August 2006

2001-2002

- Scoping report undertaken. Recommendation that a joint venture model adapted for Scots Law would be appropriate and that an 'intermediate' model combining NHS Board areas would be appropriate.
- Recommendation to Ministers that powers to form joint ventures should be sought when legislative schedule allowed.
- Interim measures to be taken in advance of powers being available. Establishment of Short Life Working Group on Joint Premises established.

2003

- Short Life Working Group on Joint Premises reports July 2003 and recommends that:

Recommendation 20 - Public Private Partnerships: The Scottish Executive should introduce legislation that will enable Scottish Ministers, NHS bodies and contractors, Local Authorities and private sector providers to enter into Joint Venture agreements in order to make available another vehicle to support joint premises development. The first stage would be to consult on proposals.

Recommendation 21 - LIFT (Local Improvement Finance Trusts):

The Scottish Executive should consult within its proposals for Joint Venture Organisations such as LIFT on the basis that such arrangements offer flexibility for joint premises developments in community care under the umbrella of community planning partnership(s).

2004

- Formal consultation conducted in accordance with recommendations between February and May. Consultation summary report issued September 2004.
- Ministerial and Cabinet agreement for provisions to be included within forthcoming Smoking Health and Social Care Bill.
- Principle of JPPB approved by Ministers to provide governance to take forward the recommendations of the SLWG on Joint Premises.

2005

- Smoking, Health and Social Care Act 2005 enacted containing provisions allowing Ministers to participate in Scottish Parliament.
- Joint Premises Project Board (JPPB) considers structural options and makes recommendation to Ministers on preferred joint venture model.
- Detailed work undertaken to further develop thinking and principles underpinning joint venture approach.

2006

- Ministers consider and accept recommendation of JPPB.
- hub Initiative launched by Deputy Minister for Health and Community Care on 6th February.
- Powers conferred on Scottish Ministers passed to NHS Boards through secondary legislation. Ministers agree to preparation of business case.

