

Hub Update CIPFA Forum

27th June 2013

Presented by
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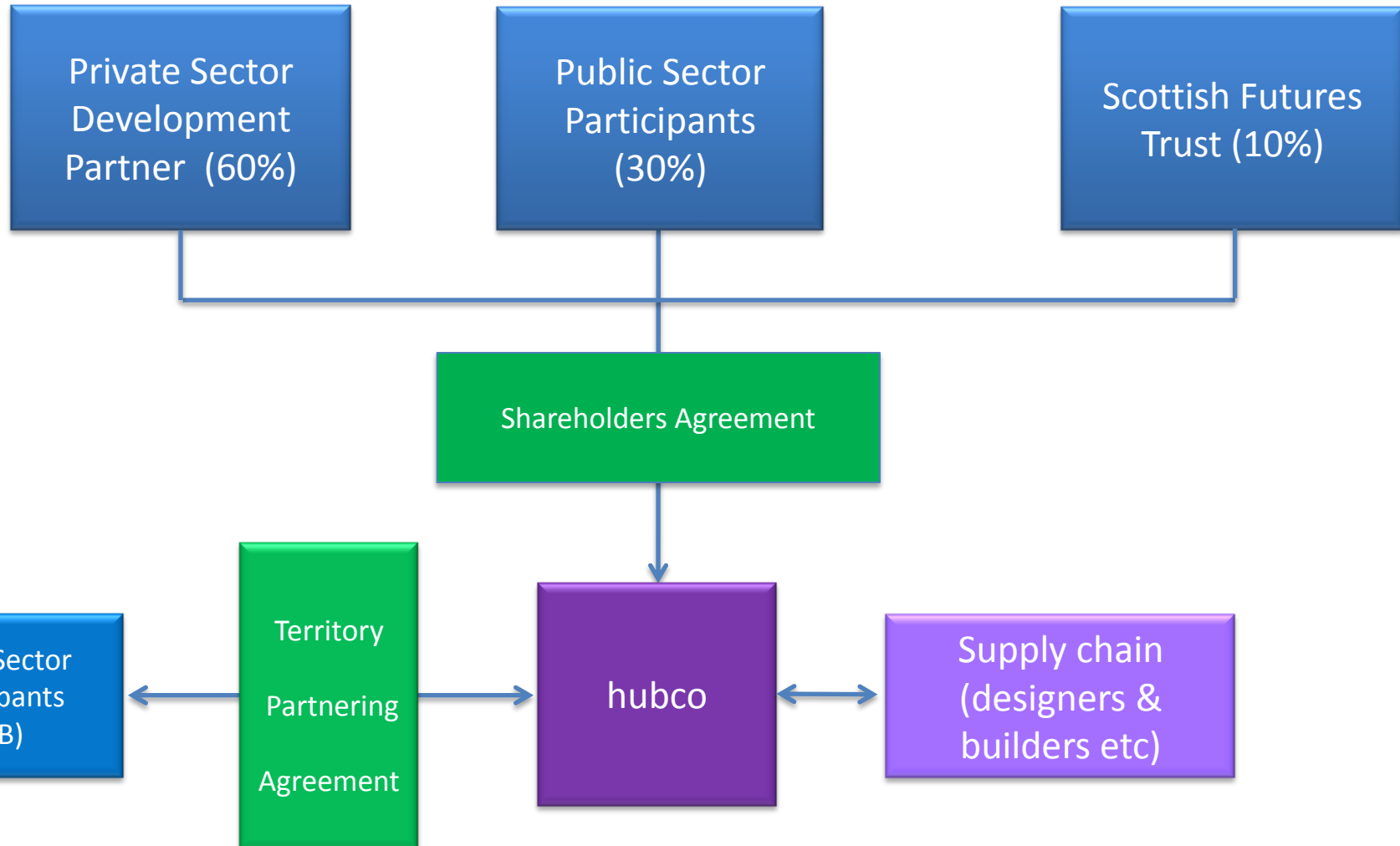
A Partnership to provide:

- Efficient, quick & sustainable procurement
- Increased opportunities for joint service working and integration
- Improved Value for Money
- Opportunities for significant service improvement

- Ability to use **capital or revenue** funding for the development of new facilities
- Incentive for public & private sector partners to drive **continuous improvement** via long term partnership
- In line with UK **Government Construction Strategy** (May 11):
 - “replace adversarial cultures with collaborative ones”*
 - “demand cost reduction and innovation within the supply chain”*
 - “value for money and competitive tension are maintained by effective price benchmarking and cost targeting”*

