

Item: 17

Policy and Resources Committee: 23 November 2021.

Proposed Extension of Cursiter Quarry.

Stage 2 Capital Project Appraisal.

Report by Interim Executive Director of Environmental, Property and IT Services.

1. Purpose of Report

To consider a Stage 2 Capital Project Appraisal in respect of the proposed extension of Cursiter Quarry.

2. Recommendations

The Committee is invited to note:

2.1.

That, in March 2015, Council approved the business plan for the quarrying service, which indicated that expansion of Cursiter Quarry, by acquiring more rock reserves, was necessary to secure the long-term future of the site as a quarrying operation.

2.2.

That, in July 2015, in order to facilitate the future expansion of Cursiter Quarry, the Council agreed that the necessary parcels of adjacent land should be purchased.

2.3.

That, following an appeal to Scottish Ministers, planning permission for the proposed extension of Cursiter Quarry was granted on 30 June 2021.

It is recommended:

2.4.

That the Stage 2 Capital Project Appraisal in respect of the proposed extension of Cursiter Quarry, attached as Appendix 1 to this report, be approved.

2.5.

That, as an exception to the Capital Project Appraisal process, due to concerns regarding the rapidly diminishing rock reserves within the quarry, the proposed extension of Cursiter Quarry be added to the capital programme for 2022/23 onwards, at a gross capital cost of £3,732,000.

3. Proposed Quarry Expansion

3.1.

Cursiter Quarry, owned and managed by the Council, has been operating since the early 1950s and is one of two major producers of construction stone and aggregates in Orkney. It is the sole producer of surfacing materials.

3.2.

The existing mineral reserves of Cursiter Quarry are finite and are almost exhausted, with existing supplies being augmented by those brought in from external sources. Without immediate action the quarry will become unable to provide products to local markets unless additional external materials are imported.

3.3.

The predominant quarry operations are the production of aggregates and the manufacture of asphalt materials. These are provided to a range of customers, including internal departments, such as for roads maintenance or for some Council funded developments within the capital programme such as schools, harbours or housing projects and to the private sector.

3.4.

In March 2015, the Council approved the business plan for the quarrying service, which indicated that expansion of Cursiter Quarry, by acquiring more rock reserves, was necessary to secure the long-term future of the site as a quarrying operation. The business plan was further revised in 2018, where it was noted that funds were set aside annually from the trading surpluses to provide funding for future capital costs, such as replacement plant or other significant costs.

3.5.

In July 2015, the Council agreed to acquire the necessary plots of adjacent land to facilitate this expansion. Negotiations have taken place with the landowners and the purchase is in the process of being concluded between the parties' respective solicitors.

3.6.

A planning application for the quarry expansion was granted in June 2021 following appeal to Scottish Ministers. The 70 conditions attached to the approval, together with mitigation actions identified in the accompanying Environmental Impact Assessment, will be incorporated into the development, via the enabling works contract and quarry management procedures, in order to ensure no detrimental impact on the environment.

3.7.

The quarry expansion will require a range of enabling works, such as site clearance, removal and reinstatement of drystone walls, movement of existing bunds, woodland and shrub planting and the clearing of existing overburden from the additional land, enabling the rock reserves below to be uncovered and become available for exploitation.

3.8.

The proposed approach to these enabling works has been detailed in the Environmental Impact Assessment which accompanied the planning application and will ensure that the activities are carried out in a safe and appropriate manner, with due regard to the protection of the surrounding environmental amenities. As noted, there are 70 conditions attached to the planning approval, which will address these requirements, plus the ones included to ensure environmental protection during the subsequent blasting and quarry operational procedures.

3.9.

Prior to the commencement of the expansion, a number of method statements and monitoring reports will be required. Development is then required to take place in two stages. The agreed approach is to do this in two stages, the first stage at the beginning of the expansion and the second 8 – 10 years later when the initial phase of the expansion is complete.

3.10.

