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<b>Report To:</b>	<b>Policy &amp; Resources Committee</b>	<b>Date:</b>	<b>30 March 2010</b>
<b>Report By:</b>	<b>Aubrey Fawcett, Corporate Director Regeneration &amp; Resources</b>	<b>Report No:</b>	<b>PR021/10/ER/ER</b>
<b>Contact Officer:</b>	<b>Elizabeth Robertson, Business Support Executive</b>	<b>Contact No:</b>	<b>2091</b>
<b>Subject:</b>	<b>Scottish Futures Trust – The Hub Initiative</b>		

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## 1.0 PURPOSE

1.1 The purpose of this report is to provide a summary of the Implementation Pack issued prior to the *hub initiative - West Territory Kick-Off Session* held on 19<sup>th</sup> January 2010.

## 2.0 SUMMARY

2.1 The hub initiative is being developed by the Scottish Futures Trust (SFT), on behalf of the Scottish Government, as a means of improving the planning for, and the procurement and delivery of the infrastructure that supports community services.

2.2 The SFT is overseeing the roll-out of hub across 5 designated 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**.

App 1

2.3 Within the context of Territory boundaries, structures will be established to take a cohesive, inter-authority and inter-organisational approach to the development and completion of infrastructural projects.

2.4 As an initial step to this, each territory will first procure the services of a single Private Sector Development Partner, which will then deliver the agreed programme of works set out by Territory Participants. (See Sections 4.7 – 4.13)

2.5 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
- Providing continuous improvement in both cost and quality in public procurement

2.6 The key objectives of hub are:

- Enhanced services through integration between Community Planning Partnerships
- Delivering a sustained programme of investment into community-based facilities
- Establishing an efficient, sustainable procurement methodology for public sector
- Facilities meeting public sector policy objectives for design quality and sustainability
- Improving stakeholder engagement in planning and development of services

2.7 The hub initiative and other developments being co-ordinated by Scottish Futures Trust were the subject of an All Members Briefing on Thursday 18<sup>th</sup> February 2010. A summary document was issued to elected members prior to, and in support of this event.

- 2.8 Barry White, Chief Executive of SFT, made presentation to elected members and officers on the purpose and current work of SFT. The organisation has been established to identify and then effect efficiencies in infrastructural development in Scotland. It is estimated that annual expenditure in this area is approximately £5billion. SFT are remitted to find £100million in savings annually.
- 2.9 Mr White outlined a number of the programmes (other than hub initiative) which are currently being developed by SFT in partnership with Public / Private sectors in Scotland:
- **Investment Strategy** – SFT are currently involved in a significant number of public construction developments (predominantly schools)
  - **National Housing Trust** – SFT have the capacity to work with Local Authorities to develop and build mid-market housing, on available and suitable sites, under prudential borrowing arrangements, with government backing, where purchase price and demand conditions would make this viable
  - **Tax Incremental Financing** – SFT are working to meet the joint needs of private developers and public bodies through leverage of funding into development projects on the basis of projected increases in Business Rates as a result of development, which will then enable repayment of borrowing
  - **Waste** – SFT have capacity to work collaboratively with partners involved in working towards national targets and directives regarding waste.

### 3.0 RECOMMENDATIONS

- 3.1 That further investigations are made into potential, local opportunities relating to SFT's National Housing Trust programme.
- 3.2 That Inverclyde Council engage with the hub initiative's West Territory in a non-participatory capacity at this time, for reasons outlined in sections 4.5, 4.19 and 4.25 - 4.27, and that no resources are deployed from Inverclyde to support the hub at this time.
- 3.3 That a further report be presented to committee if, at any future point, it is decided that active financial / resource involvement in the hub is recommended.
- 3.4 That committee note that there is an obligation for NHS Primary Care to use hub as the vehicle for significant developments. Therefore, it may be necessary for Inverclyde Council to revisit positioning with regard to hub when taking forward health-led partnership developments.
- 3.5 That the Chief Executive communicates the final decision from Inverclyde Council to SFT via the Letter of Intent template. (**Appendix 4**)

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**Aubrey Fawcett**  
**Corporate Director**  
**Regeneration & Resources**

## 4.0 BACKGROUND

### hub initiative – Structure and Governance

4.1 As previously noted, the hub initiative will operate on the basis of 5 geographical Territories across Scotland, to achieve the stated outcomes and objectives for the procurement and development of public sector capital projects.

