

Item: 22.1

Policy and Resources Committee: 22 June 2021.

House Build Programme – Housing Development at Carness Road, Kirkwall.

Stage 2 Capital Project Appraisal.

Report by Executive Director of Education, Leisure and Housing.

1. Purpose of Report

To consider a Stage 2 Capital Project Appraisal for the final phase of housing at the Carness Road development.

2. Recommendations

The Committee is invited to note:

2.1.

That the Scottish Government has awarded further funding, amounting to £3,980,000, in respect of affordable housing development in Orkney for 2021/22.

2.2.

That Council and Orkney Housing Association Limited housing projects, aiming to utilise approximately £2,550,000 of the available funding for 2021/22, are already on site and underway.

2.3.

That, in addition to the projects already on site, the Council and Orkney Housing Association Limited are looking at additional projects to utilise the remaining funding, amounting to £1,430,000.

2.4.

That, on 11 November 2020, when considering additional social housing development projects, the Education, Leisure and Housing Committee recommended that, as an exception to the Capital Project Appraisal process, in order to maximise time limited Scottish Government grant funding, the Executive Director of Education, Leisure and Housing should submit, to the Policy and Resources Committee, Stage 2 Capital Project Appraisals in respect of the various proposed house build projects.

2.5.

That the projects referred to at paragraph 2.4 above included Phase 2 of the housing development at Carness Road, Kirkwall, consisting of eight two-bedroom and six three-bedroom properties, at an estimated cost of £2,364,151, which would be the final phase of housing on the Carness Road site.

It is recommended:

2.6.

That the Stage 2 Capital Project Appraisal in respect of Phase 2 of the housing development at Carness Road, Kirkwall, attached as Appendix 1 of this report, be approved.

2.7.

That, as an exception to the Capital Project Appraisal process, in order to maximise time limited Scottish Government grant funding, Phase 2 of the housing development at Carness Road, Kirkwall, be added to the non-General Fund capital programme for 2021/22 onwards, at a gross capital cost of £2,364,151.

3. Background

3.1.

The Scottish Government has awarded £3,980,000 in funding for the development of affordable housing to be delivered by the Council and Orkney Housing Association Limited.

3.2.

There are 817 households on the social housing waiting list, which is significantly greater than the figure of approximately 500 households during the peak of the Council's house build programme in 2013. Of the 817 households on the waiting list, 481 households have Kirkwall as their first choice.

3.3.

On 11 November 2020, the Education, Leisure and Housing Committee considered Stage 1 Capital Project Appraisals in respect of additional social housing development projects. The Committee subsequently recommended that, as an exception to the Capital Project Appraisal process, in order to maximise time limited Scottish Government grant funding, the Executive Director of Education, Leisure and Housing should submit, to the Policy and Resources Committee, Stage 2 Capital Project Appraisals in respect of the undernoted proposed house build projects:

- Infrastructure for up to 112 social rented houses at Soulisquoy, Kirkwall.
- 50 properties comprising a mix of one, two and three-bedroom properties over two phases at Soulisquoy, Kirkwall.
- 14 two and three-bedroom houses at Carness, Kirkwall.

- A design and build contract for six one-bedroom properties on land owned by the winning contractor in Kirkwall.
- A design and build contract for 20 one, two and three-bedroom properties on land owned by the winning contractor in Kirkwall.

4. Carness Road Phase 2

4.1.

The Phase 2 project at Carness Road, Kirkwall, will carry on from the completion of the 32 properties of Phase 1. Along with the development of the 32 properties, the Phase 1 project also developed the required infrastructure for Phase 2, including the basic road network, electricity, BT, water and drainage services.

4.2.

The 14 properties of Phase 2 comprise eight two-bedroom and six three-bedroom properties. The Stage 2 Capital Project Appraisal for the Carness Road (Phase 2), Kirkwall, is attached at Appendix 1.

4.3.

It is estimated that the cost of the development, including fees, would be £2,364,151. The Council hopes the project will attract Scottish Government grant funding of at least £1,176,000. This would leave the Housing Revenue Account to fund the remaining £1,188,151.

4.4.

While the affordability of the project is challenging, the Housing Revenue Account already owns the land at Carness and the majority of the required infrastructure for Phase 2 has already been installed as part of the Phase 1 Carness project. This makes Phase 2 at Carness Road the most affordable housing development project available to the Council at this time.

4.5.