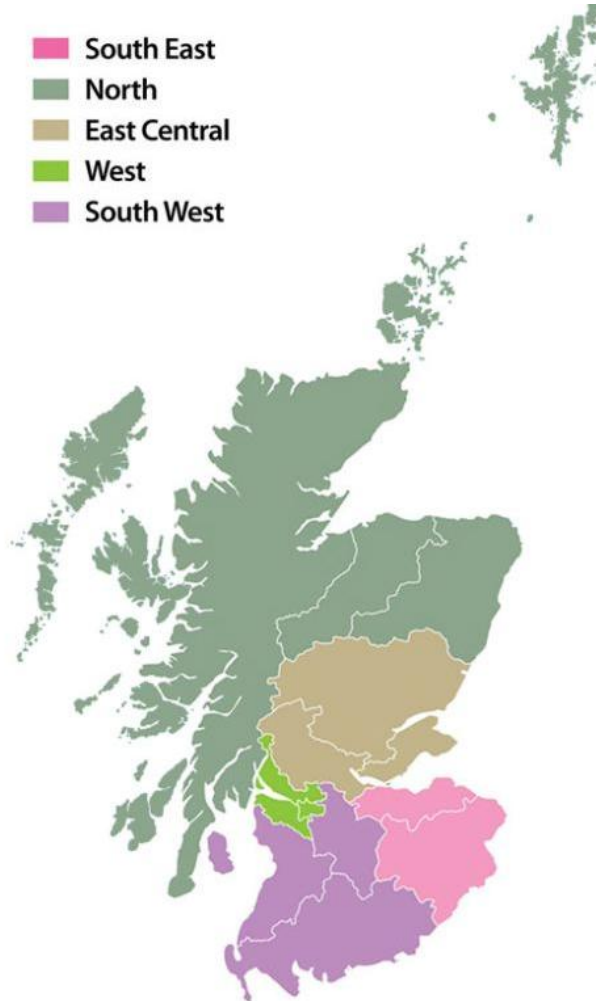
Establishing hubco

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Hub Territories - Geography

- South East
- North
- East Central
- West
- South West



North Territory

- hubco established January 2011 (Alba)

West Territory

- Hubco established April 2012 (Wellspring)

South West Territory

- hubco established Nov 2012 (Alliance)

East Central Territory

- hubco established Feb 2012 (Amber Blue)

South East Territory

- hubco established August 2010 (SPACE)

Ongoing

- Develop Territory Delivery Plan with Participants
- Supply Chain Management
- Support the Territory Partnering Board

