

Item: 6

Education, Leisure and Housing Committee: 27 March 2024.

Essential Workers Housing Strategy.

Report by Corporate Director for Education, Leisure and Housing.

1. Purpose of Report

To consider the Orkney Islands Essential Workers Housing Strategy.

2. Recommendations

The Committee is invited to note:

2.1.

That, in summer 2022, the Council commissioned research and development of a strategy in respect of the housing needs of essential workers.

2.2.

That the development process to create the strategy included in-depth research of housing supply and demand and has involved four widescale quantitative surveys and qualitative interviews involving key stakeholders.

2.3.

That the Essential Worker's Housing Strategy, attached as Appendix 1 to this report, includes consideration of the following housing needs:

- Keyworkers and other essential workers moving to Orkney permanently.
- Agency/interim staff working in Orkney, who are living temporarily on Orkney for work purposes, but who are permanent residents elsewhere.
- Students moving to Orkney for study.
- Workers required for potential infrastructure construction projects.

2.4.

The funding business case in respect of delivering the Orkney Islands Essential Workers Housing Strategy, attached as Appendix 2 to this report.

2.5.

The models for delivery of essential workers housing, as outlined in section 6 of this report, with the preferred model being Model 1, namely attracting an existing registered social landlord with a private subsidiary, or alternative mid-market rent provider, to Orkney.

2.6.

That, should Model 1 not be successful, delivery models would be progressed in the following order, subject to affordability:

- Model 2 – direct investment by the Council.
- Model 3 – delivery by the Council through a special purpose vehicle.

2.7.

That, should the Orkney Islands Essential Workers Housing Strategy, attached as Appendix 1 to this report, be approved, the recommendations contained therein, and summarised in sections 4 to 6 of this report, would require:

- To be financially viable through a combination of government grants, internal resources and/or affordable borrowing.
- To be subject to separate approval through the relevant governance processes, which may include reports to Committees, should any additional resources, including financial, be required.

It is recommended:

2.8.

That the Orkney Islands Essential Workers Housing Strategy, attached as Appendix 1, be approved, in principle.

2.9.

That the Corporate Director for Education, Leisure and Housing should submit a report, to the Policy and Resources Committee no later than September 2024, setting out the financial implications to the Council in respect of progressing the options, including delivery models, as outlined in the Essential Workers Housing Strategy.

3. Background

3.1.

In summer 2022, the Council commissioned the development of an essential workers housing strategy. The strategy sought to answer questions around challenges faced by incoming workers, and Orkney residents relating to very high housing demand and constrained supply.

3.2.

During 2023, the Council completed a revised Housing Need and Demand Assessment and a revised Local Housing Strategy, which is currently subject to consultation during spring 2024. Both must be completed every 5 years.

3.3.

The Housing Need and Demand Assessment has been developed using data from the Essential Workers Housing Strategy and the Scottish Government has deemed this to be robust and credible and therefore it has been approved. The Housing Need and Demand Assessment was the topic of a briefing issued to Elected Members on 15 December 2023.

3.4.

The Essential Workers Housing Strategy has been developed within the context of the new Orkney Housing Need and Demand Assessment, and the consultative draft of the Local Housing Strategy which identifies housing requirements across all of Orkney's population. It is anticipated that the final draft of the Local Housing Strategy, post consultation, will be presented to committee during 2024/25.

4. Essential Workers Housing Strategy

4.1.

The Essential Workers Housing Strategy, attached as Appendix 1 to this report, considers the housing needs of:

- Keyworkers and other essential workers moving to Orkney permanently.
- Agency/interim staff working in Orkney, who are living temporarily on Orkney for work purposes, but who are permanent residents elsewhere.
- Students moving to Orkney for study.
- Workers required for potential infrastructure construction projects.

4.2.

The strategy development process has involved in-depth research of housing supply and demand, has involved four widescale quantitative surveys with employers, households that have moved to Orkney for work, students who have moved to Orkney (or want to move to Orkney) for study, and private landlords in Orkney. There has also been widescale consultation with community planning partners, the private sector and interviews were also undertaken with households who have recently moved to, or within Orkney.

4.3.

The main conclusions, from the housing demand and supply study, as outlined on page iv of Appendix 1, are:

- The housing market drivers of increasing population and households, and strong prospects for economic growth means there is high demand for housing from existing households, incoming workers, and students.