4.2 Each Territory will be required to establish robust governance at a Territory-wide and also a local level to ensure:

App 2

- Effective decision making
- Participation at the most appropriate level for decisions to be taken
- Transparency through effective consultation and dissemination of information

A suggested core governance structure can be found in **Appendix 2**.

4.3 Programme Initiation Documentation will also be completed. This will identify the Participants in the hub initiative for the Territory (local authorities, health boards, police and fire and rescue services etc.) however there will be a need to recognise wider stakeholders including:

App 3  
App 4

- Potential tenants (e.g. individual practitioners, clinicians etc.)
- Wider Community Planning Partners

Templates for all significant documents have been supplied and a list summarising this documentation can be found in **Appendix 3**. The template specifically for the Letter of Intent, to be signed by the Chief Executive, has been added as **Appendix 4**.

4.4 As stated in the governance structure, the Territory Programme Board will be the overseeing group for the work undertaken in each geographical area. The key role of the Territory Programme Board will be to provide their Programme Team with the following:

- Clear strategic direction
- A well defined budget
- A clear negotiating remit
- Proper resources
- Timely ratification of all key documents and reports

4.5 When considering Inverclyde's involvement in the hub initiative, it should be remembered that, given the recent organisational restructure, it is very unlikely that there will be capacity at senior management level to input the required level of resources to this initiative, over and above what is required to deliver on the Council's current and future investment priorities.

4.6 At a national level, the hub Programme Delivery Office (PDO) within the SFT is responsible for the day-to-day management of the hub initiative across Scotland, reporting to the hub National Programme Board (the members of which are listed in **Appendix 5**) It is expected that a representative of the hub PDO will attend Territory Programme Board meetings.

App 5

4.7 It should be noted that the makeup of the National Board (outlined in **Appendix 5**) is dominated by the Scottish Government and Health. Only one post is therefore available for representation of Local Authorities.

App 5

4.8 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.

## hubco – Structure and Function

- 4.9 The Participants within each hub territory will collectively run their own procurement process to identify their preferred private sector development partner with whom they will form a private / public sector joint venture, referred to as “hubco”.
- 4.10 hubco will deliver certain partnering services to the Participants to support the planning, procurement and delivery of infrastructure projects within the territory – developing proposals and, subject to satisfying certain tests, including value for money, delivering those proposals through its supply chain.
- 4.11 The structure of the relationship between Participants and the hubco is also summarised in **Appendix 2**. App 2
- 4.12 The provision of partnering services is the most significant feature of hub. In broad terms, these services are intended to include all that hubco can significantly contribute to the process of developing new projects, including programme managing the delivery (and in some cases subsequent operation) of projects. Given that these services are likely to be delivered through a supply chain, and in some cases require private finance, the partnering services include those aspects as well.
- 4.13 It is important that the hub partnership runs for a significant period of time in order to:
- realise the full economic benefits of the programme
  - provide a pipeline of projects to achieve a suitable financial return
  - see improvement and best value as the same organisations become better equipped to work together on infrastructure projects

The Territory Partnering Agreement will have 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.

- 4.14 The Participants in each territory will 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: App 6
- Design and Build Contract, under a Capital Cost option
  - Design, Build, Finance and Manage under a revenue cost option (land retention)
  - Lease Plus model for a revenue cost option under which the land is owned by hubco.

The Joint Contract Tribunal (<http://www.jct ltd.co.uk>) provides contract documentation covering these different models. **Appendix 6** outlines JCT’s matrix for determining the most appropriate contract for individual programmes.