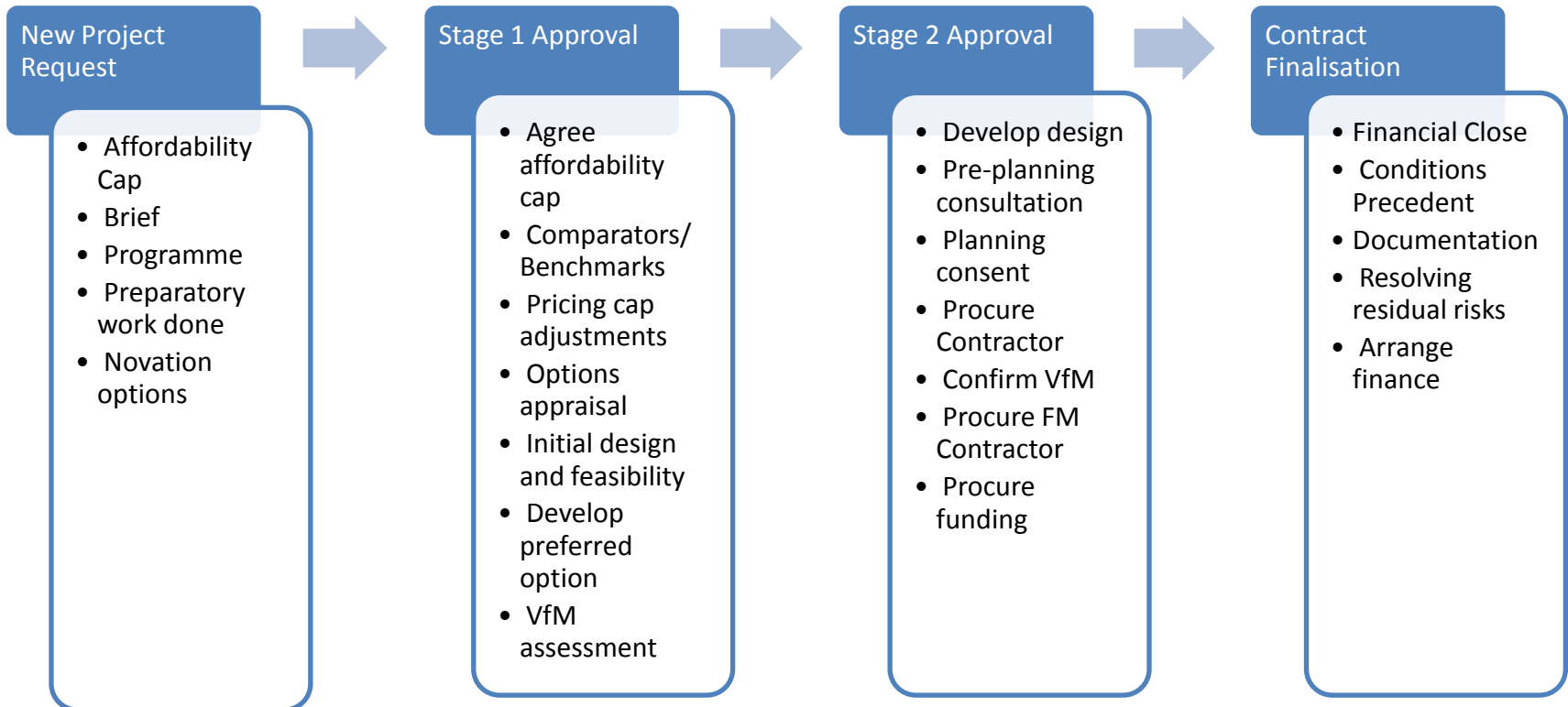
Project Development

- New Project Development/Delivery
- Supply Chain Selection
- Funding

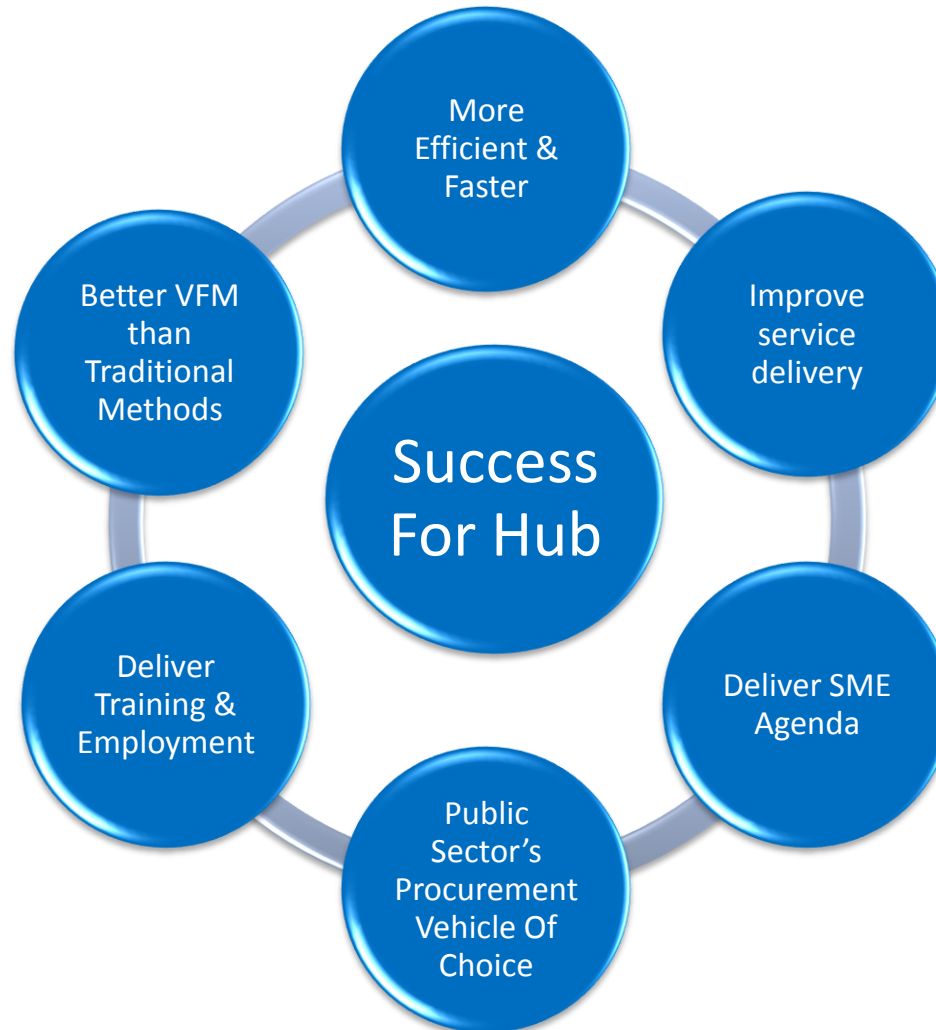
Strategic Support

- Strategic Estate Planning - if requested
- Service Planning – if requested

Hub Project Development Process



Hub – Key Objectives



Key Milestones in 2012/13

- Final two hub territories procured (West and South West)
- First DBFM signed (£15m Aberdeen Health Village)
- Second just after year end (£13m Forres, Tain, Woodside)
- 14 projects worth £72m in construction
- 4 facilities completed and operational in year
- Projects worth £500m in construction or development at year end
- Health Reference Design project undertaken with NHS GGC & SGHD



hub
South East Scotland

DBFM's

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£72m in Construction

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Artist's impression of the Grampian Custodial Centre which has just started construction

4 Projects Completed

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Wester Hailes Healthy Living Centre

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Construction: Jan 2012 – Jun 2013

4,944m² and £12m

Services to be delivered:

NHS Lothian

- GP Practice
- District Nurses
- Health Visitors
- Salaried Primary Care Dental Service
- Podiatry

City of Edinburgh Council

- Children & Families Practice Team
- Children & Families Occupational Therapy
- Health & Social Care Practice Team
- Criminal Justice