- here are significant workforce challenges with high vacancy rates, the ageing workforce and very high dependency ratio (the ratio between non-working households and working households which is one of the highest in Scotland). This means these workforce challenges will continue, with the increasing use of agency and interim staff across Orkney in public services. The private sector also faces these recruitment challenges. There is increasing recruitment for permanent staff from outwith Orkney.
- Housing is a key factor in enabling the recruitment and retention of essential workers to sustain Orkney's existing communities, and support sustainable growth, and a key priority for community planning partners will be to attract and retain working age households, and young people, to rebalance the household population and the current high dependency ratio.
- There is a requirement for a minimum of 305 bedspaces, or 220 housing units at any point in time for public sector keyworkers / other essential workers and students which is a combination of people moving into Orkney permanently, long-term temporary agency / interim staff who live in Orkney temporarily, and students.
- Most of the keyworkers moving to Orkney permanently are on higher incomes than Orkney residents (individual incomes of average £35k+, or household incomes of £50k+). This means they do not need social housing, and the survey showed they wish to rent private sector accommodation while they find their long-time housing option.
- The housing market is not meeting the housing needs of incoming workers or students. For the vast majority of households moving to Orkney 80% of survey respondents found it difficult (54% very difficult) to find suitable housing. Employers responding to the survey also said their recruits find it very difficult to find housing when they move to Orkney, and some did not take up employment due to lack of housing. Even though some employers help, they too find it difficult to secure housing for employees. Employers also said some employees are leaving Orkney due to lack of suitable housing options.
- There is an increasing requirement to use agency and interim staff, in the public sector, driven by the workforce challenges of the ageing population with increasing vacancy rates. The use of interim and agency staff are expensive resources, but the public sector sees this ongoing requirement for at least the next decade due to the population/workforce profile. The Council and NHS Orkney tend to use the private rented sector and some limited social housing for agency staff which takes this housing away from residents. They also increasingly use expensive short term lets.
- Students moving to Orkney also find it very difficult to find housing, and the universities argue that lack of housing impacts on the numbers applying for courses, particularly in key areas of renewables and archaeology for which Orkney is renowned. The housing challenge is said to be stifling growth in the research and innovation sectors and means lost opportunities of attracting young people who may then stay in Orkney on completion of their studies and contribute to sustaining Orkney's working population and growth sectors.

- In addition, there is an estimated 1,359 bedspaces required for construction workers for the potential infrastructure projects that may start in the islands from 2024 (pending approvals). These are temporary housing requirements but may have a very significant impact on the housing market for existing residents. In addition to the temporary requirements, it is estimated that at least 200 additional long-term jobs will be created for the operational phases, 100 of which are assumed to be filled by new households to Orkney. The temporary housing requirements will have to be funded by the developers, but there is an opportunity to harness a legacy from this temporary provision for permanent housing (for example through serviced sites or improving empty homes).
- The housing supply system in Orkney is not currently keeping up with demand. New build supply has dropped constantly from a peak of over 250 units of new build supplied across all housing tenures in 2011 to a much lower figure most recently of under 100 in 2021. There have also been significant underspends on Scottish Government resources for affordable new build housing. This suggests there are problems with the overall housing supply system in Orkney which need to be resolved to meet housing need and demand.

4.4.

The Essential Workers Housing Strategy highlights that there is clear evidence for the requirement to intervene in the housing system for the provision of housing for keyworkers/other essential incoming workers. This would be through the provision of additional supply, and other housing options, targeted for this group, potentially combined with student housing provision.

4.5.

The Strategy also identifies the opportunity for joint working across the public sector to provide the benefits of economies of scale in procurement, placemaking and ongoing management of housing for the demand groups outlined above. In addition, capacity is required to develop housing options for the construction workers which could create a long-term benefit for the existing and future Orkney communities.

5. Implementation of Essential Workers Housing Strategy

5.1.

The Council has a strategic and enabling role which would allow a position where it could take the lead in working with a range of partners to make sure housing supply is delivered for the benefit of all partners and the whole community.

5.2.

Accordingly, a strategic options appraisal was undertaken (see section 4 of Appendix 1), summarised as follows:

5.2.1. Option 1: Do nothing

The Council could choose to do nothing. This would mean that the Council and NHS Orkney would continue with their current approaches towards procuring housing for agency / interim staff. Otherwise individuals including students would require to find their own housing outcomes. The status quo would remain in that recruitment difficulties would continue and the use of expensive holiday accommodation would continue to be a factor for employers and staff.

