

Building Better Local Services Together: Imagine how hub will work in practice.

The hub Exemplar

This document outlines an imaginary model for hub. It allows us to understand the functionality of this initiative. Imagine a region in Scotland. Let's call it the Glendale and Firth region. The area has a population of approximately 640,000 people served by two NHS Boards and four Local Authorities.

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01 – The journey begins

NHS Glendale and Glendale Council cover the same area, while Firth NHS Board covers three Local Authority areas: Langshire, Firth View and Ben Hall Councils. The relative populations are given in Table 1 below.

Each local authority area has an established Community Planning Partnership involving a wide range of stakeholders. As required under the Local Government in Scotland Act 2003, stakeholders include the Local Authorities, NHS Boards, other public bodies and the voluntary sector.

The Firth View area has established three Community Health Partnerships (CHPs) which are co-terminous with the Local Authority boundaries. Within Glendale, there are three CHPs based around the decentralised area service structure. Each Community Planning Partnership is responsible for planning services within its area. Existing Community Planning structures have been strengthened to identify and bring forward premises proposals to be developed through hub.

As an area, Glendale has a mixed geography and demography. It covers 3,945 square kilometres. 55% of its population is concentrated in two large urban centres, Glenarm and Glenleg. The remainder of the population is dispersed in rural communities.

NHS BOARD	LOCAL AUTHORITY	COMMUNITY HEALTH PARTNERSHIP AREA	POPULATION
Glendale NHS Board	Glendale Council	Glenmouth CHP	125,000
		Glenarm CHP	97,000
		Glenleg CHP	140,000
			362,000
Firth NHS Board	Langshire Council	Langshire CHP	86,000
	Firth View Council	Firth View CHP	48,000
	Ben Hall Council	Ben Hall CHP	145,000
		279,000	

Glenarm, in particular, has a high concentration of deprivation and higher than average levels of unemployment. Average life expectancy in Glenarm is 3 years lower than the national average and there are high levels of substance abuse, particularly among young people. There is an absence of community-based facilities and the Scottish Executive, Glendale Council and NHS Board consider Glenarm as a priority area for service improvement and investment. Previous attempts to foster increased joint working through co-location have been hampered by the legal complexity of counter-party issues and the fragmented nature of available funding. hub provides an opportunity to overcome these difficulties through a more efficient procurement process using standardised documentation.

Glenmouth covers 50% of the geographic area and has a dispersed population. The largest town, Strathern has a population of 25,000 people. The demographic trends for Glenmouth show that, with a current higher than average age profile, the service requirements for an aging population will have a greater impact in this area. The incidence of clients with complex service needs is higher and there are shortages in the provision of residential care home places. Given the rural nature of Glenmouth, there are a number of small GP practices. Some of these are single practices that are divorced from other primary and social care services and housed in premises that are not fit for purpose.

Glendale Council and Glendale NHS Board are currently reviewing access to services within the Glenmouth area. The aim is to reflect the service needs of users and to investigate the opportunities for streamlining access to services through joint working arrangements and possible co-location opportunities.

At the outset, both NHS Boards and one Local Authority had agreed to take an equity stake in the new hub Co along with the national delivery vehicle and private sector investors. Both NHS Boards together with Glendale Council fully signed up to the hub Partnering Agreement and exclusivity arrangements covering community-based health and social care premises. The other Local Authority was simply participating in the first wave as a contracting authority by renting space under a head lease from the hub Co.

Subsequently, this Local Authority wanted to become a full participant in the hub Partnership, buying an equity stake in the hub Co following investment required to deliver the second tranche of schemes. This change can be facilitated under the Shareholders' Agreement, and with the hub Partnering Agreement continuing, without having to draw up a new contract.

The other two Local Authorities identified schemes to be delivered under the hub arrangements but these were not developed enough to take forward as part of the first tranche. These schemes would be developed in conjunction with the hub Co following the first financial close and the establishment of the hub Co. This timeframe allowed the Local Authorities to develop robust individual business cases and resolve some scoping issues through a review of local library and community services. There were also a number of site issues centring on rights of way in one location. In the lead-up period, the Council was able to resolve these matters and to bring a firm proposal and a business case approved by the Community Planning Partners to the hub Co.