SMEs

- 82% of work packages offered to SMEs
- 74% success rate

Jobs

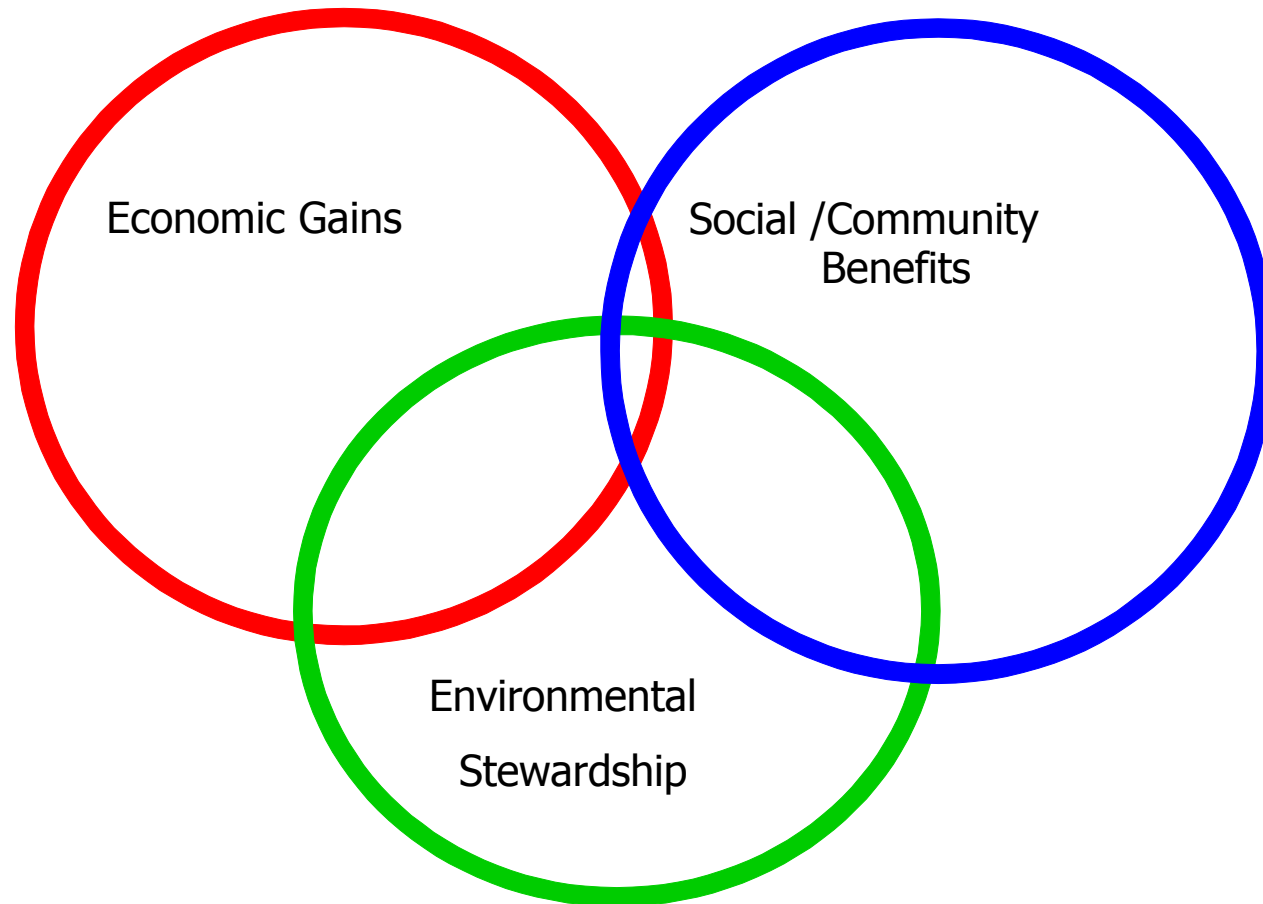
- 119 new jobs created
- 8 new apprenticeships
- 19 new trainees



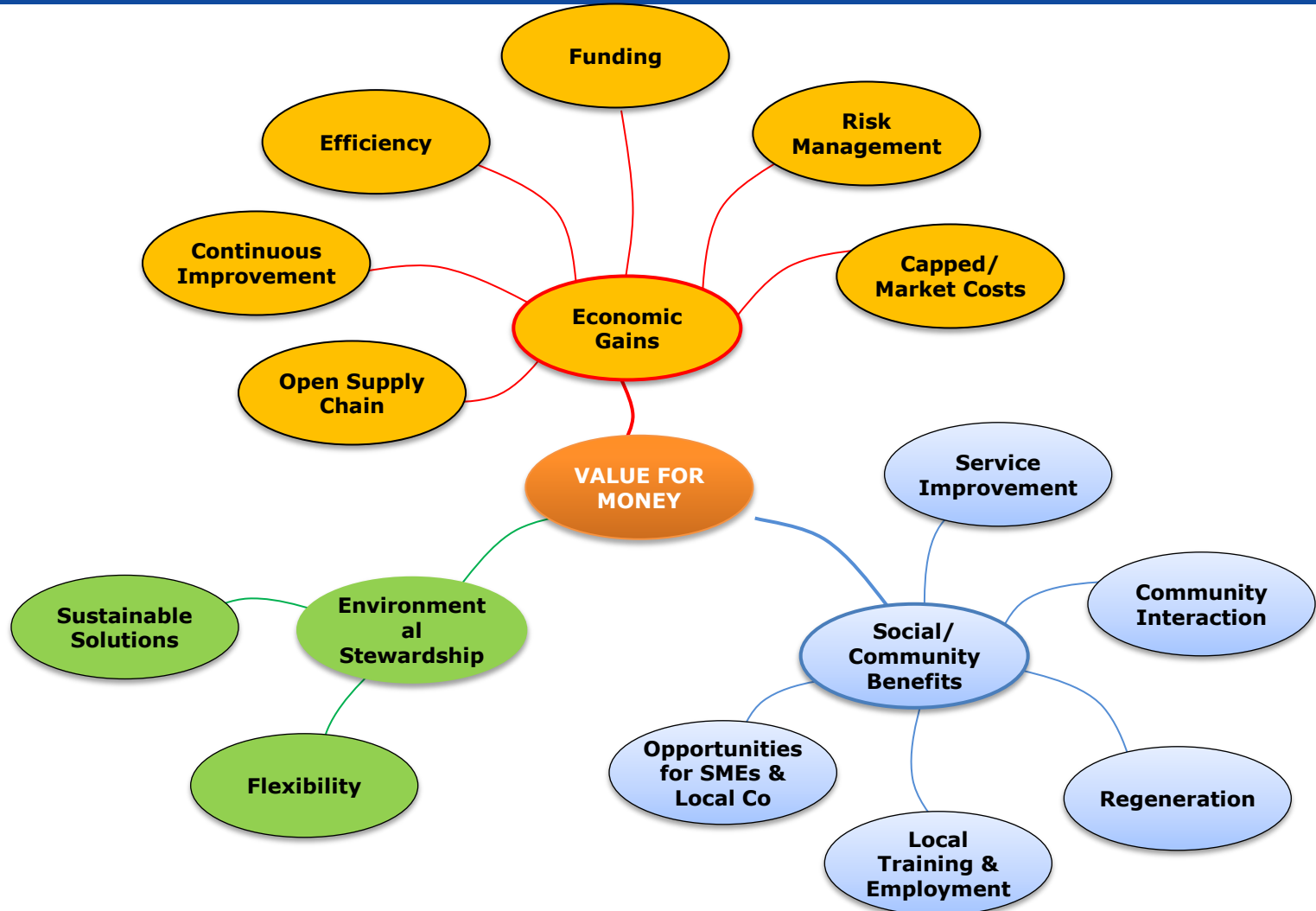
- Value in Development and Construction from £500m to £1.2bn
- 40-50 projects in Construction
- 15-20 facilities completed and handed over
- 6-12 DBFMs to reach financial close

