

## **Item: 22.2**

**Policy and Resources Committee: 22 June 2021.**

**Proposed Heating Upgrades to Council Housing.**

**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 in respect of proposed heating upgrades to Council housing.

### **2. Recommendations**

The Committee is invited to note:

#### **2.1.**

That, in September 2020, the Scottish Government launched the Social Housing Heat Fund with the aim of assisting social housing providers to deliver zero carbon heating upgrades to their housing stock.

#### **2.2.**

That the Council submitted a bid for funding from the Social Housing Heat Fund in respect of the installation of 20 air to water heat pump systems in Council properties currently heated by solid fuel or oil central heating, at a total cost of £322,600.

#### **2.3.**

That the Council's bid for funding from the Social Housing Heat Fund has been successful, resulting in a grant award of £161,300.

**It is recommended:**

#### **2.4.**

That the Stage 2 Capital Project Appraisal in respect of proposed heating upgrades to Council housing, attached as Appendix 1 of this report, be approved.

#### **2.5.**

That, as an exception to the Capital Project Appraisal process, due to the tight timescales for delivery associated with external grant funding, namely by 31 March 2022, the proposed heating upgrades to Council housing be added to the non-General Fund capital programme for 2021/22 onwards, at a gross cost of capital of £322,600.

## **3. Capital Project Appraisal**

### **3.1.**

The Scottish Government launched the Social Housing Heat Fund in September 2020 with the aim of supporting social housing landlords to accelerate the deployment of low carbon heating in existing housing stock.

### **3.2.**

The fund offered the chance to attract up to 50% funding for a capital heating project and Officers identified up to 35 properties that could qualify and drafted a funding bid which aims to remove older solid fuel and oil central heating systems in 20 properties and replace them with modern, efficient air to water heat pumps.

### **3.3.**

The Scottish Government has accepted the Council's bid for £161,300 in funding towards the total estimated cost of £322,600 and the funding award is being finalised.

### **3.4.**

The Capital Project Appraisal attached at Appendix 1 to this report outlines the project in more detail.

### **3.5.**

The new heating systems will provide tenants with more modern and efficient forms of heating, which will also improve the energy efficiency scores of the properties in question and move them closer to the Energy Efficiency Standard for Social Housing 2 that has just been introduced by the Scottish Government.

### **3.6.**

The timescales for delivering the project are tight with a requirement for the new systems to be installed and commissioned by 31 March 2022. Detailed surveys of the properties in question also need to take place and access agreed with tenants.

## **4. Procurement Implications**

The recommendations from this report will result in a design and build procurement where the appointed contractor will design the systems that are to be installed.

## **5. 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.

## 6. Financial Implications

### 6.1.

This report presents a Stage 2 Capital Project Appraisal for consideration by the Policy and Resources Committee. In the event that a capital project is to be fast tracked as an exception to due process, then it is appropriate that the reason for such action is duly noted along with any additional risk associated with such an action.

### 6.2.

The Scottish Government has awarded £161,300 in funding from the Social Housing Heat Fund towards the total estimated cost of £322,600 for the upgrade of heating systems in 20 of the Council's social rented properties.

### 6.3.

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

Type	Units	Total Capital cost (including land)	Total SG Grant ask	HRA Finance
Heating upgrade	20	£322,600	£161,300	£161,300

### 6.4.

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.

## 7. Legal Aspects

### 7.1.

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.

## **7.2.**

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.

## **8. Contact Officers**

James Wylie, Executive Director of Education, Leisure and Housing, extension 2401, Email [james.wylie@orkney.gov.uk](mailto:james.wylie@orkney.gov.uk).

Frances Troup, Head of Community Learning, Leisure and Housing, extension 2177, Email [frances.troup@orkney.gov.uk](mailto:frances.troup@orkney.gov.uk).

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

## **9. Appendix**

Appendix 1: Stage 2 Capital Project Appraisal – Proposed Heating Upgrade to Council Housing.

## **Stage 2 Capital Project Appraisal**

**Capital Programme: Non-General Fund – Housing Revenue Account**

**Client Service: Education, Leisure and Housing**

**Project Name: Proposed Heating Upgrades to Council Housing**

### **1. Background**

The proposal is to upgrade the central heating systems of 20 of the Council's social rented housing properties that are currently heated by solid fuel or oil central heating, replacing them with modern, efficient air to water heat pumps.

The upgrades will provide tenants with modern efficient heating and enhance the energy efficiency of the properties in question.

### **2. Options Available**

Two options are outlined below.

Option 1 – Do nothing

- The Scottish Government funding that has been won would be lost.
- The 20 properties in question would retain their outdated heating systems.
- Upgrade works would be required to these properties at a later date as their heating systems failed.

Option 2 – Undertake the project to install 20 new air to water heat pumps in the properties identified

- Scottish Government grant utilised.
- The heating systems in twenty properties would be upgraded to modern, efficient air to water heat pumps benefitting the tenants and the housing stock.
- Requirement for the Housing Revenue Account to take on additional debt.

### **3. Land Purchase Requirement**

There is no requirement to purchase land for this project.

