

Item: 10

Education, Leisure and Housing Committee: 11 November 2020.

House Build Programme.

Report by Executive Director of Education, Leisure and Housing.

1. Purpose of Report

To consider Stage 1 Capital Project Appraisals in respect of additional social housing development projects.

2. Recommendations

The Committee is invited to note:

2.1.

That, although the Council's house build programme has delivered 230 properties since 2011, the programme has slowed over the last five years due to financial constraints on the Housing Revenue Account.

2.2.

That, to date, the level of Scottish Government grant funding awarded, varying from £59,000 to £74,800 for each unit of housing, has created challenges in respect of delivering further Council housing developments.

2.3.

That, due to the level of borrowing required and match-funding requirements for Council and Orkney Housing Association projects, it has not been possible to utilise all of the available funding from the Scottish Government for affordable housing development over the last few years.

2.4.

That, in order to maximise use of available funding, five projects utilising Council owned land are being developed through the Capital Project Appraisal process, as follows:

- 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.

2.5.

That the projects outlined at paragraph 2.4 above will only be developed should the funding mix available through Scottish Government grant and Housing Revenue Account finance prove sufficient to allow the projects to proceed.

2.6.

The Stage 1 Capital Project Appraisals, attached as Appendices 1 to 5 of this report, in respect of the projects outlined at paragraph 2.4 above.

2.7.

That, in order to maximise available Scottish Government grant funding, officers will progress a programme of 'off the shelf' property purchases on suitable properties utilising existing delegated authority.

It is recommended:

2.8.

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 projects:

- Infrastructure for up to 112 social rented houses Soulisquoy, Kirkwall.
- 50 properties comprising a mix of one, two, 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.

3. Background

3.1.

The Council has built 230 houses since the house build programme was started in 2011 and the last project to be completed was handed over in August 2016. The table below outlines how many were completed each year.

Year	Completions	Locations
2011	36	Finstown (12), Dounby (4), Orphir (2), Kirkwall (18)
2012	82	St Mary's (12), Finstown (10), St Margaret's Hope (13), Stromness (15), Kirkwall (32)
2013	27	Westray (4), Stromness (11), Kirkwall (12)
2014	22	Sanday (4), Burray (6), St Margaret's Hope (12)
2015	26	Kirkwall (26)
2016	37	Kirkwall (37)

3.2.

There are currently four Council housing projects under development as follows:

- 32 properties at Carness Road, Kirkwall.
- 8 properties at Copland's Road, Stromness.
- 2 properties at MacDonald Park, St Margaret's Hope.
- 2 properties at Repeater Road, Kirkwall.

3.3.

Due to the Scottish Parliamentary election scheduled for 2021, the Scottish Government is unable to give a detailed appraisal of what funding will be available for social housing development beyond 2021.

3.4.

It is expected that Orkney will continue to receive funding close to current levels for the next few years at least.

3.5.

Due to the significant investment that has been made by the Council, Orkney Housing Association Limited and the Scottish Government in new build housing over the last decade, there is less capacity to provide the internal match funding required to make full use of the funding that is awarded by the Scottish Government each year.

3.6.

The Scottish Government would like the Strategic Housing Investment Plan, which is produced annually, to be an achievable rather than aspirational document. This requires some design and costings work to be undertaken on projects prior to inclusion in the Strategic Housing Investment Plan and suitable governance to be in place to demonstrate that potential projects have been scrutinised prior to inclusion. Development of a Stage 1 Capital Project Appraisal for each proposed project was agreed as the best way to meet this requirement.

3.7.

A significant stumbling block to additional Council housing development over the last five years has been the low per-property grant levels provided by the Scottish Government. The benchmark is currently £59,000 per housing unit provided by the Council. For recent developments, the Scottish Government, who acknowledge the local challenge, has provided higher grant figures, reaching as high as £74,100 for some properties.

3.8.

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 projects outlined in the following sections will only be progressed if the funding mix is available through Scottish Government grant and that the Housing Revenue Account finance is sufficient to allow the projects to proceed.

3.9.

Of the 730 households currently on the social housing waiting list, 423 households have Kirkwall as their first choice. 232 households have been assessed as having a priority for rehousing, of which 145 have Kirkwall as their first choice.

3.10.

The Scottish Government has a priority of seeking to end homelessness, including introduction of Rapid Rehousing Transition Plans through which councils are required to reduce the time homeless households spend in temporary accommodation and seek to permanently rehouse homeless households swiftly. Homelessness is generally more pronounced in the towns and the majority of homeless households require to be permanently rehoused in Kirkwall or Stromness.

4. Soulisquoy (Infrastructure), Kirkwall

4.1.

The site at Soulisquoy has been identified as the location of the new Kirkwall care facility and plans have been drawn up to develop 112 social rented properties.

4.2.

The Stage 1 Capital Project Appraisal, together with the proposed site plan, for the Soulisquoy (Infrastructure) project, is attached at Appendix 1 to this report.

4.3.

The scale of the Soulisquoy site means that a co-ordinated approach to the design and servicing of the site is required.

4.4.

The Soulisquoy site, extending to 18.261 hectares, is split as follows:

- 9.716 hectares owned by the Council and reserved for the Kirkwall Care Facility development.
- 5.3 hectares owned by the Council, for potential housing development.
- 3.245 hectares of land owned by Orkney Housing Association Limited.

4.5.

Works associated with the development of the new Kirkwall Care Facility on the Soulisquoy site are separate from the development of housing and while the developments will share some of the same infrastructure they will proceed independently.

4.6.

Once the infrastructure for the 112 houses has been installed on the Soulisquoy site, development of the actual housing units will take place over a number of phases.

4.7.

The cost of the infrastructure development at Soulisquoy is estimated at £2,500,000. This figure does not include the cost of the land that the Housing Revenue Account would need to acquire from the Strategic Reserve Fund. Orkney Housing Association Limited would pay for the land in their ownership to be serviced.

4.8.