- Availability of Debt Finance - £130m rising to £330m needed
- Capacity and capability of NHS Boards/LAs – DBFM projects
- Sharing of expertise already gained on DBFM projects
- Inflation Risk
- Delays to projects
- Ongoing Training Programme – D&B and DBFM

Value For Money – triple bottom line



Value For Money

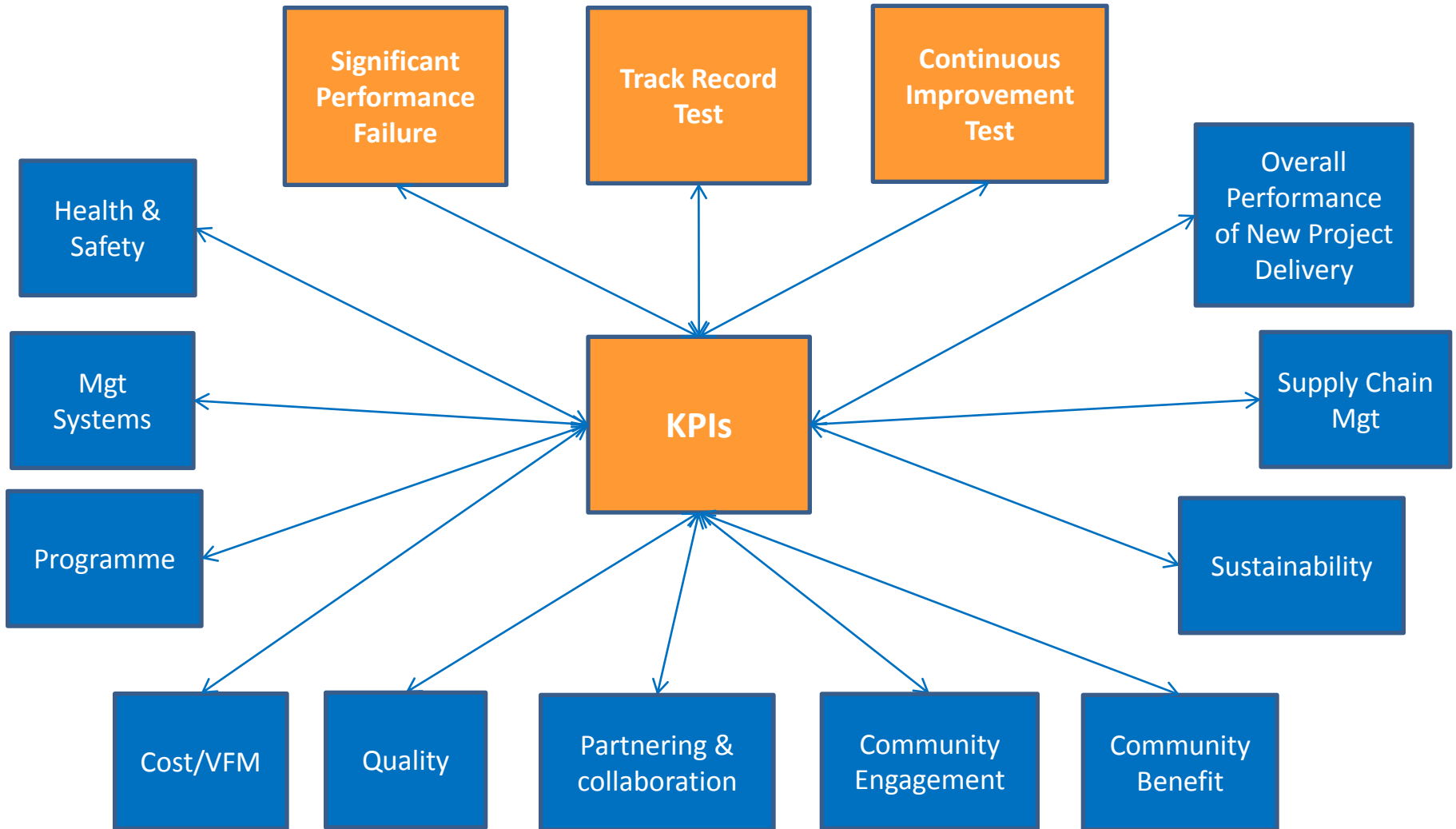


How does hub demonstrate VFM?