- 4.15 Working closely with the public sector partners, hubco will be expected to deliver improvements in the way that projects are delivered and the supply chain is managed (better design, lower construction / maintenance costs and increased speed of delivery of new facilities). These improvements will be monitored by the setting of performance targets, KPIs and the periodic use of market testing.

### Financial Support

- 4.16 Access to the following funding will help to minimise the Participants’ exposure to local hub set-up and initial procurement costs:

#### Revenue Development Funds – Supporting establishment of local hubco’s

- |  |                                      |
|--|--------------------------------------|
| • Set up / procurement support           | £500,000 per territory               |
| • Recurrent running / scheme development | £100,000 per territory / pa (5years) |
| • Programme management                   | £300,000 per territory over 3 years  |
| • Organisational development activity    | £100,000 per territory               |

The hub National Programme Board will oversee the release of these funds based on an undertaking from organisations confirming their participation and the completion of a Territory Programme Initiation Document.

£125k will be released as soon as Letters of Intent have been received from the Chief Executives.

#### 4.17 Central Support Costs

Scottish Ministers have approved an additional £2.1m, covering all 5 territories, delivered through the hub Programme Delivery Office (PDO) within the SFT.

#### 4.18 National Capital Enabling Fund

£30m is available to support the hub initiative over 5 years. This is already identified within the approved capital programme for the Scottish Government Health Directorate. Individual hub territories can apply to use this fund for project development/enabling purposes such as land acquisition, land mobilisation, demolitions and site investigation surveys. Application for these funds will be via a formal process through the PDO and approved by the hub National Programme Board. £5m of this is available to West Territory.

4.19 It should be noted that the available level of Development Funding noted above is peripheral when divided per individual Local Authority. Our approximate share of hub funding will be 1/15<sup>th</sup>, based on our population. Our financial share would therefore be £40,000 (one-off), and £7,000 (recurring).

4.20 It should also be noted that the National Capital Enabling Fund, outlined in 4.16 is a Health Capital resource.

#### **Investment Levels**

4.21 The shareholding of hubco will be split as follows:

- 60% private sector development partner
- 30% participants
- 10% SFT

4.22 Proposed packages of investment for hub initiative programmes are:

90%	Bank @ 5 - 6 %
10%	Partners 6% private
	3% Local Authority
	1% SFT

A return on the investment at the level of 11 – 13% is projected from the year after completion of the project.

4.23 Currently, the council's only barrier to infrastructure investment is affordability. This is monitored through the Financial Strategy and the Budget Process. We have Prudential Borrowing, access to the cheapest form of borrowing via the Public Works Loan Board (approximately 2% cheaper than banks). There are also no "developer profit" complexities (see section 4.24) and no bankers' margins. The SFT proposals appear to lose all of these benefits for very little tangible gain.

4.24 The issue of the anticipated level of Developer's Profit from the hub model has been raised. It has been suggested that this issue be addressed by the Programme Board at the tendering stage in this process. The level of profit may depend on the attitude of the bidding company, and their arrangements for their supply chain. The level of independence from the supply chain becomes a factor in determining costs and obtaining value for money.

4.25 It has been emphasised by SFT, however that a fundamental principle of the hub initiative is that, by adopting a longer term approach to contracting, there is greater opportunity for reduction in supply chain costs over time.

- 4.26 These aspirations are perhaps too intangible to provide any significant comfort to make a decision in favour of becoming actively involved in the hub initiative.
- 4.27 Based on the information made available to date, it is difficult to see what the financial advantages of joining a hub territory would be, unless there were to be additional funding streams available that only hub members could access.

## **5.0 PROPOSALS**

- 5.1 It is proposed that the Territory Programme Board meet again 4 weeks from the date of the first meeting. Items to be discussed at that time will be:
- Resources being deployed from individual participants
  - Pipeline projects from individual Local Authorities / other bodies
  - Practical Partnership Arrangements

## **6.0 IMPLICATIONS**

- 6.1 **Legal**  
Legal implications of contracting via this model should be addressed as a Council as well as via the supra-organisational bodies that are being set up to progress this initiative

### **Financial**

The Council has an extremely ambitious capital programme over the next 5 years, with our self funded investment being over 300% more than any Government funded investment. Involvement in the hub may distract this course of action, which would be detrimental to developments that are both underway and planned for the coming years.