Despite the increase in grant funding from the Scottish Government, there are still concerns around the affordability of additional housing developments and the impact additional debt would have on the Housing Revenue Account. The Phase 2 project at Carness Road will only be progressed if the funding mix is available through Scottish Government grant and if the finance available through the Housing Revenue Account is sufficient to allow the projects to proceed.

5. Procurement Implications

The recommendations from this report will result in a standard procurement for the Phase 2 project at Carness Road, on land already owned by the Council.

6. Corporate Governance

This report relates to the Council complying with its governance and financial process and procedures and therefore does not directly support and contribute to improved outcomes for communities as outlined in the Council Plan and the Local Outcomes Improvement Plan.

7. Financial Implications

7.1.

This report presents a Stage 2 Capital Project Appraisal for consideration by this Committee, following a recommendation by the Service Committee in November 2020 that the Stage 1 Capital Project Appraisal presented to them progress to Stage 2.

7.2.

Funding levels above the standard benchmark of £59,000 from the Scottish Government will be required for the projects outlined to be financially viable through the Housing Revenue Account. It is estimated that funding of around £84,000 per-property will be required to make the project affordable. Discussions are ongoing with the Scottish Government regarding the maximum grant levels available.

7.3.

The Scottish Government has indicated that £3,980,000 development funding for affordable housing has been allocated to Orkney for 2021/22.

7.4.

The affordability of the Housing Revenue Account will need to be taken into consideration when approving any additional budget for new housing development. The summary position for the projects considered in this report is:

| Type | Units | Size | Total Capital cost (including land) | Total SG Grant ask | HRA Finance |
|------------------------|-------|---------------|-------------------------------------|--------------------|-------------|
| Carness Road (Phase 2) | 14 | 2 & 3 bedroom | £2,364,151 | £1,176,000 | £1,188,151 |

7.5.

The affordability position of the Housing Revenue Account to take on additional borrowing has improved over the past two years as slippage on maintenance programmes has allowed accelerated debt repayments. The net borrowing position on the Housing Revenue Account has reduced from £9,941,216.96 at 31 March 2020 to £9,518,330.36 at 31 March 2021 whilst the property asset base has increased.

8. Legal Aspects

8.1.

Section 95 of the Local Government (Scotland) Act 1973 requires the Council to make arrangements for the proper administration of its financial affairs. As part of this, the Council is expected to have regard to economy, efficiency and effectiveness in its use of resources.

8.2.

In terms of Section 35 of the Local Government in Scotland Act 2003, the Council must determine and keep under review the maximum amount which it can afford to allocate to capital expenditure. In so doing, the Council must comply with regulations made by Scottish Ministers.

9. Contact Officers

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Steven Burnett, Service Manager (Resources), extension 2421, Email steven.burnett@orkney.gov.uk

10. Appendix

Appendix 1: Stage 2 Capital Project Appraisal – Phase 2, Carness Road, Kirkwall.

Stage 2 Capital Project Appraisal

Capital Programme: Non-General Fund: House Build Programme

Client Service: Education, Leisure and Housing

Project Name: Carness Road, Kirkwall (Phase 2)

1. Background

The proposal is to develop 8 x 2-bedroom and 6 x 3-bedroom properties on land owned by the Council and held on the Housing Revenue Account and serviced as part of the Phase 1 project at the Carness Road site in Kirkwall. Due to the significant need for permanent housing in Kirkwall, this project provides the opportunity to utilise an existing site, maximise the use of Scottish Government funding and help meet housing need.

The properties will meet the robust requirements of the Council's housing design brief, including ensuring the properties have high levels of energy efficiency, as well as the new requirement for fire suppressions systems which has been introduced by the Scottish Government.

2. Options Available

Kirkwall is the area of highest demand for social housing and the site at Carness Road is not impacted by any infrastructure constraints, be it foul drainage, school capacities or roads.

Option 1 – Do nothing:

- Scottish Government funding lost.
- No additional housing units at the site developed.
- Potential reputational risk to the Council.
- No requirement for the Housing Revenue Account to take on additional debt.

Option 2 – Develop the remaining 14 properties on the Carness Road, Kirkwall site:

- Scottish Government grant utilised.
- 14 additional housing units developed.
- Requirement for the Housing Revenue Account to take on additional debt.

3. Land Purchase Requirement

The Council already owns the site at Carness Road, so there would be no need for additional land purchase.