5.2.2. Option 2: Private Sector Leasing Scheme (PSL)

The Council could establish a private sector leasing scheme where the Council acts as lead tenant and lets properties under a Short Scottish Secure Tenancy Agreement for up to 12 months. The Council would lease from the landlord for a specific term such as 5 years, providing a guaranteed rent and would take the void (empty property) risk. The downside of this is that it would remove properties from the private sector which would otherwise be available to assist residents to meet their own housing needs.

5.2.3. Option 3: Build for rent

Any new supply would be provided as mid-market rent (MMR). That is affordable private rented housing with rents within Local Housing Allowance levels and let to the essential incoming workers in the target group with different end users including incoming keyworker households, agency staff and students. The Council approved a policy on mid-market rent in July 2022 and a review of the policy is being presented to this cycle of meetings. The Council cannot directly let mid-market rent properties itself so this option would require a partnership approach for delivery. Vehicle delivery options are referred to in section 6 below.

5.2.4. Option 4: Acquisition for rent

Here the housing provider purchases from the second-hand housing market or 'off-shelf' from new build by private developers, properties to be provided for mid-market rent. Like new build, there are a range of delivery vehicle options to be considered. The downside of this is that it would remove properties from the private sector which would otherwise be available to assist residents to meet their own housing needs.

5.2.5. Option 5: Refurbishing and bringing empty homes into use

The Council already has an Empty Homes Strategy which is intended to bring empty properties back into use. Advice, assistance and a local authority grant could be provided to empty homeowners, perhaps up to the value of £25k, to bring properties back into use. A grant is not currently available from the Council for this purpose. There would be a range of conditions associated with grant including bringing the property up to the Repairing Standard, that the owner acts as private landlord and lets the property through a registered letting agent and lets the property only to the target client group for 5 years, with clawback of grant if any conditions of grant are breached.

5.3.

It is concluded that the best option to pursue is a blended option of Options 2 to 5 being, private sector leasing scheme, build for rent, acquisition for rent and bringing empty homes into use. This allows the greatest flexibility and likelihood of delivering the maximum number of properties in a phased timeframe and equally provision does not deplete particular tenures within Orkney.

5.4.

If Members wish to progress the preferred, or any other option outlined above (with the exception of option 1), additional reports would require to be presented to the appropriate Committees regarding relevant policy documents and delivery models.

6. Delivery Models

6.1.

Appendix 1 outlines the options appraisal for delivery vehicles in considerable detail. This is not reproduced here, however the salient points have been highlighted for consideration. It is important to highlight that the Council cannot directly let mid-market rent properties and therefore if Options 3 or 4 are approved, consideration would require to be given to the relevant delivery vehicle for progression.

6.2.

Central to all options floated is Council delivery of certain aspects being project management, delivery of the private sector leasing scheme and empty homes grant. Accordingly, this report considers those costs separately.

6.3.

It is proposed that the models outlined would be progressed in the order reproduced below, namely if model 1 proved unsuccessful, model 2 would be progressed etc.

6.4.

Model 1 – attract an existing Registered Social Landlord with a private subsidiary (or alternative mid-market rent provider) to Orkney.

6.4.1.

An appropriate organisation with a track record for delivering mid-market rent properties could be attracted to Orkney to deliver the acquisition and build for rent programmes.

6.4.2.

This is the lowest cost model to the Council in the short to medium term.

6.4.3.

This model limits the Council's financial exposure to acquisition and development risk, at least in the short term.

6.4.4.

This model is dependent on the Council being able to attract an appropriate organisation to Orkney to deliver the acquisition and build for rent programmes.

6.5.

Model 2 – in the event that an existing Registered Social Landlord with a private subsidiary (or alternative mid-market rent provider) cannot be attracted to Orkney – direct investment by the Council.

6.5.1.

Should it not be possible to attract a suitable organisation to Orkney, the Council could invest directly in the acquisition or construction of mid-market rent properties, funded from the Strategic Reserve Fund.

6.5.2.

In this scenario the properties would be held on the Strategic Reserve Fund as investment properties and managed and let at arm's length from the Council through a commercial contractual arrangement.

6.5.3.

The arm's length arrangement can be with any third party provider who has legal competency to contract with the Council and can provide private sector tenancies.

6.5.4.

Investment would be on the basis of a planned 70:30 debt equity financing structure.

6.6.

Model 3 – in the event that an existing Registered Social Landlord with a private subsidiary (or alternative mid-market rent provider) cannot be attracted to Orkney – the Council could deliver through a special purpose vehicle.

6.6.1.

Should it not be possible to attract a suitable organisation, the Council could deliver the acquisition and build of mid-market rent properties through a special purpose vehicle established for the purpose.