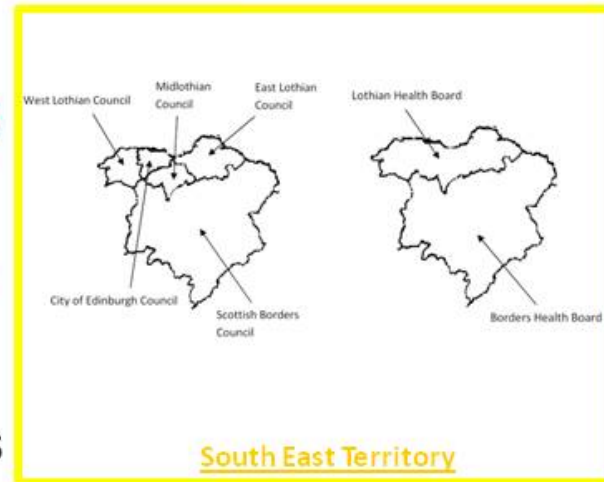
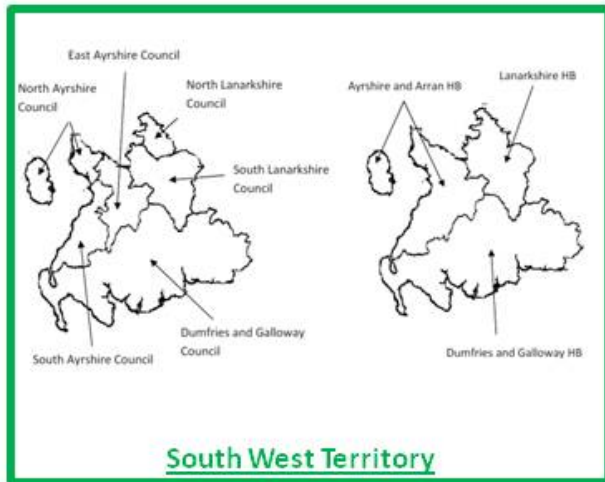
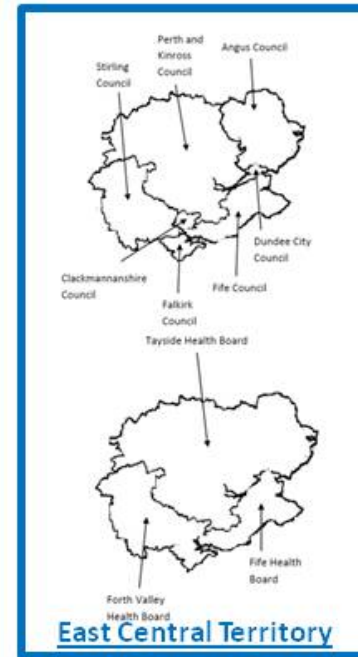
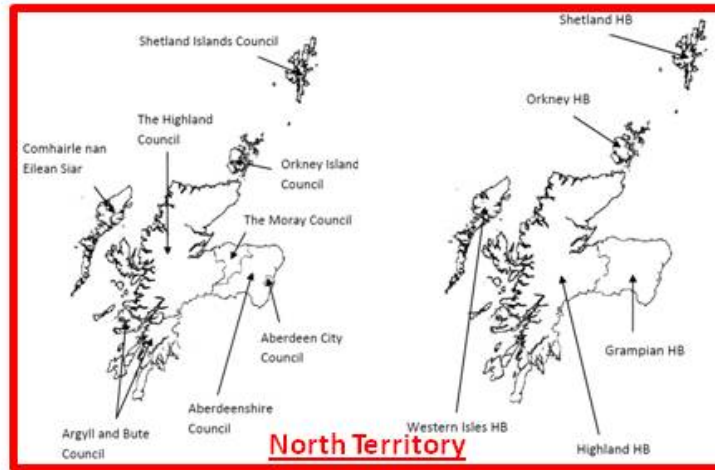
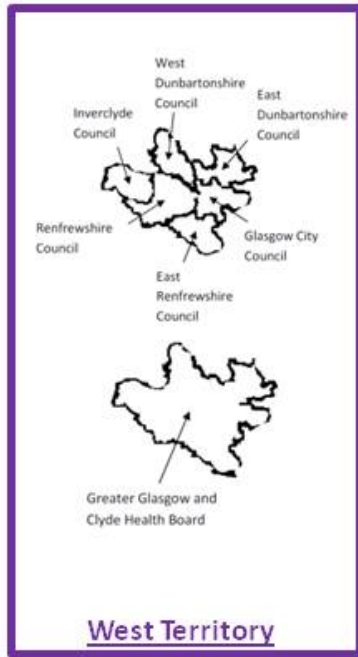
### **Personnel**