By involving a number of public sector partners within the hub Co structure, skills were pooled, procurement overheads minimised, lessons learned, knowledge shared and risks spread.

02 – Creating the hub delivery plan

For each area, the first hub Delivery Plan (hDP) set out the links for planned infrastructure investment against key local and national objectives.

Local partners, the hub Co and hub Scotland did not want to duplicate the work of the local Community Planning Partnerships and Community Health Partnerships, but they did want to bring together the infrastructure proposals for each area within a broad policy context. Equally, they wished to demonstrate their commitment to the hub initiative by detailing their actions in support of the development of future tranches delivered through hub.

Within the hub Co area, the four Community Planning Partnerships have been assessing their performance against their key outcome indicators and assessing how their future infrastructure requirements need to be refined to meet their objectives. While there are some common themes across each NHS Board and Local Authority area, the starting points and priorities vary. This is reflected both in their respective existing Community Plans and in their identified infrastructure investment requirements. With support from hub Scotland, the local hub Co, has provided guidance to support Community Planning Partners to bring forward affordable service led schemes within their own areas. In bringing together the infrastructure plans for community based services for each organisation within a Community Planning Partnership area, it became evident that there were synergies in some of the proposals.

For example, in the Leadway area of Glenarm, the NHS Board had identified GP practices that were in ageing accommodation with limited expansion space. The NHS Board was considering how best to enhance services by sharing facilities with other community health services.

Meanwhile the Council was looking to provide community facilities including a library, community learning facilities and leisure provision. The opportunities for a joint development had not previously been explored. In addition, the involvement of Communities Scotland also brought forward a regeneration dimension with the development of training facilities to support local literacy and employment initiatives. The projects being taken forward are focused on delivering improved outcomes. The

hub Delivery Plan also set out the initial three projects on which the procurement of a private sector partner were to be based. These schemes had originated from the infrastructure plans of the public sector partners but were refined in light of a shared understanding of proposals within each Community Planning Partnership. The combined capital value of these schemes was £30m.

Through hub Scotland, the local public sector partners were able to access additional development funding from the Scottish Executive, to assist in the development of joint working infrastructure proposals, organisational development activities and project management and advisory support. This had been of great assistance in formulating plans, as well as ensuring that appropriate project management and procurement skills were available and utilised effectively. By involving a number of public sector partners within the hub Co structure skills were pooled, procurement overheads minimised, lessons learned, knowledge shared and risks spread.

In addition to the initial three schemes, outline proposals for schemes in tranche two and three were put forward in the hDP. This approach served a number of purposes.

Firstly, it helped set out and prioritise the range of service developments required within each CPP area. Secondly, by defining the facilities that needed to be developed, it helped identify potential geographic locations.

Thirdly, it helped potential private sector participants identify the types of supply chain partners who will be required to meet the hub partners' expectations. This approach also demonstrates the range of public sector partners involved - even those who may not have tranche one schemes but have projects in the pipeline. From an economic and planning perspective, public sector bodies plan properly for the delivery of subsequent schemes. Once established, the hub Co also has a basis on which to engage public sector partners on the development of their schemes.

Fundamentally though, this approach seeks to demonstrate commitment from the public sector to produce a critical mass of deals and continuing stream of projects coming forward.

	£m's	Tranche 1	Tranche 2	Tranche 3	Tranche 4	Tranche 5
Scheme 1		15				
Scheme 2		10				
Scheme 3		5				
Scheme 4			7			
Scheme 5			8			
Scheme 6				10		
Scheme 7					20	
Scheme 8					5	
Scheme 9					25	15
		30	15	10	25	15

03 – Initial procurement and setting up the hub Co

Following the issue of an OJEU notice, a total of six bidders responded to the Glendale and Firth hub standard Pre-Qualification Questionnaire (PQQ).