6.7.

The models outlined at sections 6.4 to 6.6 above are all legally competent and have been considered by Legal Services with the support of specialist advice. The preferred model would be model 1 but in the event that this was not possible, models should be progressed in order accordingly.

7. Human Resource Implications

7.1.

The Council continues to face significant challenges to filling critical vacancies across an increasing range of frontline roles particularly in care and early learning and childcare, as well as the continuing challenge in attracting professional and management posts.

7.2.

Additionally, Orkney faces continuing demographic projections of decreasing working age population, significantly increasing older age population, very low levels of unemployment, a generally low wage employment market and higher costs of living accompanied by a critical shortage of affordable houses for rent and purchase.

7.3.

Without significant focus to improve availability and affordability of housing, the ability to attract the necessary workforce to Orkney will continue to be a significant challenge.

7.4.

It has been identified that in order for Housing Services to be able to support this project, additional staffing will be required. This is expected to be around 2 Full Time Equivalents. The exact details of posts, grades and funding will be worked through with the Finance and Human Resources Services, should the recommendations of this report be approved, and appropriate governance will be sought accordingly.

7.5.

A sum of £85k has been built into the costings as outlined in Appendix 2.

8. Links to Council Plan

8.1.

The proposals in this report support and contribute to improved outcomes for communities as outlined in the Council Plan strategic priority of Developing our Infrastructure.

8.2.

The proposals in this report relate directly to Priority 16 (Social housing) and Priority 17 (Mid-market rental properties) of the Council Delivery Plan.

9. Links to Local Outcomes Improvement Plan

The proposals in this report support and contribute to improved outcomes for communities as outlined in the Local Outcomes Improvement Plan priority of sustainable development.

10. Financial Implications

10.1.

There are no financial implications arising directly from the recommendations to the report. However, it is noted that to deliver the Strategy considerable resources will have to be identified.

10.2.

Section 5 of Appendix 1 includes an overview of the financials which, depending on alternatives available, may be required. Appendix 2 is a further report from Indigo House on the funding case behind the Strategy, looking at different delivery models and funding sources for the delivery of the Strategy.

10.3.

The affordability of the different options and identification of relevant funding resources will be the subject of a report to the Policy and Resources Committee in due course. Appendix 2 is for background information only at this stage.

10.4.

The costs for the Essential Workers Housing Strategy, prepared by Hub North/Indigo House incurred to date is £80,267.

11. Legal Aspects

This report relates to the findings from the Essential Workers Housing Strategy and accordingly there are no specific legal requirements which relate to this aspect of the process. The recommended options, including the blended option, are legally competent having been considered by Legal Services supported by specialist external legal advice.

12. Contact Officers

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13. Appendices

Appendix 1: Essential Workers Housing Strategy.

Appendix 2: Essential Workers Funding Case.

Orkney Islands essential workers housing strategy

Orkney Islands Council

March 2023

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Executive Summary

Purpose of the strategy

The Council commissioned the development of the keyworker housing strategy to answer questions around challenges faced by Orkney residents and incoming workers relating to very high housing demand and constrained supply. This strategy has been developed within the context of the new Orkney Housing Need and Demand Assessment (underway now), and the Local Housing Strategy (will commence development in the summer) which will identify housing requirements across all Orkney's population. These will both be completed during 2023//24.

The keyworker housing strategy considers the housing needs of:

- keyworkers and other essential workers moving to Orkney permanently;
- agency/interim staff working in Orkney, who are living temporarily on Orkney for work purposes, but who are permanent residents elsewhere;
- students moving to Orkney for study;
- workers required for potential infrastructure construction projects.

The strategy development process has involved indepth research of housing supply and demand, has involved four widescale quantitative surveys with employers, households that have moved to Orkney for work, students that have moved to Orkney (or want to move to Orkney) for study, and private landlords in Orkney. There has also been widescale consultation with community planning partners and the private sector.

The housing needs of key/essential workers moving to Orkney

From the housing demand and supply study, including four surveys, it is concluded:

- **The housing market drivers** of increasing population and households, and strong prospects for economic growth means there is high demand for housing from existing households, incoming workers, and students.
- **There are significant workforce challenges** with high vacancy rates, the ageing workforce and very high dependency ratio (the ratio between non working households and working households which is one of the highest in Scotland) which means these workforce challenges will continue, with the increasing use of agency and interim staff on the islands in public services. The private sector also faces these recruitment challenges. There is increasing recruitment for permanent staff from outwith Orkney.
- **Housing is a key factor in enabling recruitment and retention** of essential workers to sustain Orkney's existing communities, and support sustainable growth, and a key priority for community planning partners will be to attract and retain working age households, and young people, to rebalance the household population and the current high dependency ratio.