Personnel implications may arise if the Council intend to provide any staffing resource to the Programme Team. Alternatively, contracts being dealt with by hubco may affect the local teams involved currently in progressing the Council's Capital projects.

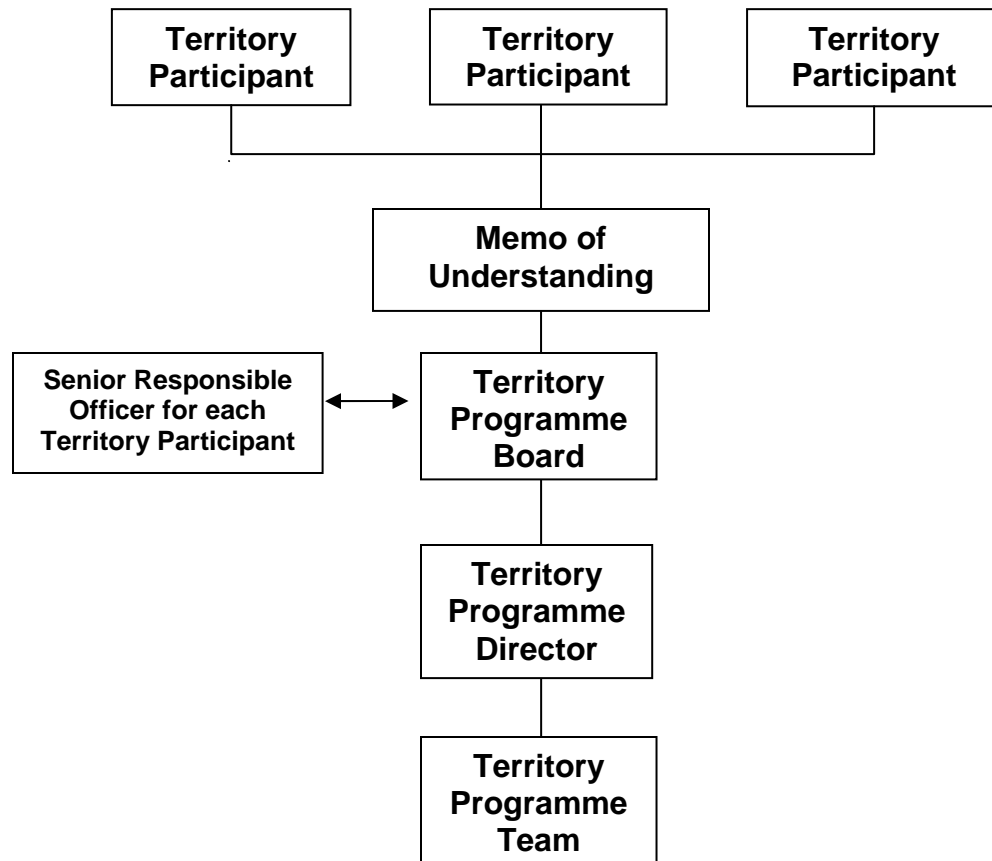
### **Equalities**

As in all circumstances, officers will ensure that maintaining and pursuing equality will be central to the Council's involvement in this initiative.