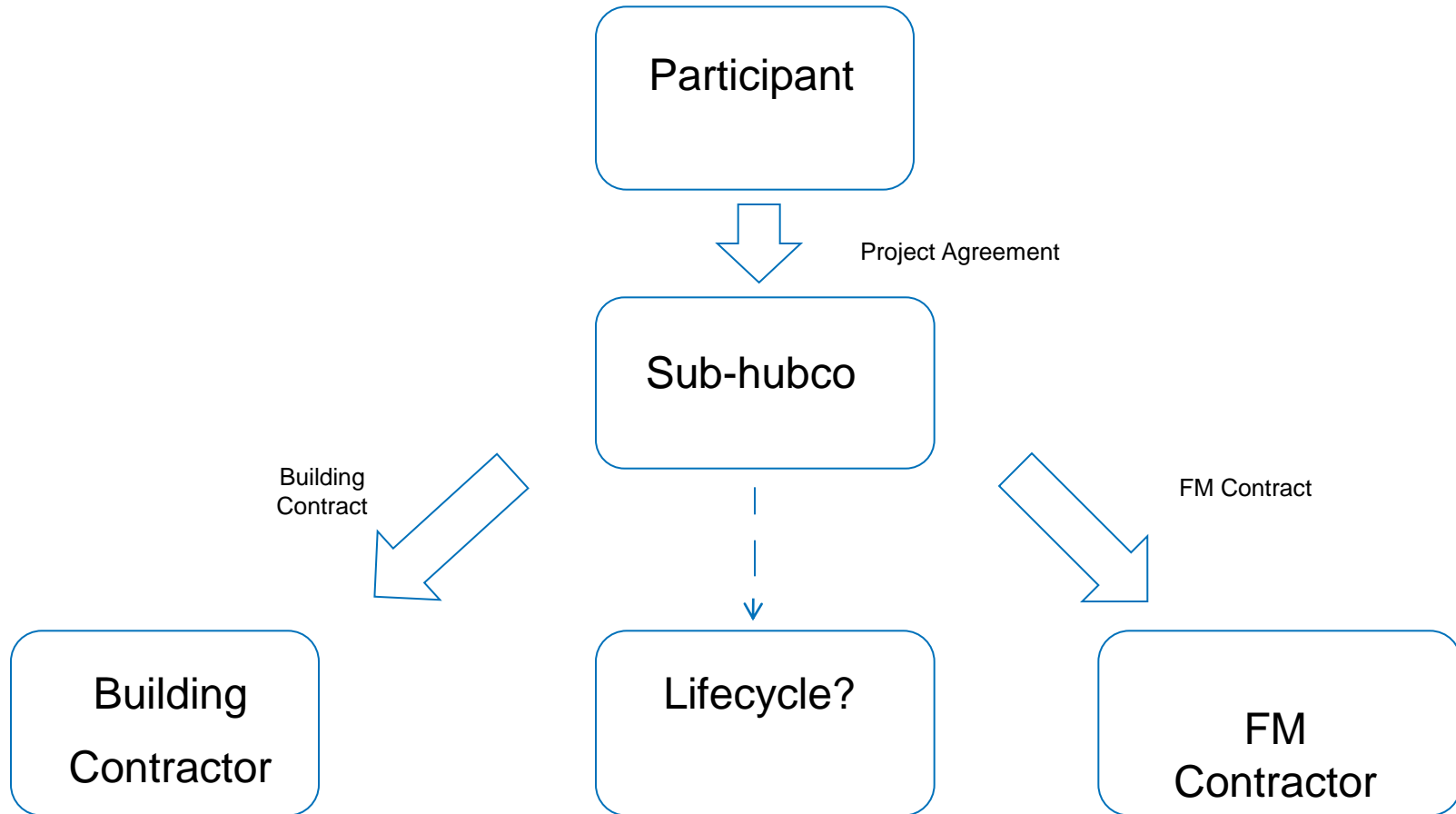
Value for Money is demonstrated at project level by:

- Market testing
- Comparators - procured set of capped prices forming basis of future project budgets, of typical hub projects
- Benchmarking - comparators are chosen from benchmark data put forward by the Participant (or SFT) or by hubco taken from BCIS database.
- Open book – look through to supply chain
- Competitive Tendering within supply chain of min of 80% of construction value