The Stage 2 Capital Project Appraisal, attached as Appendix 1 to this report, details the requirements of these enabling works and sets out the costs and benefits associated with the quarry expansion. Without the proposed expansion, and the enabling works required, it is likely that the quarry will no longer be able to supply its current range of materials from some point within the next twelve months, unless additional stone is imported from an alternative source. Existing quarrying operations are already significantly more expensive due to the need for enhanced procedures to extract the last pieces of remaining rock reserves within the current quarry boundary.

3.11.

As the quarry operates as a financially self-sustaining trading account, the costs of the expansion can be funded through the income earned on quarrying operations and the sale of products produced.

4. Corporate Governance

This report relates to the Council complying with governance and its financial processes 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.

5. Financial Implications

5.1.

The financial implications are detailed in the attached Stage 2 Capital Project Appraisal.

5.2.

The appraisal demonstrates that the project can be financed through the income earned on quarrying operations and sales but recognising the commercial nature of the operation and need to maintain realistic prices and limit price increases will impinge on the level of surplus available to contribute to General Fund Services.

6. Legal Aspects

6.1.

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 the use of its resources.

6.2.

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.

7. Contact Officers

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8. Appendix

Appendix 1: Stage 2 Capital Project Appraisal – Proposed Extension of Cursiter Quarry.

Capital Project Appraisal – Stage 2

Capital Programme: General Fund.

Client Service: Roads, Fleet and Waste.

Project Name: Proposed Extension of Cursiter Quarry.

1. Background

1.1. Cursiter Quarry, which is owned and managed by the Council, has been operating since the early 1950s and is one of two major producers of construction stone and aggregates in Orkney. It is the sole producer of surfacing materials. It provides product to both the Council's Roads Service and to other external customers within Orkney.

1.2. The existing mineral reserves of Cursiter Quarry are finite and are almost exhausted, with existing supplies being augmented by those brought in from external sources. The quarrying service business plan, which included the case for extension of the quarry, was approved by Council in March 2015 and subsequently updated in 2018. Authorisation was provided in July 2015 to proceed with the necessary land purchase.

1.3. A planning application for the quarry development was granted in June 2021.

2. Options Available

2.1. Two options were considered:

- Option 1 – No development of the quarry.
- Option 2 – Purchase of the necessary adjacent land to enable outward expansion.

2.2. Option 1 would mean that the quarry would run out of useable rock reserves by around 2022. This scenario would leave only very limited local supply of construction stone and aggregates and require the Roads Service to procure the necessary materials from an alternative commercial source. This was not considered to be a viable option and would have also required local contractors to find alternative sources of supply. Alternatively, the quarry could import rock from an external source which, again, was not considered to be a viable option, taking into account the costs and environmental impact.

2.3. Option 2 was approved by Council in July 2015 and work then began to develop the planned approach to developing the quarry. This required a new planning application to be submitted as the current operation is authorised by planning permission granted in 2003, which is nearing the limit of its permitted extraction. This was done in 2019 with planning permission granted in June 2021 following an appeal to Scottish Ministers.

2.4. The purpose of the Stage 2 CPA is primarily seeking to secure the addition of the project to the capital programme with the funding necessary to carry out the enabling works for the expansion. That is, the stripping of the overburden in the area earmarked for future quarrying and the moving of the quarry boundary, together with necessary landscaping and environmental mitigations. This work is due to be carried out in two stages, as detailed in the Environmental Impact Assessment which accompanied the planning application. Details of this can be found in the paper submitted to the Planning Committee in August 2020 <https://www.orkney.gov.uk/Council/C/planning-committee-19-august-2020.htm> (Item 5.1).

2.5. Without this expansion, the quarry is expected to very quickly run out of rock reserves (very possibly within the next 12 months), resulting in either the need to import materials from a source external to Orkney or an inability to meet the demands of the local market, including both Council departments and external customers.