- **There is a requirement for a minimum of 305 bedspaces, or 220 housing units at any point in time for public sector keyworker/other essential workers and students** which is a combination of people moving into Orkney permanently, agency/interim staff who live on Orkney temporarily, and students.
- **Housing demand from most of the incoming workers moving permanently to Orkney** – most of the keyworkers moving to Orkney permanently are on higher incomes than Orkney residents (individual incomes of average £35k+, or household incomes of £50k+). This means they do not need social housing, and the survey showed they want private renting while they find their long-time housing option.
- **The housing market is not serving incoming workers or students** - for the vast majority of households moving to Orkney 80% of survey respondents found it difficult (54% very difficult) to find suitable housing. Employers responding to the survey also said their recruits find it very difficult to find housing when they move to Orkney, and some did not take up employment due to lack of housing. Even though some employers help, they too find it difficult to secure housing for employees. Employers also said some employees are leaving Orkney due to lack of suitable housing options.
- **There is an increasing requirement to use agency and interim staff** - in the public sector, driven by the workforce challenges of the ageing population with increasing vacancy rates. The use of interim and agency staff are expensive resources, but the public sector sees this an ongoing requirement for at least the next decade due to the population/workforce profile. The Council and NHS Orkney tend to use private rented sector and social housing for agency staff which takes this housing away from residents. They also increasingly use expensive short term lets.
- **Students moving to Orkney** - also find it very difficult to find housing, and the universities argue that lack of housing impacts on the numbers applying for courses, particularly in key areas of renewables and archeology for which Orkney is renowned. The housing challenge is said to be stifling growth in the research and innovation sectors and means lost opportunities of attracting young people who may then stay on Orkney on completion of their studies and contribute to Orkney's sustaining Orkney's working population and growth sectors.
- **In addition, there is an estimated 1,359 bedspaces required for construction workers** - for the potential infrastructure projects that may start in the islands from 2024 (pending approvals). These are temporary housing requirements but may have a very significant impact on the housing market for existing residents. In addition to the temporary requirements, it is estimated that at least 200 additional long-term jobs will be created for the operational phases, 100 of which are assumed to be filled by new households to Orkney. The temporary housing requirements will have to be funded by the developers, but there is an opportunity to harness a legacy from this temporary provision for permanent housing (for example through serviced sites or improving empty homes).
- **The housing supply system in Orkney** is not currently keeping up with demand. New build supply has dropped constantly from a peak of over 250 units new build supplied across all housing tenures in 2011 to a much lower figure most recently of under 100 in 2021. There have also been significant underspends on Scottish Government resources for affordable new build housing. This suggests there are problems with the overall housing supply system in Orkney which needs to be resolved to meet housing need and demand.

- **In conclusion, there is clear evidence for the requirement to intervene in the housing system for provision for keyworker/other essential incoming worker housing** through the provision of additional supply, and other housing options, targeted for this group, potentially combined with student housing provision. There is an opportunity for joint working across the public sector to provide the benefits of economies of scale in procurement, placemaking and ongoing management of housing for these demand groups. In addition, capacity is required to develop housing options for the construction workers which could create a long-term benefit for the existing and future Orkney communities.

Options Appraisal

A strategic options appraisal was undertaken to examine what the best options would be for providing housing for key workers. It is concluded that the best option is to pursue **is a blended option – a combination of:**

- **Private Sector Leasing Scheme (PSL)** - OIC establishes a private sector leasing scheme where the Council enters head lease/acts as lead tenant and lets properties under occupancy agreements. The Council would lease from the landlord for say 5 years providing a guaranteed rent and would take the void risk.
- **Build for rent** - Any new supply would be provided as mid-market rent (MMR - affordable private rented housing with rents within Local Housing Allowance levels) and let to the keyworker and essential incoming workers in the target group with different end users including incoming keyworker households, agency staff and students. There are a range of supply delivery vehicle options for mid-market (see delivery vehicle options below).
- **Acquisition for rent** – Here the housing provider purchases from the second- hand housing market or ‘off-shelf’ from new build by private developers to be provided for mid-market. Like new build, there are a range of delivery vehicle options to be considered.
- **Bringing empty homes into use** - Provide advice, assistance and a local authority grant to empty homeowners up to £25k to bring properties back into use (a grant is not currently available from the Council for this purpose). There would be a range of conditions associated with grant including bringing the property up to the Repairing Standard, that the owner acts as private landlord and lets the property through a registered letting agent and lets the property only to the target client group for 5 years, with clawback of grant if any conditions of grant are breached.