Three bidders were short-listed to compete to become the preferred private sector partner in the local hub Co. The initial hub procurement was based on standard documentation developed by hub Scotland. This approach, combined with nationally negotiated rates for legal and financial advisors, brought down procurement time and cost. The procurement timetable of 18 months from the placing of the OJEU notice was achieved. The timetable could have been two months quicker but there were a number of land-related issues that had not been fully addressed prior to the issue of the OJEU. Public sector partners recognised this as a key learning point for future schemes and that sign-off of land issues should be a prerequisite for preliminary scheme approval.

At the completion of the 18 month procurement period, all commercial agreements were in place between the public sector hub partners and the successful bidder. This included the following aspects, (all of which became live post this 18 month period):

- the setting up of an incorporated hub company, in which the local partners hold shares, which undertook the design, build, financing and operation of the facilities to the contractually agreed standards, timescales and costs, and
- use of a supporting suite of agreed contractual documents, governance and project management procedures and processes which facilitated the operation of the contract over the short, medium and long term. hub Scotland supported, oversaw and approved the above elements. As a result of these elements, together with the tender process which worked up agreed costed designs and services in competition, it meant that there was no lead-in time required for the commencement of the first tranche schemes from financial close.

The facility has proved to be a real catalyst for effective partnership between the private sector, the Health Boards, Local Authorities and voluntary organisations.

04 – First tranche schemes

The first tranche of three schemes consisted of a one-stop shop in the Leadway area of Glenarm, a primary care and social care centre in Glenmouth and smaller scale community facility in the Langshire Council area.

The new one stop service centre in Glenarm was completed on schedule and on budget, in part due to the incentives built into the Lease Plus and the hub Partnering Agreement. The land on which the centre was built was owned by Glendale NHS Board and transferred into the hub Co at market value. The capital enabling funds available through hub Scotland were used to demolish the existing derelict buildings. A derelict warehouse stood on the site which was cleared in preparation for the sale of the land to the hub Co.

The service centre housed GP surgeries, a minor surgery suite, chiropodist, optician, social work services, council collection and advice services, a library and a space available to community groups. Given the size and location of the site, the hub Co has also developed a cafe, garden area and two small retail units attached to the facility. Following its appointment, the selected private sector partner had an input into the development of the scheme. The inclusion of the retail units and the cafe generated third party revenues, which reduced public sector rental costs and enhanced the value for money and affordability of the scheme.

The centre had been designed with flexibility in mind. Each internal area was capable of easy adaptation through movement of internal partitions. The public sector also needs buildings that are energy efficient and cheap to maintain. Through a combination of long term partnerships and payment mechanisms, the hub Co incentivised the construction company in its supply chain to design and build facilities that minimised running costs.

The facility has proved to be a real catalyst for effective partnership between the private sector, the Health Boards, Local Authorities and voluntary organisations.

The public sector partners consulted local staff and service users on the best location and combination of services. Community Planning Partners also looked at the wider opportunities within the development to support community regeneration and local community learning.

As a direct result of the consultation, space has been allocated for a computer suite offering training opportunities supported by the local further education college. Following a design review, facilitated and funded via the Scottish Executive, the premises have also been commended by Architecture and Design Scotland for functionality, environmental planning and design quality. The shared premises were not simply a co-location but allowed the public bodies involved to share reception and administrative services and to demonstrate new, more efficient ways of working.

Under the Lease Plus agreement the hub Co is responsible for the delivery and maintenance of the facility. The head lease has been split between Glendale NHS Board and Glendale Council, with sub leases put in place for the independent contractors. These sub leases vary in timescale between 5 to 15 years and are much more responsive to the requirements of the service providers.

The primary and social care centre addressed a local priority - a number of independent health contractors (GP's and dentists) were working in isolation, in premises too small to provide the appropriate range and quality of services. Younger GPs were not interested in investing in these old premises, they did not want to tie themselves to the long-term inflexible property obligations. Under the hub initiative GPs were able to transfer their existing property to the hub Co and re-locate to the new centre, taking on 5 - 10 year sub leases from the NHS Board.