It is estimated that the Housing Revenue Account would be required to pay £1,686,957 in servicing and land costs and Orkney Housing Association Limited would be responsible for the remaining £1,347,826 of servicing costs. The Housing Revenue Account would also need to purchase the required land from the Strategic Reserve Fund.

5. Soulisquoy (Housing), Kirkwall

5.1.

As part of the Soulisquoy (infrastructure) project the housing elements of the site have been split into two:

- Land owned by Orkney Housing Association Limited.
- Land owned by the Council for the development of social rented housing.

5.2.

The Stage 1 Capital Project Appraisal for the Soulisquoy (Housing) project is attached as Appendix 2 to this report, and relates only to the land owned by the Council for the development of social rented housing.

5.3.

It is estimated that 50 social rented properties will be developed by the Council over three phases. Some of these properties may be procured jointly with Orkney Housing Association Limited and the site has been phased to allow for development and then occupation with as little impact upon residents and the ability to deliver future phases as possible.

5.4.

Based upon the best pricing data available, it is estimated that the cost of the development, including fees, would be £7,859,723. This price does not include the price of the land or the servicing which will be undertaken separately as part of the Soulisquoy (Infrastructure) project.

5.5.

The total cost associated with the Council's development of 50 properties at Soulisquoy over both the infrastructure and housing projects is estimated at £9,546,680. An estimated £3,556,800 in Scottish Government grant funding would be available to support the project. The Housing Revenue Account would be required to pay the remaining £5,989,880. At these funding levels the affordability of the Soulisquoy infrastructure and housing projects would appear to be challenging.

6. Carness Road (Phase 2), Kirkwall

6.1.

The Carness Road site currently has 32 Council rented properties under development. Infrastructure for the remaining 14 properties on site is being installed as part of the current contract. The land required for Carness Road (Phase 2) is held on the Housing Revenue Account.

6.2.

The remaining 14 properties comprise eight two-bedroom and six three-bedroom properties. The Stage 1 Capital Project Appraisal for the Carness Road (Phase 2), Kirkwall, together with site plan, is attached at Appendix 3.

6.3.

It is estimated that the cost of the development, including fees would be £2,364,151. The project is expected to attract Scottish Government grant funding in the region of £1,071,600. This would leave the Housing Revenue Account to fund the remaining £1,292,551.

6.4.

While the affordability of the project would be challenging, the Housing Revenue Account already owns the land at Carness and the majority of the required infrastructure for this second phase has already been installed as part of the Phase 1 Carness project.

7. Design and Build, 20 units, Kirkwall

7.1.

There is the desire to develop up to 20 properties per annum as part of the Council's housing development programme. The sites at Soulisquoy and Carness are seen as ideal sites to develop and will provide the majority of the 100 housing units desired over the five years of the 2021 to 2026 Strategic Housing Investment Programme. There is, however, the requirement for an additional 26 properties to meet the 100 target. Design and build contracts offer the opportunity to help bridge the gap and support local contractors that own their own land.

7.2.

The first design and build proposal is for 20 one, two and three-bedroom properties on land owned by the winning contractor. The Stage 1 Capital Project Appraisal for the Design and Build, 20 Units, Kirkwall, is attached as Appendix 4 to this report.

7.3.

It is estimated that development of 20 properties would cost £4,154,084 including land and fees. To be financially viable, this project would require grant funding of £1,447,800 from the Scottish Government. This would leave a Housing Revenue Account contribution of £2,706,284 leaving the affordability of the project challenging.

8. Design and Build, six units, Kirkwall

8.1.

This design and build project would see six one-bedroom properties developed in Kirkwall on land owned by the winning contractor.

8.2.

The Stage 1 Capital Project Appraisal for the Design and Build, 6 Units, Kirkwall project is attached as Appendix 5 to this report.

8.3.

The total estimated project cost would be £1,036,948, with an estimated £410,400 coming from the Scottish Government and the remaining £626,548 to be covered by the Housing Revenue Account, leaving the affordability of the project challenging.

9. Off the Shelf Purchase

9.1.

The potential exists to purchase properties from the open market to help utilise the available Scottish Government funding.

9.2.

Officers will continue to monitor the local housing market to identify any suitable properties that could potentially be purchased and utilised as social rented or low-cost home ownership properties.

9.3.

Whole life costs and costs associated with meeting the Energy Efficiency Standard for Social Housing and the Energy Efficiency Standard for Social Housing 2 will be considered as part of the property assessment.

9.4.

Off the shelf purchases provide the Council with spend and properties, without the need to develop projects. This reduces the pressure on internal resources to deliver even more projects. The level of Scottish Government grant required is dependent on the condition of the property, the size of property and the rental income that can be derived from the property.

10. Delivery of Projects

10.1.

Should the Committee recommend approval of the house build programme, Stage 2 Capital Project Appraisals will be developed for all the projects outlined above and submitted to the Policy and Resources Committee in due course, to enable the individual projects to be added to the capital programme. Individual Stage 2 Capital Project Appraisals will be developed for each phase of housing on the Soullisquoy site.

10.2.

At present there is no clarity regarding the availability of Scottish Government funding for the development of housing beyond March 2021. Officers are in weekly contact with Scottish Government officials who also attend monthly house build programme discussions that include other Council services, Orkney Housing Association Limited and Scottish Water. Monthly meetings between the Executive Director of Education, Leisure and Housing Services, the Head of Housing, Homelessness and Schoolcare Accommodation Services and the Scottish Government's Highlands and Islands Area Manager are also scheduled to ensure that as much funding as possible can be utilised before 31 March 2021 and that Orkney is well placed to maximise the use of any funding available post March 2021.

11. Procurement Implications

The recommendations from this report will require two design and build tenders to be developed, as well as a further 64 properties and an infrastructure contract on land already owned by the Council.

12. Corporate Governance

This report relates to the Council complying with governance and 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.

13. Financial Implications

13.1.

Capital projects require to progress through the Capital Project Appraisal process. This report presents a number of Stage 1 Capital Project Appraisals for due consideration by the Service 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.

13.2.

Any request to add a capital project to the capital programme requires to be submitted to the Policy and Resources Committee where the detailed Stage 2 Capital Project Appraisal will be assessed.