# Appendix 1



## Core Governance Structure hub initiative – Territory level

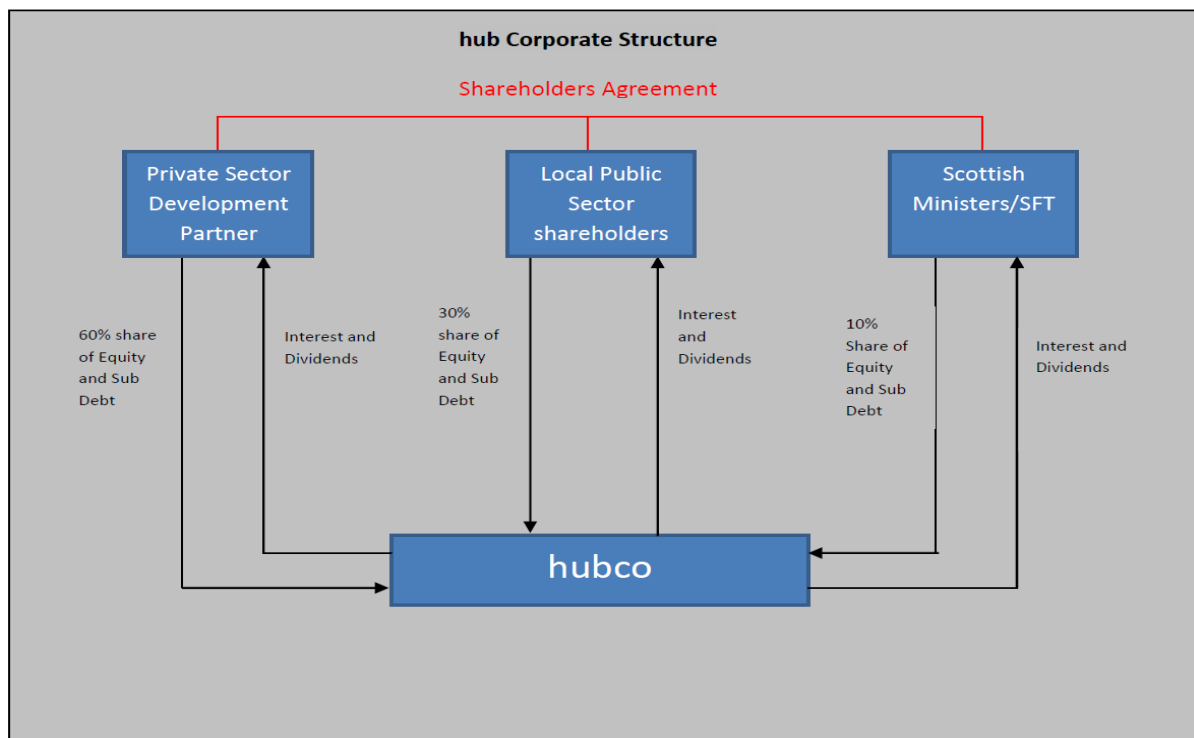


- Each Participant should nominate 1 member and 1 substitute member to the Territory Programme Board
- Territory Programme Board will appoint a F/T Team to manage the procurement and develop programme
- This Team will be led by a Director with support from the Programme Delivery Office based with SFT. The Director will be the named senior individual responsible to the Board for day-to-day management of the programme. This individual will be appointed by the Board, employed by one Authority, with all Participants sharing costs
- A Territory Programme Team of internal and external specialists will be needed to support the Territory Programme Director



## Appendix 2

# Hub Corporate Structure



- The board of the hubco will be made up of:
  - 3 directors appointed by the Private Sector Development Partner
  - 1 director appointed by SFT
  - 1 director appointed by local public sector partners
  - 1 non-voting Chairman (appointed - unanimous support)
- Each 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. A shareholder agreement will document the rights and obligations amongst the shareholders in hubco
- Alternatively, the Participants have the option of not becoming shareholders but still having the ability to partner with hubco for the development / procurement / construction of identified projects