Single-handed GPs also had the opportunity to develop appropriate premises alongside NHS Board community health services. Normally, the private sector would have rejected such a scheme because it lacked commercial potential. However, under the hub Partnering Agreement, the private sector could make a return across the broad

portfolio of properties.

As a base from which local services could operate more effectively, a community facility was developed in Langshire. This was a local authority scheme which included office accommodation for a range of local services including a social work services team and a community safety officer.

Through the community planning processes, the local Community Safety Partnership had been able to input to the development proposals. As a result, the local police force took space in the facility under a head lease from Langshire Council. The sub-lease on that part of the facility was agreed for a three year period, after which Langshire Council will use the available space for a youth project worker.

The private sector partner had funded Glendale and Firth's first wave schemes by drawing down a facility from the property lending division of a major bank. The senior debt accounted for 90% of the total debt requirement of £30m. The total equity investment of £3m was split between the private sector (60% or £1.8m), hub Scotland (20% or £0.6m) and local public sector partners (20% or £0.6m). Both NHS Boards and Glendale Council had bought an equity share in the Glendale and Firth hub Co. Their combined investment of £0.6m was financed through a combination of direct purchase of equity and by transferring property into the company.

The parties to the hub Co recognised that the efficiency benefits of establishing the hub Co would be long term. However, the initial contracting authorities were concerned that the initial procurement costs in the selection of the private sector partner, (together with the set up costs of the hub Co) would make it difficult to demonstrate value for money on the initial schemes taken forward. As part of the funding package the senior lender provided a deferred bid cost facility which could spread the impact of the initial bid costs over a number of tranches.

hub Scotland had invested 20% of the equity in the local hub Co but had worked to provide support to the public sector partners during the procurement phase at risk. Its input costs were capped at 2.5% of the capital expenditure and were charged to the chosen Private Sector Provider at financial close, with costs recovered via the Lease Plus payments made by those signed up to the head lease. The national delivery vehicle is, therefore, directly incentivised to deliver closed deals.

In considering their involvement in the hub Co, all public participants were satisfied that hPA gave them the right to veto any unsuitable commercial developments, and to be satisfied about the value for money of each new project proposal put forward by the hub Co.

The first schemes had also shown scope to generate 3rd party revenues. This allowed them to offer more economic lease terms under the Lease Plus. For example, facilities such as sports halls could be built as part of health centre developments and therefore help to generate third party income.

Under the shareholders agreement, the local partners who signed up to the hPA and who put equity into the initial schemes receive a share of dividends. This return can

then be used to fund further developments.

The hub Co has worked with its local public sector partners on developing a number of further revenue-generation schemes that provide real opportunities for the Langshire area.

05 – Second tranche schemes

Within the initial hub delivery plan, the Second Tranche Schemes were identified in outline. In the 12 months following the initial procurement, these proposals have been fully developed.

The hub Co was an active participant in the development of these schemes. This added commercial focus led to the refinement of proposals and the development of additional revenue-generation-opportunities that assist in reducing the public sector rental cost. Some of this initial work was undertaken at risk.

The hub Co has worked with its local public sector partners on developing a number of further schemes. Langshire Council has agreed to the development of office space for its housing department. This accommodation has been designed with flexibility in mind, using a combination of open plan, enclosed office space and interview rooms. The hub Co was able to work directly with the Council in developing the proposal. In this case, the Council wanted to procure the accommodation under a design and build contract. The flexibility of the hub model meant that the hub Co was able to assist the public sector in developing their facility under conventional funding arrangements.

A snack bar and coffee shop has also been incorporated which is operated by the hub Co. The Council has a Lease Plus agreement.

Ben Hall Council, in conjunction to Firth NHS Board, has reviewed services provided to elderly patients within their area to reduce the number of people staying in acute hospital settings. The review resulted in the decision to develop additional intermediate care facilities with the decentralisation of care support teams across the Ben Hall area.

Ben Hall Council had not been involved in the first wave schemes and had not signed up to exclusivity provisions within the hPA. Due to the flexibility of the OJEU notice, the Council was able to contract with hub Co, to provide community based social care premises.