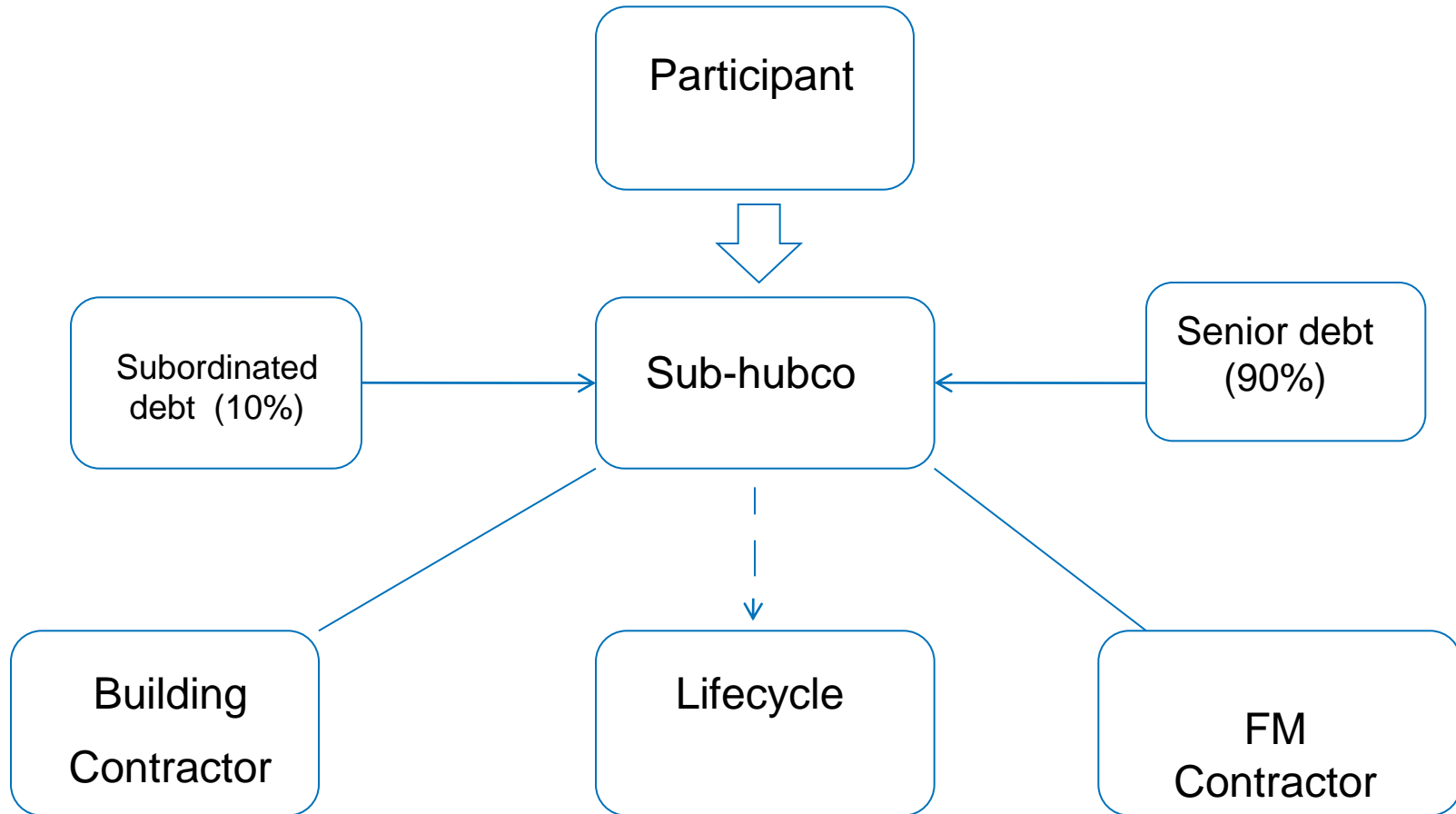
Key Performance Indicators



Basic DBFM Structure under hub



Basic DBFM Structure under hub



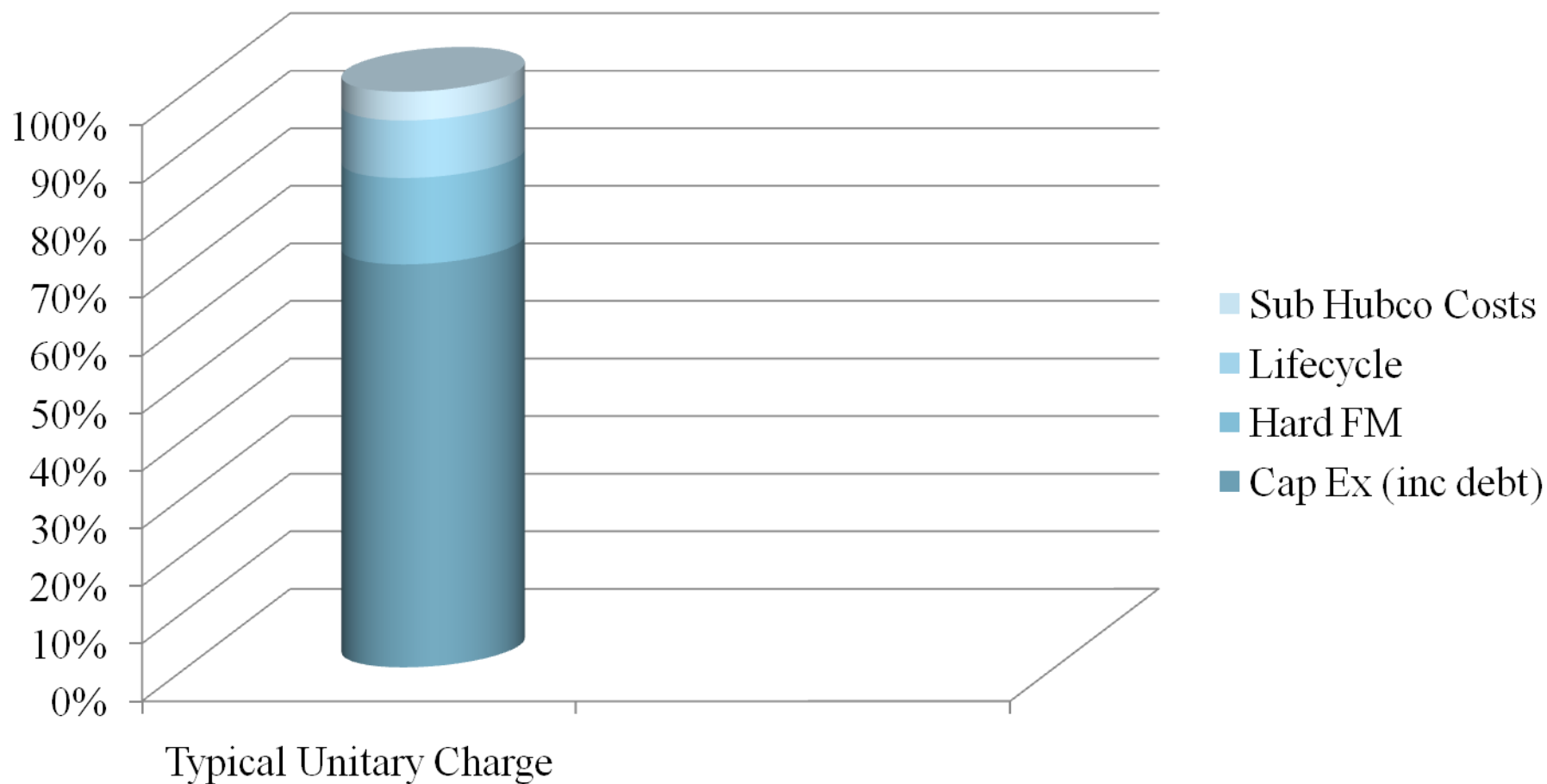
Payment for a service not construction of a facility

What does this mean?