13.3.

Discussions have taken place with the Scottish Government over the last year around the level of grant funding that is available per-property.

13.4.

The affordability of the Housing Revenue Account will need to be taken into consideration when approving any additional budget for new housing development. A cost comparison of the projects is attached at Appendix 6 to this report. The summary position for the projects considered in this report is:

Type	Units	Total Capital cost (including land)	Total SG Grant ask	HRA Finance	Other Contributions
Soulisquoy (Infrastructure)	112	£3,043,783	£0	£1,686,957	£1,347,826
Soulisquoy (Housing)	50	£7,859,723	£3,556,800	£4,302,923	£0
Carness (Phase 2)	14	£2,364,151	£1,071,600	£1,292,551	£0
Design and Build 1	20	£4,154,084	£1,447,800	£2,706,284	£0
Design and Build 2	6	£1,036,948	£410,400	£626,548	£0
Total	90	£18,449,689	£6,486,600	£10,615,263	£1,347,826

14. Legal Aspects

14.1.

In terms of Section 1 of the Housing (Scotland) Act 1987, every local authority shall consider the housing conditions in their area and the needs of the area for further housing accommodation.

14.2.

Section 2 states that a local authority may provide housing accommodation:

- By the erection of houses on any land acquired or appropriated by them.
- By the conversion of any buildings into houses.
- By acquiring houses.
- By altering, enlarging, repairing or improving any houses or other buildings which have, or a right or interest in which has, been acquired by the local authority.

15. Contact Officers

James Wylie, Executive Director of Education, Leisure and Housing, extension 2401, Email james.wylie@orkney.gov.uk.

Frances Troup, Head of Housing, Homelessness and Schoolcare Accommodation Services, extension 2177, Email frances.troup@orkney.gov.uk.

Lesley Mulrairie, Service Manager (Housing and Homelessness), extension 2174, Email lesley.mulrairie@orkney.gov.uk.

Luke Fraser, Team Leader (Policy and Planning), extension 2172, Email luke.fraser@orkney.gov.uk.

16. Appendices

Appendix 1: Stage 1 Capital Project Appraisal and site plan – Soulisquoy (infrastructure), Kirkwall

Appendix 2: Stage 1 Capital Project Appraisal – Soulisquoy (Housing), Kirkwall

Appendix 3: Stage 1 Capital Project Appraisal and site plan – Carness Road, Kirkwall (Phase 2)

Appendix 4: Stage 1 Capital Project Appraisal – Design and Build for 20 social housing units, Kirkwall.

Appendix 5: Stage 1 Capital Project Appraisal and site plan– Design and Build for 6 social housing units, Kirkwall

Appendix 6: Project Comparison

ORKNEY ISLANDS COUNCIL - CAPITAL PROJECT APPRAISAL PROCESS**Project Appraisal – Stage 1**

Capital Programme: House Build Programme
 Client Service: Education Leisure & Housing
 Project Name: Soulisquoy (Infrastructure), Kirkwall

1. Background

Develop the required infrastructure and services on the Soulisquoy, Kirkwall site for the development of up to 112 properties, comprising 50 council social rented houses and 62 Orkney Housing Association social rented and low-cost home ownership properties.

2. Financial Implications

	Total	2021/22	2022/23	2023/24	2024/25
	£000	£000	£000	£000	£000
Capital Expenditure	£3,034,783	£2,000,000	£882,900	£151,883	£0
Less: Anticipated Grants or Other Contributions	£1,347,826	£1,000,000	£280,435	£67,391	£0
Net Capital Expenditure	£1,686,957	£1,000,000	£602,465	£84,492	£0
Associated Revenue Implications	(£0)	(£0)	(£0)	(£0)	(£0)
Associated Finance and Loan Charges	£1,686,957	£47,333	£87,467	£97,147	£97,147
Estimated cost of detailed Stage 2 CPA	£2,000				

Some design and development work has already been undertaken for this project. A Planning Application for the development of the care home, and the approval in principle of up to 112 houses being developed on the Soulisquoy site, has already been lodged.

The Housing Revenue Account would purchase the required land from the Strategic Reserve Fund to allow the development of the 50 council houses planned for the Soulisquoy site. The Council would then undertake to service the Soulisquoy housing site in preparation for the 112 properties that would be delivered by the Council and Orkney Housing Association Limited. Orkney Housing Association will pay £1,347,826 for their contribution of the servicing costs.

3. Policy Aspects

This proposal fits in with the Local Outcome Improvement Plan priorities of Living Well and Strong and Sustainable Communities and the Council Plan priority of Thriving Communities. The project also supports the Local Housing Strategy

outcomes, the Strategic Housing Investment Plan and the Housing Needs and Demand Assessment.

4. Statutory Responsibility

The Council has a statutory responsibility to tackle homelessness. The Scottish Government has a priority of seeking to end homelessness and this includes the introduction of Rapid Rehousing Transition Plans. Through this Councils are required to reduce the time homeless households spend in temporary accommodation and to seek to permanently rehouse homeless households swiftly.

5. Land Purchase Requirement

The land required for the development of the Council's social housing would need to be purchased by the Housing Revenue Account from the Strategic Reserve Fund as part of the project. Orkney Housing Association own an element of the Soulisquoy site and a land swap will be required to ensure that the land they own matches up with the site layout and the properties that they will be developing.