06 – Third tranche schemes

Following the construction of the first of the Third Tranche Schemes, hub Co assessed that the level of performance of the construction supply chain partner fell below standards set by the output specifications

The hub Cos supply chain incorporated design, construction and maintenance service

providers. Despite a number of meetings to resolve the issue, the construction supply chain partner failed to improve standards sufficiently. As a result, these services were to be market tested before further schemes were developed. Under the hPA, market testing is carried out every five years to ensure value for money. Given that the construction supply chain provider was a subsidiary of our private sector partner, consent from all classes of shareholders was needed for the market test methodology. Following a market test, a successful competitive bid was received from a rival contractor and service standards have increased.

07 – hub Co management arrangements

An advert was placed in the OJEU and a competitive bid process followed. Subsequently, the Private Sector Partner XYZ Plc was appointed by the public sector partners (NHS Boards and Local Authorities)

From OJEU to financial close, the process took 18 months to complete. The OJEU advertisement was flexible enough to allow all local hub partners to participate in the procurement - initially or in future, at entry levels relevant to their individual needs.

hub Scotland produced guidance on the OJEU and tendering process and on the evaluation and selection of bidders which, together with national and local advisory support, was used by local hub procurers. As a result, the tender was awarded to G&F hub Services Ltd. As well as offering affordability and value-for-money in its bid, the firm particularly impressed during the tender process with their approach to long-term partnering.

The hub Co Chief Executive holds a weekly meeting with his senior executive team - managers of Finance, Property and Maintenance, Facilities Management and Administration. Some of the team were recruited by the hub Co. However, the Property and Maintenance Manager, as well as the Administrator, are seconded from one of the constituent local authorities.

In his Development Manager's role, the Chief Executive is responsible for working with the public sector officers to develop a hDP.

The Property Manager and Facilities Manager are responsible for the day to day Lease Plus services for the range of tenants on the First Tranche Schemes. However, they are also keen to discuss progress on outline design of the new Second Tranche Schemes. The First Tranche premises are very efficient in energy use and maintenance effort. But, from this experience, the managers have identified improvements that can be made and want to ensure that these are incorporated into the design of the new buildings.

The Chief Executive and Finance Manager manage the company's financial affairs, ensuring that cash flows from Lease Plus payments and partnering services can meet running costs and administrative overheads, as well as the finance costs on the working capital facility granted by the hub Cos bank and the senior debt used to fund the initial capital expenditure.

XYZ consortia originally funded its 60% share of the equity (a mixture of shares and sub-debt), as did hub Scotland for its 20% share. For the first tranche schemes, the NHS Boards and local authorities each funded their share through a mix of cash and transferred property to hub Co. The proceeds of the property transfers funded part of their equity stakes and they each also received a surplus above equity value of their property. The transfer of existing assets into the hub Co gave funders the necessary comfort and security against which an additional working capital facility was provided.

The working capital facility enables the hub Co to develop additional partnering services. These include the project management of a number of publicly funded projects outside the scope of the partnering agreement, together with some preparatory work on new projects awaiting approval by the relevant public sector partners.

The non-executive Chairperson of the hub Co has a sound commercial background and has brought significant experience to bear in guiding the hub Co through the start-up phase.

The Executive Team reports to the shareholders of the hub Co quarterly. Such reports review performance and map out activity for the coming period. Quarterly meetings are also held with the hub Cos senior debt funders.

There are five non executive Directors. Three are appointed by the Private Sector Partner, XYZ Plc, one by hub Scotland and one by the local public sector partners. (hub Co has benefited significantly from this constructive input into service planning issues). The hub Scotland Director has additionally provided the hub Co with a link to other hub Cos across Scotland.

The up-coming Board meeting will have to consider the senior executives' proposal to develop and invest in the next tranche schemes. These schemes have been designed and priced from the brief arising out of meetings with the relevant public sector partners. Overall profitability has been at a level where the hub Co has been able to undertake some initial development work at risk.

Given the discipline associated with raising additional finance for the next tranche of schemes, the directors of hub Co need to gain consent from the hub Co shareholders that the proposals are robust, affordable and properly managed, and that procurement costs and time are minimised.

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