4. Project Appraisal

| | Criteria. | Response. |
|------|--|--|
| 1. | Protects Existing Statutory Provision. | The project provides additional social housing which helps the Council meet statutory targets around homelessness in line with the Rapid Rehousing Transition Plan. |
| 2. | Meets Corporate Priority/ Community Planning Goal. | The proposals support and contribute to improved outcomes for communities as outlined in the Council Plan strategic priorities of Thriving Communities. |
| 3. | Protects Existing Assets | Not applicable. |
| 4. | Minimises Capital Cost. | Best value is being achieved by ensuring a competitive tendering process is undertaken at a time when build prices are generally competitive. Utilising Council owned sites also ensures best value. |
| 5. | Maximises Investment from External Sources. | The project aims to draw in around £1,176,000 in Scottish Government funding to help cover a significant percentage of costs. |
| 6. | Beneficial Impact on Revenue Expenditure. | Not applicable. |
| 7. | Linked to Other Council Provision: | |
| (a). | Enhances statutory provision. | Not applicable. |
| (b). | Protects or enhances discretionary provision. | The provision of additional social housing will allow the Council to help house some of the 700 households that are currently on the social housing waiting list. |
| 8. | Re-use of Derelict Land or Building. | Not applicable. |
| 9. | Promote or Enhance Orkney's Environment. | Not applicable. |
| 10. | Promote or Enhance Orkney's Heritage. | Not applicable. |
| 11. | Economic Prosperity or Sustainable Communities. | The project provides additional housing which is in hugely short supply in Orkney due to a growing population and significant year on year net in-migration. |

| | Criteria. | Response. |
|-----|--|--|
| 12. | Enhances Council operations or Improves Health and Safety. | The project will provide additional housing units which will help the Housing Service deliver. |

5. Financial Implications

A summary of the financial implications is detailed in Annexes 1 and 2. Annex 1 details the capital implications associated with the project, analysed across the different cost and funding elements. Annex 2 details the associated revenue budget implications including one-off and recurring costs, and offset where possible by any identifiable income streams.

6. Risk Assessment

| Risk. | Explanation. | Mitigation. |
|--|--|---|
| Funding risk. | Potential that the required level of funding support from the Scottish Government is not available. | Close and constant engagement with the Scottish Government around funding requirements. |
| Planning. | Potential delays through the planning process. | Planning Permission approved and some landscaping conditions to be purified. |
| Cost risk. | Potential for cost overruns, particularly as prices of materials have spiked significantly over the past 12 months and Orkney's main contractors are all busy with various projects. | Ensure a robust procurement process is undertaken. |
| Fire suppression design and installation risk. | A new requirement from the Scottish Government for fire suppression systems to be installed in social rented housing | Early discussions with Scottish Water to ensure adequate water supply and potential contractors to ensure the design meets the legislative requirements. |
| Timing risk | Potential for overrun means that less Scottish Government funding than hoped might be spent in 2021/22. | Moving the project along as fast as possible via a design and build route and keeping the number of properties tied to this contract down to ensure that they can be developed in time. |
| Resources risk. | Lack of resources within Housing Services and Development and | Prioritisation of workload where possible and |

| Risk. | Explanation. | Mitigation. |
|----------------|--|--|
| | Infrastructure to ensure the project can be delivered in the timescale required. | increased resource if possible. |
| Project creep. | Potential for the project to creep and be delayed. | Ensure the project remains focused on the properties required. |

7. Conclusion

The Phase 2 housing development project at Carness Road, Kirkwall offers the opportunity to maximise the use of available Scottish Government funding and provide much needed additional housing in Orkney's highest demand market area.

8. Recommendations

The recommendation is to progress Option 2 and develop the 14 properties that make up the Carness Road, Kirkwall (Phase 2) project, at an estimated cost of £2,364,151.

9. Accountable Officer

Steven Burnett, Service Manager (Resources), Education, Leisure and Housing Services.

10. Annexes

Annex 1 – Financial Assessment of Capital Expenditure.

Annex 2 – Financial Assessment of Revenue Expenditure.