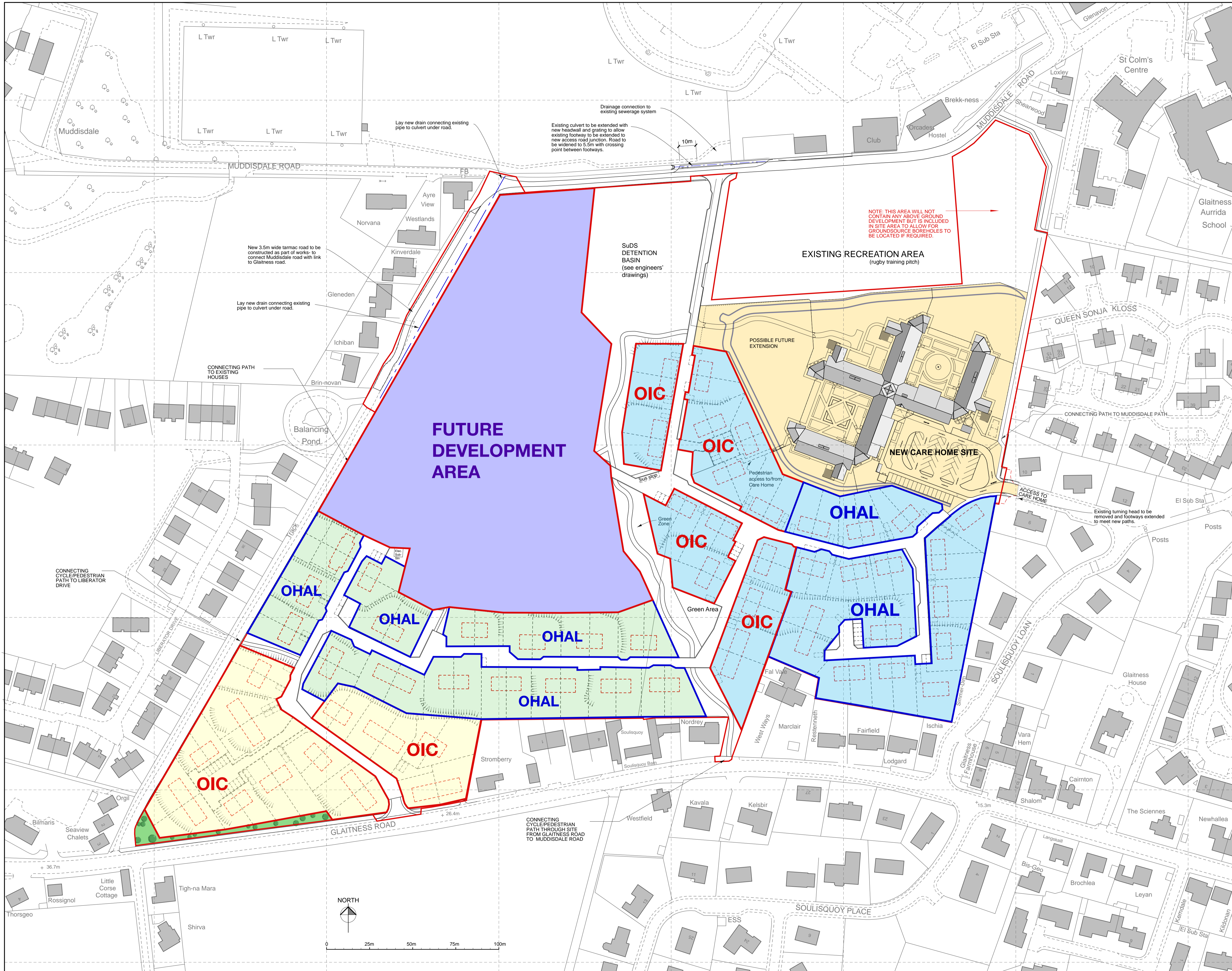
6. Impact on Local Business, Employment and the Economy

The project will help sustain the local construction industry and any additional housing in Orkney will help reduce the current significant housing shortage in the islands. Should the project be approved the Soulisquoy site would be the primary social housing development site in Orkney over the next five years, with both Council and Orkney Housing Association projects being developed on the site.

7. Risk Assessment

Risk	Explanation	Mitigation
Funding risk	Potential to lose the available Scottish Government funding	Developing the infrastructure element of the Soulisquoy project means the site can be developed effectively over individual housing development phases. In depth discussions have already been held with Planning, Roads and Scottish Water around the development of the Soulisquoy site to aid an efficient journey through the required consent processes.
Planning	Potential delays through the Planning process	Early liaison with Planning on the project and the fact the project is already in the Planning system thanks to the Planning in Principle application that has been lodged. The CPA 2 will be developed with all the information and feedback from Planning, Roads and Scottish Water included.

Cost risk	Potential for cost overruns	A robust CPA 2 process that accurately outlines expected costs, confirms the amount of grant that will be available from the Scottish Government, the rental income that will be received from the properties once completed as part of the follow on Soullisquoy (Housing) project and the funding availability of the Housing Revenue Account prior to tendering will give a solid indication as to whether the project will be affordable. This allows the Council to either scrap the project if it is not affordable or to test the market via procurement.
Resources risk	Lack of resources within Housing Services and Development & Infrastructure to ensure the project can be delivered in the timescale required.	To ensure effective delivery of housing development projects additional staffing resource is required in both Development & Infrastructure and Education, Leisure and Housing Services.
Project creep	Potential for the project to creep and be delayed.	Ensure the project remains focused on the properties required.



REVISIONS

- Phase 1 - Blue - 54 units (28 OHAL & 26 OIC)
- Phase 2 - Green - 34 units (34 OHAL)
- Phase 3 - Yellow - 24 units (24 OIC)

Project
SOULLISQUOY SITE INFRASTRUCTURE KIRKWALL

Title
Soullisquoy site MASTERPLAN Proposed Layout with Education zone

Project No.	Drawing No.
401230002	12
Revision	Issue
Printed 28/10/2020	DRAFT
Date DEC 2020	Drawn DS
Scale 1:1000 at A1 1:2000 at A3	Checked

All dimensions to be checked on site before work and the manufacture of elements commences.

This drawing is not to be scaled.

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ORKNEY ISLANDS COUNCIL - CAPITAL PROJECT APPRAISAL PROCESS**Project Appraisal – Stage 1**

Capital Programme: House Build Programme

Client Service: Education Leisure & Housing

Project Name: Soulisquoy (Housing), Kirkwall

1. Background

Develop 50 new build Council houses, over 3 phases at the Soulisquoy site in Kirkwall. Properties will be a mix of one to four bedroom and cater for families, and smaller households, including older people.

The infrastructure required for these 50 houses would be delivered by the separate Soulisquoy (Infrastructure) project.