## 4. Project Appraisal

	<b>Criteria.</b>	<b>Response.</b>
1.	Protects Existing Statutory Provision.	The Council is statutorily required to improve the energy efficiency of its social housing stock in line with the Scottish Government's new Energy Efficiency Standard for Social Housing 2 (ESSH2). This project will deliver energy efficiency improvements to 20 social rented properties.
2.	Meets Corporate Priority / Community Planning Goal	Not applicable.
3.	Protects Existing Assets.	The project enhances the existing Council housing stock in question, providing replacement heating systems for systems that are in need of replacement.
4.	Minimises Capital Cost.	Best value is being achieved by ensuring a competitive tendering process is undertaken.
5.	Maximises Investment from External Sources.	The project has drawn in £131,300 in Scottish Government funding to help cover up to 50% of the expected costs.
6.	Beneficial Impact on Revenue Expenditure.	Not applicable.
7.	Linked to Other Council Provision:	
(a).	Enhances Statutory Provision.	The project will enhance the energy efficiency of the 20 properties in question bringing them closer to the Energy Efficiency Standard for Social Housing 2 (ESSH2) target recently set by the Scottish Government.
(b).	Protects or Enhances Discretionary Provision.	Not applicable.
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.	Not applicable.
12.	Enhances Council operations or Improves Health and Safety.	Not applicable.

## 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

<b>Risk.</b>	<b>Explanation.</b>	<b>Mitigation.</b>
Funding risk.	Potential that the project overruns 31 March 2022 deadline which may impact on funding.	Close and constant engagement with the Scottish Government around funding requirements and any slippage that is expected. Close on the ground project management to ensure maximum spend.
Tenant risk.	Some tenants may refuse access to the property or the offered upgrade works.	Early engagement with tenants to ensure maximum uptake and understanding of the benefits.
Design risk.	Due to limited access to the properties to undertake surveys design assumptions will be made which may lead to additional works and cost.	Early engagement with tenants and early access to properties to undertake surveys.
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.
Procurement risk.	Heating engineers in Orkney are all very busy due to significant funding being available for heating upgrades. It is possible that the Council may fail to procure or pay a higher than expected price due to significant demand and limited supply.	Early engagement with contractors and undertaking robust costings.
Timing risk.	Potential for overrun means that there is a potential risk to the Scottish Government funding.	The project will be developed and delivered as quickly as practicably possible.

<b>Risk.</b>	<b>Explanation.</b>	<b>Mitigation.</b>
Resources risk.	Lack of resources within Housing Services and Development and Infrastructure to ensure the project can be delivered in the timescale required.	Prioritisation of workload where possible and 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 Council needs to update its housing stock to reach the new Energy Efficiency Standard for Social Housing 2 (EESH2) and this project will help bring 20 properties closer to that target, while replacing old and less efficient heating systems.

## **8. Recommendations**

The recommendation is to progress Option 2 and deliver air to water heating system upgrades to 20 Council social housing rented properties, at an estimated cost of £322,600.

## **9. Accountable Officers**

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

Frances Troup, Head of Lifelong Learning, Leisure and Housing.

## **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: **General Fund**

Client Service: **Education, Leisure and Housing**

Project Name: **Proposed Heating Upgrades to Council Housing**

		1	2	3	4	5		
<b>CAPITAL COSTS</b>	<b>Total £ 000</b>	<b>2021/22 £ 000</b>	<b>2022/23 £ 000</b>	<b>2023/24 £ 000</b>	<b>2024/25 £ 000</b>	<b>2025/26 £ 000</b>	<b>Onwards £ 000</b>	<b>Notes</b>
<b>1. Initial Costs (at inflated prices)</b>								
Land or Property Purchase	-	-	-	-	-	-	-	
Other Site Costs (including Fees)	-	-	-	-	-	-	-	
Construction or Improvements	273.0	273.0	-	-	-	-	-	
Information Technology Costs	-	-	-	-	-	-	-	
Plant, Vehicles & Equipment	-	-	-	-	-	-	-	
Professional Fees - Consultancy	-	-	-	-	-	-	-	
- In-house	49.6	49.6	-	-	-	-	-	
<b>Gross Capital Expenditure</b>	<b>322.6</b>	<b>322.6</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>2. Initial Funding (at inflated prices)</b>								
Government Grants	161.3	161.3	-	-	-	-	-	
Other Grants	-	-	-	-	-	-	-	
Other Financial Assistance	-	-	-	-	-	-	-	
<b>Total Grants Recievable, etc.</b>	<b>161.3</b>	<b>161.3</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Net Capital Cost of Project</b>	<b>161.3</b>	<b>161.3</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	
Net Present Value	153.6	153.6	-	-	-	-	-	
Cost of Capital		5%	5%	5%	5%	5%		
Year		1	2	3	4	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:** **General Fund**

**Client Service:** **Education, Leisure and Housing**

**Project Name:** **Proposed Heating Upgrades to Council Housing**

		1	2	3	4	5	Onwards	Notes
REVENUE COSTS / (SAVINGS)	Total £ 000	2021/22 £ 000	2022/23 £ 000	2023/24 £ 000	2024/25 £ 000	2025/26 £ 000	£ 000	
<b>1. Operating Costs (at inflated prices)</b>								
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	66	10	12	12	11	11	10	
Miscellaneous Expenditure	-	-	-	-	-	-	-	
<b>Gross Revenue Expenditure/(Saving)</b>	66	10	12	12	11	11	10	
<b>2. Operating Income (at inflated prices)</b>								
Government Grants	-	-	-	-	-	-	-	
Other Grants	-	-	-	-	-	-	-	
Rents and Lettings	-	-	-	-	-	-	-	
Sales	-	-	-	-	-	-	-	
Fees and Charges	-	-	-	-	-	-	-	
Miscellaneous Income	-	-	-	-	-	-	-	
<b>Gross Revenue Income</b>	-	-	-	-	-	-	-	
<b>Net Expenditure/(Saving) of Project</b>	66	10	12	12	11	11	10	
Net Present Value	61	10	11	11	10	9	10	
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.