3. Land Purchase Requirement

3.1. Three parcels of land adjacent to the quarry require to be purchased to enable the expansion. Negotiations have taken place between the Council and the landowners and the parties' respective solicitors are in the process of concluding the purchase.

4. Project Appraisal

| | Criteria | Response |
|----|--|---|
| 1. | Protects Existing Statutory Provision | A continued, secure, supply of construction stone and aggregate will ensure that the Council is able to meet its obligations with regards to road management and maintenance for the next 30 years plus any other statutory obligations which lead to the need for construction projects. |
| 2. | Meets Corporate Priority / Community Planning Goal | The project will support the Council Plan Strategic Priority themes of; <ul style="list-style-type: none"> • Thriving Communities – The Orkney Community is able to access work, learning and leisure through a modern, robust infrastructure which supports all our |

| | Criteria | Response |
|-----|--|--|
| | | <p>communities and meets the requirements of 21st-century life.</p> <ul style="list-style-type: none"> • Enterprising Communities – A carbon neutral vibrant economy which supports local businesses and stimulates investment in all our communities |
| 3. | Protects Existing Assets | The project will ensure that the existing Cursiter Quarry will be able to operate for the next 30 years. Without this expansion it is likely that the quarry will cease to be able to operate in its current form within the next year. |
| 4. | Minimises Capital Cost | The costs of the quarry expansion have been developed with a view to best practice and to achieve the necessary balance between cost and benefit. Identification of appropriate markets for the top cover could enable recovery of some of the expected costs. |
| 5. | Maximises Investment from External Sources | No external investment sources are available for this project. |
| 6. | Beneficial Impact on Revenue Expenditure | No anticipated revenue savings or increases are associated with this development. However, it is noted that the quarry operates as a Trading Account and, as such, currently returns a surplus to the Council. Continued operation of the quarry, in its expanded form will ensure the continuation, and possible increase, of this contribution. If the quarry does not expand it will quickly become unable to provide product to the local market and income will drop significantly. |
| 7. | Linked to Other Council Provision | |
| (a) | Enhances Statutory Provision | There is no direct link to other statutory provisions |
| (b) | Protects or Enhances Discretionary Provision | There is no direct link to other discretionary provisions |
| 8. | Re-use of Derelict Land or Building | This project will not reuse derelict land or buildings. |
| 9. | Promote or Enhance Orkney's Environment | A thorough Environmental Impact Assessment has been carried out for this project, as part of the planning application. All relevant mitigation actions identified in the |

| | Criteria | Response |
|-----|---|---|
| | | EIA and 70 planning conditions will be incorporated into the works in order to ensure no detrimental impact on the environment. |
| 10. | Promote or Enhance Orkney's Heritage | This project will not directly promote or enhance Orkney's Heritage. However, the quarry proposal includes an end-of-life restoration plan and a staged restoration of the existing quarry. If the development does not proceed then this work, which forms part of the consented scheme, may not be delivered or be only possible on much reduced scale. This would also require a source of funding to be identified. |
| 11. | Economic Prosperity or Sustainable Communities | The project will ensure a continued supply of construction stone and aggregate to the local building companies and other contractors. This will enable them to continue to meet the demands of the community, ensure employment of the large number of people engaged in this area and create sustainable long-term futures for the people of Orkney. |
| 12. | Enhances Council operations or Improves Health and Safety | This project will improve and enhance the delivery of existing road asset management and maintenance services whilst ensuring a continued supply of construction materials to local businesses. Failure to implement this project will result in the quarry quickly running out of rock reserves and being no longer able to operate. |

5. Financial Implications

5.1. A financial assessment of capital expenditure is detailed in Annex 1. The estimated capital cost of the works is £3.7m excluding the land acquisition which has been approved previously.