2. Financial Implications

	Total	2022/23	2023/24	2024/25	2025/26
	£000	£000	£000	£000	£000
Capital Expenditure	£7,859,723	£750,000	£2,500,000	£2,000,000	£2,216,736
Less: Anticipated Grants or Other Contributions	£3,556,800	£750,000	£1,500,000	£1,000,000	£306,800
Net Capital Expenditure	£4,302,923	£0	£1,000,000	£1,000,000	£1,909,936
Associated Revenue Implications	(£291,611)	(£0)	(£0)	(£145,805)	(£145,805)
Associated Finance and Loan Charges	£4,302,923	£47,333	£106,283	£207,420	£246,442
Estimated cost of detailed Stage 2 CPA	£5,000				

Some design and development work has already been undertaken for this project and a Planning Application for the development of the care home and the approval in principle of up to 138 houses being developed on the Soulisquoy site has already been lodged.

Additional detailed design work needs to be undertaken prior to a Planning Application being lodged for the development of housing on the site or the project being tendered. However, the initial work to develop a site plan and apply for Planning in Principle has certainly reduced the level of work and time that will be required to complete design and tendering.

As the project would be developed over three phases a separate CPA 2 will be developed for each phase.

3. Policy Aspects

This proposal fits in with the Local Outcome Improvement Plan priorities of Living Well and Strong and Sustainable Communities and the Council Plan priority of Thriving Communities. The project also supports the Local Housing Strategy outcomes, the Strategic Housing Investment Plan and the Housing Needs and Demand Assessment.

4. Statutory Responsibility

The Council has a statutory responsibility to tackle homelessness. The Scottish Government has a priority of seeking to end homelessness and this includes the introduction of Rapid Rehousing Transition Plans. Through this Councils are required to reduce the time homeless households spend in temporary accommodation and to seek to permanently rehouse homeless households swiftly.

5. Land Purchase Requirement

The land required for the housing development undertaken by the Council will have been purchased as part of the Soulisquoy (Infrastructure) project.

6. Impact on Local Business, Employment and the Economy

The project will help sustain the local construction industry and any additional housing in Orkney will help reduce the current significant housing shortage in the islands. Should the project be approved the Soulisquoy site would be the primary social housing development site in Orkney over the next five years, with both Council and Orkney Housing Association projects being developed on the site.

7. Risk Assessment

Risk	Explanation	Mitigation
Funding risk	Potential to lose the available Scottish Government funding	Developing the infrastructure across the whole Soulisquoy site as part of an initial phase earlier in the SHIP programme allows the development of the housing phases to be developed on sites that have the required infrastructure in place already. Discussions have been held with Orkney Housing Association on how best to phase the development of the site between partners to try and ensure that a delay to one phase will not inadvertently impact on a following phase.
Planning	Potential delays through the Planning process	Planning Permission for the sites at Soulisquoy would already be granted as part of the Soulisquoy (Infrastructure) project prior to the Soulisquoy (Housing) project CPA 2 reports being completed.

		This will significantly reduce the Planning risk to the Soullisquoy (Housing) projects. Active and continuous engagement with Planning through regular house build catch-up meetings and other officer discussions also allows for any issues to be discovered early in the process and ironed out quickly.
Cost risk	Potential for cost overruns	A robust CPA 2 process that accurately outlines expected costs, confirms the amount of grant that will be available from the Scottish Government, the rental income that will be received from the properties once completed and the funding availability of the Housing Revenue Account prior to tendering will give a solid indication as to whether the project will be affordable. This allows the Council to either scrap the project if it is not affordable or to test the market via procurement.
Resources risk	Lack of resources within Housing Services and Development & Infrastructure to ensure the project can be delivered in the timescale required.	To ensure effective delivery of housing development projects additional staffing resource is required in both Development & Infrastructure and Education, Leisure and Housing Services.
Project creep	Potential for the project to creep and be delayed.	Ensure the project remains focused on the properties required.

ORKNEY ISLANDS COUNCIL - CAPITAL PROJECT APPRAISAL PROCESS

Project Appraisal – Stage 1

Capital Programme: House Build Programme

Client Service: Education Leisure & Housing

Project Name: Carness, Kirkwall (Phase 2)

1. Background

Development of the fourteen remaining properties on the Carness Road, Kirkwall housing scheme. The project consists of eight two-bedroom and six three-bedroom properties to complement the existing 32 properties that are being developed on the site.

2. Financial Implications

	Total	2021/22	2022/23	2023/24	2024/25
	£000	£000	£000	£000	£000
Capital Expenditure	£2,364,151	£1,250,000	£995,944	£118,207	£0
Less: Anticipated Grants or Other Contributions	£1,071,600	£500,000	£571,600	£0	£0
Net Capital Expenditure	£1,292,551	£750,000	£424,344	£118,207	£0
Associated Revenue Implications	(£169,600)	(£0)	(£0)	(£84,800)	(£84,800)
Associated Finance and Loan Charges	£1,292,551	£35,500	£64,298	£74,160	£74,496
Estimated cost of detailed Stage 2 CPA	£1,500				

A Planning Application that includes the fourteen properties of phase 2 at Carness Road has been submitted as part of the current project. This will make the design and Planning requirements much easier for this project. Project procurement will need to take place as normal.

3. Policy Aspects

This proposal fits in with the Local Outcome Improvement Plan priorities of Living Well and Strong and Sustainable Communities and the Council Plan priority of Thriving Communities. The project also supports the Local Housing Strategy outcomes, the Strategic Housing Investment Plan and the Housing Needs and Demand Assessment.

4. Statutory Responsibility

The Council has a statutory responsibility to tackle homelessness. The Scottish Government has a priority of seeking to end homelessness and this includes the introduction of Rapid Rehousing Transition Plans. Through this Councils are required to reduce the time homeless households spend in temporary

accommodation and to seek to permanently rehouse homeless households swiftly.

5. Land Purchase Requirement

The Housing Revenue Account purchased the whole site at Carness Road prior to the first phase of the development. Therefore there will be no additional land purchase requirements.