## Implementing the hub initiative: Key Documents

Item	Document	Purpose
<b>Governance/Programme Management</b>		
1.	Letters of Intent	Issued to the PDO by those organisations wishing to participate in the implementation of hub, confirming a commitment to work with the other participating organisations and the PDO to: <ul style="list-style-type: none"> <li>• Agree necessary governance arrangements</li> <li>• Prepare for the procurement of a private sector development partner</li> </ul>
2.	Constitution of Territory Board	Territory Board to be constituted by an SRO from each participating organisation with appropriate level of delegated authority to make decisions in the procurement of a private sector partner.
3.	Memorandum of Understanding	Non-binding document, signed by each of the participating organisations, documenting working arrangements of the hub territory. Final version to be approved by the Territory Board.
4.	Programme Initiation Document	Details how the participating organisations will move through to the procurement of a private sector development partner.
5.	Project Pipeline	Details the projects that the participating organisations intend to procure through the hub initiative. This is a live document that will be continually reviewed and developed through the lifetime of hubco.
<b>Procurement</b>		
6.	OJEU Notice	Advert issued in the OJEU publishing the participating organisations' intention to procure a private sector development partner to form a hubco within their territory.
7.	Information Memorandum & Prequalification Questionnaire	Provides background information on the participants, the territory and the hub initiative generally. PQQ forms the basis for selecting a shortlist of bidders.
8.	Invitation to Participate in Dialogue	Issued to the shortlisted bidders providing information on the conditions and requirements of the competitive bidding process for the private sector development partner appointment.
<b>Contracts</b>		
9.	Shareholders Agreement	Entered into by each of the shareholders in hubco – i.e. the participating organisations, the private sector development partner and SFT. Deals with matters such as appointment of directors, transfers of shares, shareholder consent matters.
10.	Territory Partnering Agreement	Entered into by each of the participating organisations and hubco. Governs the provision of

### Appendix 3

		partnering services by hubco to the participants over a 20-year period (with an option to extend for a further 5 years). Deals with matters such as exclusivity, development and approval of project proposals, continuous improvement in value for money, KPIs etc.
11.	Template D&B Agreement	A standard form D&B Agreement will be annexed to the Territory Partnering Agreement for use on individual D&B projects being delivered by hubco.
12.	Template DBFM Agreement	A standard form DBFM (Design, Build, Finance & Maintain) Agreement will be annexed to the Territory Partnering Agreement for use on individual DBFM projects being delivered by hubco.

## Appendix 4



### Implementing the hub initiative: Style Letter of Intent

hub Programme Delivery Office  
Scottish Futures Trust  
1 St Colme Street  
Edinburgh  
EH3 6AA

Dear [ ]

#### **The hub initiative: [ ] Territory**

On behalf of [ ], I confirm our commitment to the development and implementation of the hub initiative.

[ ] undertake to work with the [ ] Territory Participants and the hub Programme Delivery Office to develop and agree the necessary governance arrangements to support the hub initiative within the [ ] Territory and to prepare for the procurement of a private sector development partner with a current target date of [ ].

[ ] agree to work with the [ ] Territory Participants to facilitate the development and completion of a Programme Initiation Document (PID) for the [ ] Territory and, prior to procurement, signing a Memorandum of Understanding with the other [ ] Territory Participants.