5.2. The land to be acquired for the quarry expansion has been regarded as a strategic land acquisition, with the purchase price to be funded, in the first instance, from the Strategic Reserve Fund; and subsequently transferred from the Strategic Reserve Fund, as part of a phased approach, to the Quarry Account (General Fund) at current valuation. As future valuations are clearly not available the land purchase cost is included in the Loan Charges calculation that has been prepared for the Stage 2 Capital Project Appraisal on a royalty basis to illustrate how the project can be paid for.

5.3. Costs of £2.2m would be incurred across financial years 2022/23 and 2023/24 and a further £1.5m expended in 8 – 10 years' time for the final stage of the expansion. The initial development will be phased to accommodate and exploit potential markets / destinations for the top cover removed and therefore the exact spend profile for this phase is still to be determined. Income from the disposal of the overburden is not, however, reflected in this sum, due to the uncertainty of available markets and prices.

5.4. The phased nature of the work, with the first phase taking place immediately and the second in 8 – 10 years' time, is required by the Environmental Impact Assessment carried out as part of the planning application.

5.5. The Quarry is operated as a trading account and is expected to be financially self-sustaining and also to contribute a surplus of £500,000 back to the Council, which has been used in recent years to offset the costs of the main internal customers, being predominantly the Roads Service.

5.6. The principal assumptions made in calculating the Loan Charges for the quarry expansion are:

| | |
|------------------------------------|--------------------------|
| Annual extraction/sale of rock | 75,000 tonnes |
| Accessible rock reserves purchased | 3,000,000 tonnes |
| Additional quarry life | 40 years |
| Interest and debt management | 2.65% (3.65% by year 10) |
| Portion of current surplus applied | £94,000 per annum |

5.7. The total loan repayment costs including interest over 40 years and a royalty to the Strategic Reserve Fund comes to £6.785 million on which the average loan charges and royalty are £169,630 per annum over 40 years. Recovery of these costs will be done through adjustments to the sale price, noting that this will be done in a way that reflects the existing commercial environment and does not pass on an undue burden to internal customers, and the relevant revenue budgets. This may reduce the surplus available to transfer to the General Fund but is considered to be the most effective way of recovering the costs.

5.8. The loan charges calculations do not take account of other large capital projects that might occur and require large volumes of material greatly in excess of the assumed 75,000 annual tonnes. Where such works do occur and exceed the estimates, this will allow the borrowing to be repaid earlier, thereby reducing the interest charges. No account has been taken of the possible sale of some of the overburden.

5.9. The revenue costs associated with the quarry expansion are detailed in the financial assessment of revenue expenditure, attached as Annex 2.

6. Risk Assessment

6.1. Risk of not proceeding:

- The quarry will run out of usable rock reserves within the next year, resulting in a loss of local supply to Council Services and to external organisations
- Increased costs to Council Services for the procurement of construction stone and aggregate, with increased likelihood that supplies will need to be sourced from external suppliers
- Inability for local contractors to source appropriately priced building materials for projects, resulting in the slowing of any housebuilding programmes or any other major projects which may be faced with increased costs.

6.2. Risk of proceeding:

- Ongoing concern from a small number of people in the community who have expressed their discontent with the proposed expansion, however these will be dealt with under the 70 separate planning conditions attached to the appeal decision.
- Inability to procure the contract for the removal of the overburden within the necessary timescale, resulting in the need to source further supplies of stone externally. Due to the nature of the work, it requires to be carried out during the summer months to avoid problems with marginal materials and run-off that would be heightened by winter working.
- Need to minimise any potential disruption to ongoing operation of the quarry.

7. Conclusion

7.1. Expansion of the quarry at Cursiter will ensure an ongoing supply of locally produced construction stone and aggregate to both Council services and external organisations. This will enable cost-effective road asset maintenance and replacement plus ensure local contractors have access to reasonably priced building materials, ensuring that projects are affordable and can be developed within existing budgets.

7.2. The planning permission for the quarry expansion contains a large number of conditions (70), designed to ensure that the expansion does not cause any additional nuisance to the surrounding area and that all environmental issues are appropriately addressed. Work is underway to ensure compliance with these conditions and the project team is confident that they will all be met as required.