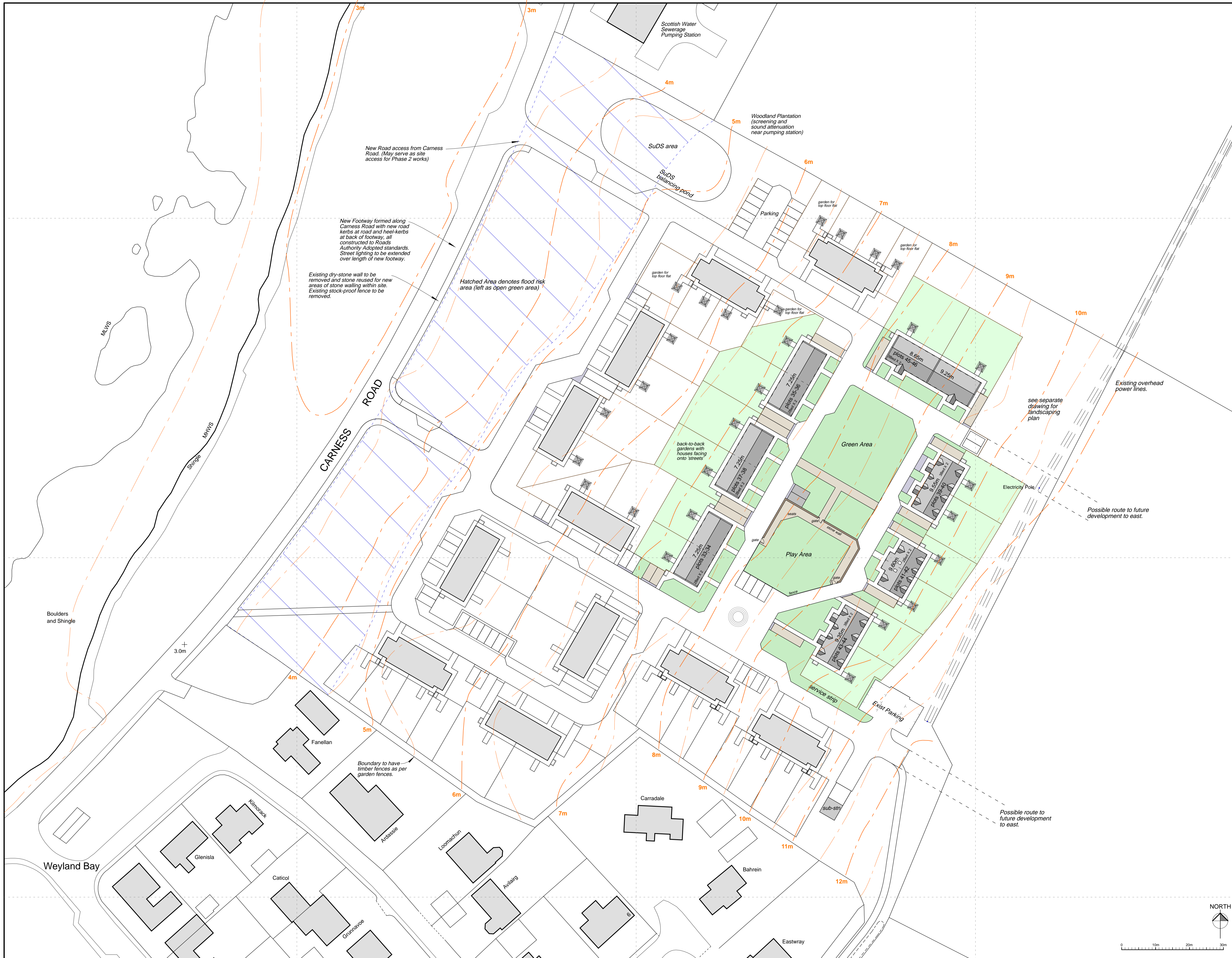
6. Impact on Local Business, Employment and the Economy

The project will help sustain the local construction industry and any additional housing in Orkney will help reduce the current significant housing shortage in the islands.

7. Risk Assessment

Risk	Explanation	Mitigation
Funding risk	Potential to lose the available Scottish Government funding	Utilising the Carness site which is already in ownership of the Housing Revenue Account and is being serviced as part of the existing development on the site provides the ability to quickly develop the remaining sites in the development.
Planning	Potential delays through the Planning process	Planning Permission has already been sought for the additional 14 properties that form part of the second phase at Carness. Active and continuous engagement with Planning through regular house build catch-up meetings and other officer discussions also allows for any issues to be discovered early in the process and ironed out quickly.
Cost risk	Potential for cost overruns	A robust CPA 2 process that accurately outlines expected costs, confirms the amount of grant that will be available from the Scottish Government, the rental income that will be received from the properties once completed and the funding availability of the Housing Revenue Account prior to tendering will give a solid indication as to whether the project will be affordable. This allows the Council to either scrap the project if it is not affordable

		or to test the market via procurement.
Resources risk	Lack of resources within Housing Services and Development & Infrastructure to ensure the project can be delivered in the timescale required.	To ensure effective delivery of housing development projects additional staffing resource is required in both Development & Infrastructure and Education, Leisure and Housing Services.
Project creep	Potential for the project to creep and be delayed.	Ensure the project remains focused on the properties required.



REVISIONS

Project
**WEYLAND HOUSING DEVELOPMENT
 CARNESS ROAD
 KIRKWALL**

Title
**SITE PLAN
 PROPOSED
 FINAL PHASE**

Project No. 400456001	Drawing No. 400
Revision	Issue
Printed 28/10/2020	Date OCT 2020
Scale 1:500 1:1000 at A3	Drawn DS Checked

All dimensions to be checked on site before work and the manufacture of elements commences.

This drawing is not to be scaled.

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ORKNEY ISLANDS COUNCIL - CAPITAL PROJECT APPRAISAL PROCESS**Project Appraisal – Stage 1**

Capital Programme: House Build Programme

Client Service: Education Leisure & Housing

Project Name: Design and Build Housing Project, Kirkwall, (20 properties)

1. Background

Develop 20 new build Council houses on land owned by the winning contractor located in Kirkwall. Properties will be a mix of 10 x one-bedroom, 6 x two-bedroom and 4 x three-bedroom properties.