STAGE 2 - CAPITAL PROJECT APPRAISAL
FINANCIAL ASSESSMENT OF ASSOCIATED CAPITAL EXPENDITURE IMPLICATIONS

Capital Programme: **Non General Fund**

Client Service: **Education Leisure and Housing**

Project Name: **Carness Road, Kirkwall (Phase 2)**

| | | 1 | 2 | 3 | 4 | 5 | | |
|--|------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------|
| CAPITAL COSTS | Total £ 000 | 2021/22 £ 000 | 2022/23 £ 000 | 2023/24 £ 000 | 2024/25 £ 000 | 2025/26 £ 000 | Onwards £ 000 | Notes |
| 1. Initial Costs (at inflated prices) | | | | | | | | |
| Land or Property Purchase | - | - | - | - | - | - | - | |
| Other Site Costs (including Fees) | - | - | - | - | - | - | - | |
| Construction or Improvements | 2,056.2 | 250.0 | 1,735.2 | 71.0 | - | - | - | |
| Information Technology Costs | - | - | - | - | - | - | - | |
| Plant, Vehicles & Equipment | - | - | - | - | - | - | - | |
| Professional Fees - Consultancy - In-house | 308.0 | 40.0 | 258.0 | 10.0 | - | - | - | |
| Gross Capital Expenditure | 2,364.2 | 290.0 | 1,993.2 | 81.0 | - | - | - | |
| 2. Initial Funding (at inflated prices) | | | | | | | | |
| Government Grants | 1,176.0 | 250.0 | 926.0 | - | - | - | - | |
| Other Grants | - | - | - | - | - | - | - | |
| Other Financial Assistance | - | - | - | - | - | - | - | |
| Total Grants Recievable, etc. | 1,176.0 | 250.0 | 926.0 | - | - | - | - | |
| Net Capital Cost of Project | 1,188.2 | 40.0 | 1,067.2 | 81.0 | - | - | - | |
| Net Present Value | 1,024.8 | 36.3 | 921.9 | 66.6 | - | - | - | |
| Cost of Capital | | 5% | 5% | 5% | 5% | 5% | | |
| Year | | 2 | 3 | 4 | 5 | 5 | | |

Notes - Additional narrative on main assumptions and support working papers

- 1
- 2
- 3
- 4
- etc.

STAGE 2 - CAPITAL PROJECT APPRAISAL
FINANCIAL ASSESSMENT OF ASSOCIATED REVENUE BUDGET IMPLICATIONS

Capital Programme: **Non-General Fund**

Client Service: **Education Leisure and Housing**

Project Name: **Carness Road, Kirkwall (Phase 2)**

| | | 1 | 2 | 3 | 4 | 5 | | |
|---|----------------|------------------|------------------|------------------|------------------|------------------|------------------|-------|
| REVENUE COSTS / (SAVINGS) | Total £ 000 | 2021/22 £ 000 | 2022/23 £ 000 | 2023/24 £ 000 | 2024/25 £ 000 | 2025/26 £ 000 | Onwards £ 000 | Notes |
| 1. Operating Costs (at inflated prices) | | | | | | | | |
| Staff Costs | - | - | - | - | - | - | - | |
| Other Staff Costs (incl. recruitment, etc.) | - | - | - | - | - | - | - | |
| Property Costs | - | - | - | - | - | - | - | |
| Supplies and Services | - | - | - | - | - | - | - | |
| Transport, Vessel and Plant Costs | - | - | - | - | - | - | - | |
| Administration Costs | - | - | - | - | - | - | - | |
| Apportioned Costs | - | - | - | - | - | - | - | |
| Third Party Payments | - | - | - | - | - | - | - | |
| Finance and Loan Charges | 328 | 2 | 53 | 69 | 69 | 68 | 67 | |
| Miscellaneous Expenditure | - | - | - | - | - | - | - | |
| Gross Revenue Expenditure/(Saving) | 328 | 2 | 53 | 69 | 69 | 68 | 67 | |
| 2. Operating Income (at inflated prices) | | | | | | | | |
| Government Grants | - | - | - | - | - | - | - | |
| Other Grants | - | - | - | - | - | - | - | |
| Rents and Lettings | 396 | - | 76 | 78 | 79 | 81 | 82 | |
| Sales | - | - | - | - | - | - | - | |
| Fees and Charges | - | - | - | - | - | - | - | |
| Miscellaneous Income | - | - | - | - | - | - | - | |
| Gross Revenue Income | 396 | - | 76 | 78 | 79 | 81 | 82 | |
| Net Expenditure/(Saving) of Project | - 68 | 2 | - 23 | - 9 | - 10 | - 13 | - 15 | |
| Net Present Value | - 63 | 2 | - 22 | - 8 | - 9 | - 11 | - 15 | |
| Cost of Revenue | | 3% | 3% | 3% | 3% | 3% | | |
| Year | | 1 | 2 | 3 | 4 | 5 | | |

Notes - Additional narrative on main assumptions and support working papers

- 1
- 2
- 3
- 4
- etc.