Yours sincerely

[ ]  
Chief Executive

## Appendix 5

### hub National Programme Board

**Graeme Bissett (CHAIR)**

Non-Executive Director, Scottish Futures Trust

**Mary Pitcaithly**

Chief Executive, Falkirk Council

**Mike Baxter**

Deputy Director, Capital Planning and Asset Management, SGHD

**John Matheson**

Director of Finance, SGHD

**Jim McCaffery**

Chief Operating Officer, NHS Lothian  
Chair of hub South East Territory Board

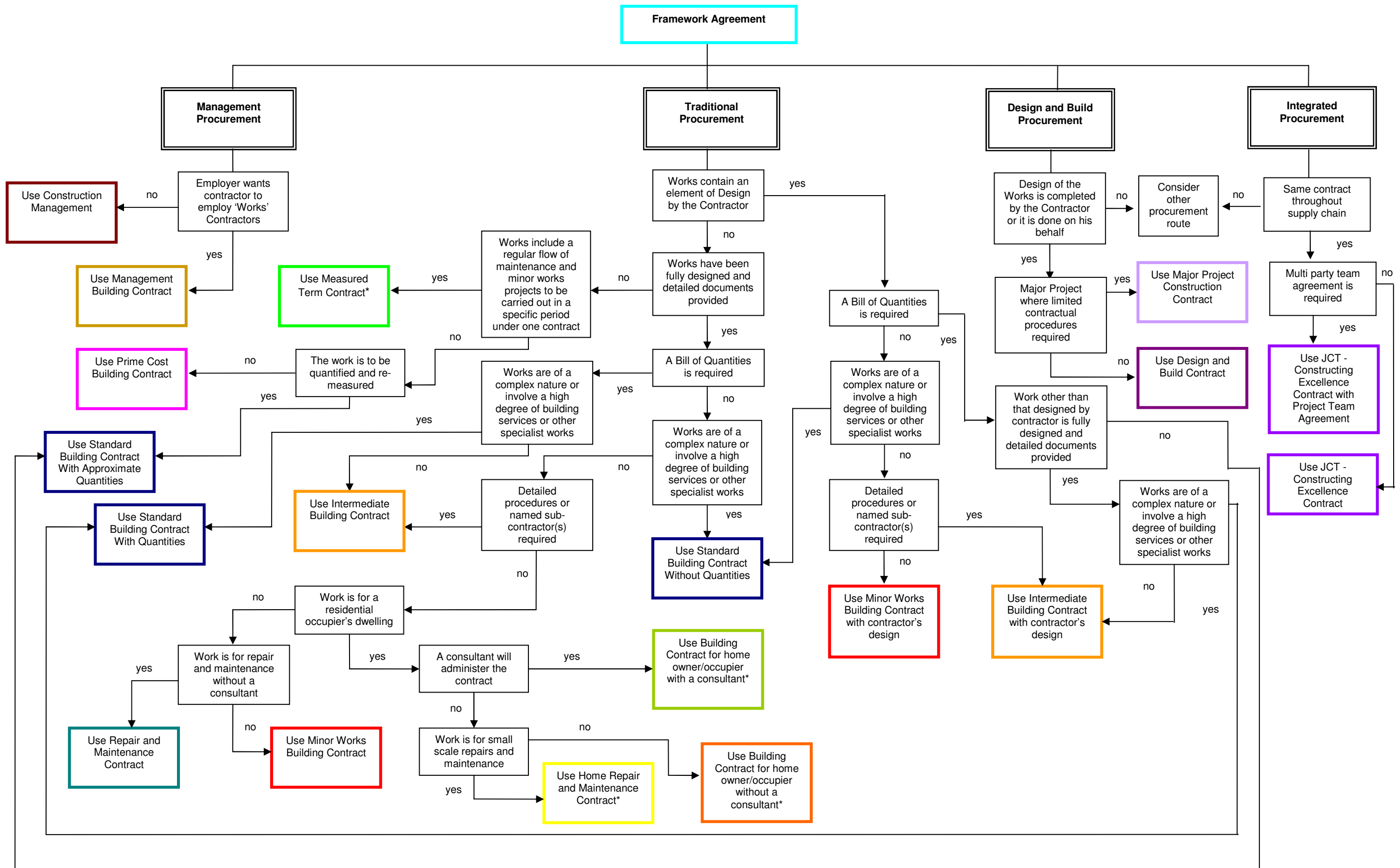
**Mike Martin**

Head of Partnership Improvement and Outcomes Division, Scottish Government

**Gerry Donald**

Head of Physical Planning, NHS Grampian  
Chair of hub North Territory Board

# Guide to selecting the appropriate JCT main contract



\*Not for use with the Framework Agreement