2. Financial Implications

	Total	2024/25	2025/26	2026/27	2027/28
	£000	£000	£000	£000	£000
Capital Expenditure	£4,154,084	£2,000,000	£1,946,380	£207,704	£0
Less: Anticipated Grants or Other Contributions	£1,447,800	£700,000	£747,800	£0	£0
Net Capital Expenditure	£2,706,284	£1,252,200	£1,246,380	£207,704	£0
Associated Revenue Implications	(£186,140)	(£0)	(£0)	(£93,070)	(£93,070)
Associated Finance and Loan Charges	£2,706,284	£59,271	£132,813	£156,017	£156,222
Estimated cost of detailed Stage 2 CPA	£1,000				

Due to the fact this is a design and build contract on land owned by the winning contractor it is not possible to do any detailed design work on the project as we do not know which site will be developed and the design of the scheme will be the responsibility of the winning contractor, in line with the Council's design brief.

3. Policy Aspects

This proposal fits in with the Local Outcome Improvement Plan priorities of Living Well and Strong and Sustainable Communities and the Council Plan priority of Thriving Communities. The project also supports the Local Housing Strategy outcomes, the Strategic Housing Investment Plan and the Housing Needs and Demand Assessment.

4. Statutory Responsibility

The Council has a statutory responsibility to tackle homelessness. The Scottish Government has a priority of seeking to end homelessness and this includes the introduction of Rapid Rehousing Transition Plans. Through this Councils are required to reduce the time homeless households spend in temporary accommodation and to seek to permanently rehouse homeless households swiftly.

5. Land Purchase Requirement

The required land will be purchased from the winning contractor.

6. Impact on Local Business, Employment and the Economy

The project will help sustain the local construction industry and any additional housing in Orkney will help reduce the current significant housing shortage in the islands.

7. Risk Assessment

Risk	Explanation	Mitigation
Funding risk	Potential to lose the available Scottish Government funding	Design and build projects provide the opportunity to reduce the amount of staffing input required within the Council and put the design risk onto contractors. Utilising land owned by the winning contractor also removes the need to access Council land that may not have approved development briefs and utilise contractor owned land that does, speeding up the process further.
Planning	Potential delays through the Planning process	As above the risk is partly mitigated by using contractor owned land that is already at least part of the way through the Planning development brief process. Active and continuous engagement with Planning through regular house build catch-up meetings and other officer discussions also allows for any issues to be discovered early in the process and ironed out quickly.
Cost risk	Potential for cost overruns or that the returned tenders are too expensive and not affordable.	A robust CPA 2 process that accurately outlines expected costs, confirms the amount of grant that will be available from the Scottish Government, the rental income that will be received from the properties once completed and the funding availability of the Housing Revenue Account prior to tendering will give a solid indication as to whether the project will be affordable. This

		allows the Council to either scrap the project if it is not affordable or to test the market via procurement.
Timing risk	The potential to miss the SHIP deadlines if the project slips.	Ensure that progress towards CPA 2 is undertaken early to allow procurement etc to be undertaken within timescales.
Resources risk	Lack of resources within Housing Services and Development & Infrastructure to ensure the project can be delivered in the timescale required.	To ensure effective delivery of housing development projects additional staffing resource is required in both Development & Infrastructure and Education, Leisure and Housing Services.
Project creep	Potential for the project to creep and be delayed.	Ensure the project remains focused on the properties required.

ORKNEY ISLANDS COUNCIL - CAPITAL PROJECT APPRAISAL PROCESS**Project Appraisal – Stage 1**

Capital Programme: House Build Programme

Client Service: Education Leisure & Housing

Project Name: Design and Build Housing Projects, Kirkwall, (6 properties)

1. Background

Develop six, one-bedroom, new build, Council houses on land owned by the winning contractor located in Kirkwall.

2. Financial Implications

	Total	2023/24	2024/25	2025/26	2026/27
	£000	£000	£000	£000	£000
Capital Expenditure	£1,036,948	£600,000	£385,101	£51,847	£0
Less: Anticipated Grants or Other Contributions	£410,400	£250,000	£160,400	£0	£0
Net Capital Expenditure	£626,548	£350,000	£224,701	£51,847	£0
Associated Revenue Implications	£65,145	£0	£0	£32,572	£32,572
Associated Finance and Loan Charges	£626,548	£16,567	£31,268	£36,024	£36,118
Estimated cost of detailed Stage 2 CPA	£1,000				

Due to the fact this is a design and build contract on land owned by the winning contractor it is not possible to do any detailed design work on the project as we do not know which site will be developed and the design of the scheme will be the responsibility of the winning contractor, in line with the Council's design brief.

3. Policy Aspects

This proposal fits in with the Local Outcome Improvement Plan priorities of Living Well and Strong and Sustainable Communities and the Council Plan priority of Thriving Communities. The project also supports the Local Housing Strategy outcomes, the Strategic Housing Investment Plan and the Housing Needs and Demand Assessment.

4. Statutory Responsibility

The Council has a statutory responsibility to tackle homelessness. The Scottish Government has a priority of seeking to end homelessness and this includes the introduction of Rapid Rehousing Transition Plans. Through this Councils are required to reduce the time homeless households spend in temporary accommodation and to seek to permanently rehouse homeless households swiftly.

5. Land Purchase Requirement

The required land will be purchased from the winning contractor.

6. Impact on Local Business, Employment and the Economy

The project will help sustain the local construction industry and any additional housing in Orkney will help reduce the current significant housing shortage in the islands.