8. Recommendations

8.1. It is recommended that the expansion of Cursiter Quarry is added to the capital programme, at a cost of £3.7m, with £2.2m to be spent in financial year 2022/23 – financial year 2023/24 and a further £1.5m in financial year 2030/31 – financial year 2032/33.

9. Accountable Officers

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9.2. Lorna Richardson, Interim Head of Roads, Fleet and Waste, Email lorna.richardson@orkney.gov.uk

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10. Annexes

10.1. Annex 1 – Financial Assessment of Capital Expenditure.

10.2. 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: **Roads, Fleet and Waste**

Project Name: **Cursiter Quarry Expansion**

| | | 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) | 3,557.0 | - | 1,707.0 | 350.0 | - | - | 1,500.0 | |
| Construction or Improvements | - | - | - | - | - | - | - | |
| Information Technology Costs | - | - | - | - | - | - | - | |
| Plant, Vechicles & Equipment | - | - | - | - | - | - | - | |
| Professional Fees - Consultant | 100.0 | - | 75.0 | - | - | - | 25.0 | |
| - In-house | 75.0 | - | 50.0 | - | - | - | 25.0 | |
| Gross Capital Expenditure | 3,732.0 | - | 1,832.0 | 350.0 | - | - | 1,550.0 | |
| 2. Initial Funding (at inflated prices) | | | | | | | | |
| Government Grants | - | - | - | - | - | - | - | |
| Other Grants | - | - | - | - | - | - | - | |
| Other Financial Assistance | - | - | - | - | - | - | - | |
| Total Grants Recievable, etc. | - | - | - | - | - | - | - | |
| Net Capital Cost of Project | 3,732.0 | - | 1,832.0 | 350.0 | - | - | 1,550.0 | |
| Net Council Capital Expenditure | 3,732.0 | - | 1,832.0 | 350.0 | - | - | 1,550.0 | |
| Net Present Value | 3,276.7 | - | 1,744.8 | 317.5 | - | - | 1,214.5 | |
| Cost of Capital | | 5% | 5% | 5% | 5% | 5% | 5% | |
| Year | | 0 | 1 | 2 | 3 | 4 | 5 | |

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

Capital Programme: **General Fund**

Client Service: **Roads, Fleet and Waste**

Project Name: **Cursiter Quarry Expansion**

| | | 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. Full Year Operating Costs (at inflated prices) | Please see note below | | | | | | | |
| 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 | 845 | - | 169 | 169 | 169 | 169 | 169 | |
| Miscellaneous Expenditure | - | - | - | - | - | - | - | |
| Gross Revenue Expenditure / (Saving) | 845 | - | 169 | 169 | 169 | 169 | 169 | |
| 2. Operating Income (at inflated prices) | | | | | | | | |
| Government Grants | - | - | - | - | - | - | - | |
| Other Grants | - | - | - | - | - | - | - | |
| Rents and Lettings | - | - | - | - | - | - | - | |
| Sales | 375 | - | 75 | 75 | 75 | 75 | 75 | |
| Fees and Charges | - | - | - | - | - | - | - | |
| Miscellaneous Income | 470 | - | 94 | 94 | 94 | 94 | 94 | |
| Gross Revenue Income | 845 | - | 169 | 169 | 169 | 169 | 169 | |
| Net Revenue Expenditure / (Saving) of Project | - | - | - | - | - | - | - | |
| Increase / (Reduction) in Revenue Costs | - | - | - | - | - | - | - | |
| Net Present Value | - | - | - | - | - | - | - | |
| Cost of Revenue | | 3% | 3% | 3% | 3% | 3% | 3% | |
| Year | | 0 | 1 | 2 | 3 | 4 | 5 | |

Notes - Additional narrative on main assumptions and support working papers

1 As noted in the covering report. It is anticipated that this project will be cost-neutral in terms of revenue.