- No payment is made until the facility is available and ready for use – no stage payments during construction
- Payment of an annual unitary charge or service payment for the life of the project **(this is not rent and it is not a lease!)**
- No service, no payment – deductions apply
- DBFMs generally have a fixed end date – usually 25 years

- No Payment during construction
- Fixed annual Unitary Charge Payment from Service Availability throughout 25 Year life of the contract
- Unitary Charge paid on a monthly basis less any deductions levied against sub-hubco

The Unitary Charge

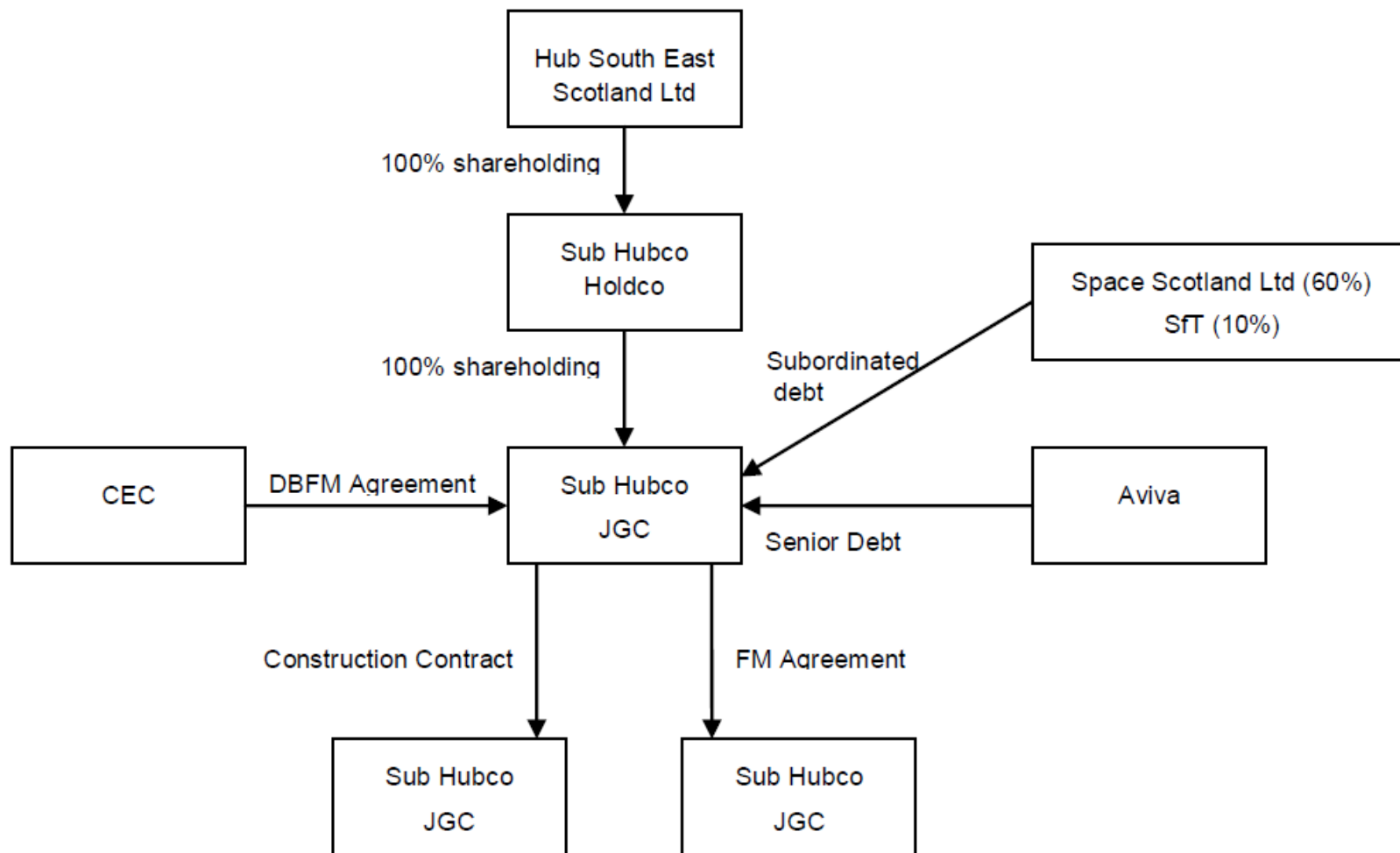


- The Participant retains ownership of the land and anything built by sub-hubco on it.
- What does this mean:
 - Sub-hubco does **NOT** lease the land to the authority
 - The Participant grants sub-hubco a licence to occupy the land to the extent required to carry out the service
 - The Participant will be required to warrant the title to the site
 - The Authority may grant leases of the facility to other bodies

Form was agreed as part of the Territory Partnering Agreement – based on NHS Standard Form (Scotland)

- Standard form “main body” Project Agreement
- Standard Services Specification
- Standard Payment Mechanism
- All changes to the standard project agreement need to be approved by SFT

Contractual Structure of hub – sub debt



Sub Debt injection ? - why

- Strengthens the partnership between the public and private sector by allowing the public sector participants to act as minority equity co-investor in hub projects;
- Incentive for both public and private sectors to achieve success together, by each having financial investment at risk in the subhubco.
- interest rate provides a relatively high rate of return over a long term period;
- the investor rights in Sub-HubCo provide increased transparency to the investor in management of the project.

- Subordinated debt is risk capital and as such is at risk in the event of any credit event facing Sub-HubCo.
- Subordinated to the senior debt and will rank behind senior debt in the event of any credit event.
- Termination for delay
- Sub-hubco default e.g. failures under the contract so fundamental that the procured facility is no longer delivering to the Council the service required.
- Force majeure