7. Risk Assessment

Risk	Explanation	Mitigation
Funding risk	Potential to lose the available Scottish Government funding	Design and build projects provide the opportunity to reduce the amount of staffing input required within the Council and put the design risk onto contractors. Utilising land owned by the winning contractor also removes the need to access Council land that may not have approved development briefs and utilise contractor owned land that does, speeding up the process further.
Planning	Potential delays through the Planning process	As above the risk is partly mitigated by using contractor land that is already at least part of the way through the Planning development brief process. Active and continuous engagement with Planning through regular house build catch-up meetings and other officer discussions also allows for any issues to be discovered early in the process and ironed out quickly.
Cost risk	Potential for cost overruns or that the initial tenders are too expensive and not affordable.	A robust CPA 2 process that accurately outlines expected costs, confirms the amount of grant that will be available from the Scottish Government, the rental income that will be received from the properties once completed and the funding availability of the Housing Revenue Account prior to tendering will give a solid indication as to whether the project will be affordable. This allows the Council to either scrap

		the project if it is not affordable or to test the market via procurement.
Timing risk	The potential to miss the SHIP deadlines if the project slips.	Ensure that progress towards CPA 2 is undertaken early to allow procurement etc to be undertaken within timescales.
Resources risk	Lack of resources within Housing Services and Development & Infrastructure to ensure the project can be delivered in the timescale required.	To ensure effective delivery of housing development projects additional staffing resource is required in both Development & Infrastructure and Education, Leisure and Housing Services.
Project creep	Potential for the project to creep and be delayed.	Ensure the project remains focused on the properties required.

House Build Project Comparison

The tables below show a breakdown of the estimated costs between each of the projects outlined in the report to allow for a project by project comparison. The prices below are based on our most recent tender costs and have an allowance built in for inflation which is higher for those that are starting later in the term of the Strategic Housing Investment Plan 2021 to 2026. In general terms the Council would require to be in a position where the Housing Revenue Account requires to meet less than 50% of the cost of the project. This is in order for the funding mix available through Scottish Government grant and Housing Revenue Account finance to allow the projects to proceed.

Carness Road (Phase 2)

The Carness Road project is slightly different from the other projects listed, as the Housing Revenue Account already owns the land required, which was purchased as part of Phase 1, and the 14 sites required are also being serviced as part of the existing Phase 1. That means that the costs outlined below do not have a land element and the servicing element is significantly lower than the other projects. The Carness (Phase 2) project would be expected to start in 2021/22.

Total capital cost.	£2,364,151.
Total Scottish Government grant.	£1,071,600.
Total Housing Revenue Account finance.	£1,292,551.
Scottish Government grant percentage.	45%.

Size	Units	Building Works	Servicing, Land and Fees	Preliminaries	Total property cost	Cost per square metre
2-bedroom	8	£109,725	£29,018	£12,713	£151,457	£2,133
3-bedroom	6	£150,350	£29,018	£12,713	£192,082	£1,833

Soulisquoy – Housing and Infrastructure projects combined

The Soulisquoy Infrastructure and Housing projects would provide a significant percentage of the properties the Council and Orkney Housing Association Limited are looking to develop through the Strategic Housing Investment Plan 2021 to 2026. The infrastructure phase at Soulisquoy would be started in 2021/22, with the first phase of housing to start in 2022/23. The Council's second phase of housing would start in 2025/26.

The tables below combine the costs of the Soulisquoy (Infrastructure) and the Soulisquoy (Housing) projects to allow for comparison to the other projects outlined.

Total capital cost.	£9,546,680.
Total Scottish Government grant.	£3,556,800.
Total Housing Revenue Account finance.	£5,989,880.
Scottish Government grant percentage.	37%.

Size	Units	Building Works	Servicing, Land and Fees	Preliminaries	Total property cost	Cost per square metre
1-bedroom	32	£99,500	£72,072	£10,805	£182,377	£2,894
2-bedroom	12	£109,725	£72,072	£10,805	£192,602	£2,712
3-bedroom	6	£150,350	£72,072	£10,805	£233,227	£2,286

Design and Build 20 properties

The first design and build project for 20 properties on land owned by a contractor offers a range of different property sizes and is suited for a greenfield development. It is anticipated that there are a very limited number of contractors with access to land that can accommodate 20 properties, so splitting this project into smaller projects at tender stage may be beneficial and increase competition. It is expected that the project for 20 Design and Build properties would start on site in 2024/25.

Design and build contracts are helpful in that they release some of the pressure on Development and Infrastructure staff, however, as outlined in the costs below, they are expected to be more expensive. This is partly due to the fact that the project is programmed in for later in the Strategic Housing Investment Programme and therefore has higher anticipated prices due to inflation.

Total capital cost.	£4,154,084.
Total Scottish Government grant.	£1,447,800.
Total Housing Revenue Account finance.	£2,706,284.
Scottish Government grant percentage.	35%.

Size	Units	Building Works	Servicing, Land and Fees	Preliminaries	Total property cost	Cost per square metre
1-bedroom	10	£119,500	£61,692	£13,273.75	£194,466	£3,086
2-bedroom	6	£129,725	£61,692	£13,273.75	£204,691	£2,882
3-bedroom	4	£170,350	£61,692	£13,273.75	£245,316	£2,405

Design and Build 6 properties

The second design and build project focuses on a smaller number of one-bedroom properties and allows for the potential of a brownfield development in central Kirkwall. The same points made in the section above, relating to the project on 20 design and build properties, also relate to this project. It is expected that the project of 6 Design and Build properties would start in 2023/24.

Total capital cost.	£1,036,948.
Total Scottish Government grant.	£410,400.
Total Housing Revenue Account finance.	£626,548.
Scottish Government grant percentage.	40%.

Size	Units	Building Works	Servicing, Land and Fees	Preliminaries	Total property cost	Cost per square metre
1-bedroom	6	£119,500	£41,374	£11,950	£172,824	£2,743

Conclusion

The tables outlined above show the challenge that the current market conditions provide, even with improved grant funding levels from the Scottish Government. While the projects for Soulisquoy and design and build look unaffordable at present prices, there are a lot of unknowns currently. These include COVID-19, new Scottish Government priorities following the May 2021 Scottish Parliamentary election and Brexit. Therefore, the recommendation is that the Stage 1 Capital Project Appraisals which have been developed, are approved so that the projects listed can be further explored.