In terms of the delivery vehicle for MMR, a further option appraisal has been undertaken to establish the best value option for acquisition and new supply of MMR. In developing the options, it should be noted that local authorities and housing associations may legally only let on the basis of a Scottish Secure Tenancy (SST or SSST) i.e. social housing, or an occupancy agreement. MMR is let under a Private Residential Tenancy (PRT). This means that while MMR properties can be developed and owned by local authorities or RSLs, and who can be applicants for Scottish Government MMR grant, they may not directly let MMR - it will be for a local authority arms-length external organisation or RSL subsidiaries to let the properties under a PRT.

An initial long list of options considered and rejected Orkney Housing Association for MMR supply on the basis that discussions with the Association have confirmed its focus is currently on social housing and it has no private subsidiary that would be able to offer MMR. Other options for the new build/acquisitions vehicle considered were:

- **Inviting an alternative RSL with a private subsidiary and with track record in providing MMR** – this would be an RSL not currently active in Orkney to develop/own/let for MMR. Assuming the Council can attract the right supplier with track record, the advantage of this option is that would bring in expertise and track record in MMR and the RSL, carefully chosen for financial and organisational capacity, will be able to deliver MMR supply relatively quickly compared to some other options. It could also bring wider expertise and further capacity for delivery of a range of housing options which Orkney urgently needs. This option also offers best value for money with the strongest financial performance and would incur the least cost to the Council.
- **Inviting the Highland Housing Alliance (HHA) to consider developing/owning MMR in Orkney.** HHA is a housing company limited by guarantee (non-profit distributing) based in Inverness and works in partnership with Highland Council to provide MMR across the Highlands. It has strong track record and expertise in delivering MMR, in particular for key- and other essential workers. It is well known to Scottish Government More Homes Division and receives grant for providing MMR. Like the option above it brings the advantage of expertise and track record on MMR to Orkney. It may however have slightly less capacity than an RSL, but this option also demonstrates good value for money and is a relatively low cost option to the Council.
- **The Council develops properties in partnership Highland Housing Alliance to let for MMR.** The Council would build and own with letting undertaken by HHA – it is likely that an Arms Length Management Organisation would have to be established. The advantage of this approach is that the Council could build the properties to Housing for Varying Needs Standard, and make these available for MMR, but if market conditions change it could ‘flip’ the properties back to social rent, providing flexibility in use of the valuable housing asset. This option also has the advantage of using HHA’s expertise and capacity in providing MMR for which it has a strong track record and over time this expertise and capacity could be built up locally in Orkney which currently does not exist. It is however a much more capital and revenue resource intensive option for the Council compared to the two options above.
- **The Council develops/owns properties and leases through a local property management company.** Similar to the option above, the Council builds and owns the properties but uses a local property management company – but again it is likely that an Arms Length Management Organisation would have to be established. This is less attractive as currently there is limited expertise and capacity in Orkney for MMR – this could be built over time, but currently what is needed is expertise, track record and capacity to deliver as quickly as possible for new supply.
- **Scottish Futures Trust (SFT) Housing Delivery Partnership** – SFT is owned by Scottish Ministers and is an arms-length company of Scottish Government. This model involves establishing a new joint venture vehicle as a Limited Liability Partnership between OIC and SFT. OIC would have the majority voting in the LLP. It requires establishing a Board of Governance and a Management team and the vehicle would build and own the housing. The key disadvantage of this option is the skills, expertise

and capacity to service this option and deliver housing timeously. While this capacity could be built up over time, it would be less likely to deliver in the short-term.

In both of the options where the Council has an ownership interest, further legal advice would have to be taken to assess whether this route could be taken through commercial leasing, or whether an Arms Length Company should be established. It is also noted that additional capacity to build a large programme within the Council would be required (design and commissioning services). There are also constraints in the wider new housing supply system and work is required in understanding how the system can be improved.

Recommended option - It is recommended that the preferred option for new build supply and acquisitions for MMR is to **attract an existing RSL with a private subsidiary, or the Highland Housing Alliance** to Orkney – this shows best overall value for money. If this is not successful.

The second preferred option is for the Council to build/own and let through a partnership arrangement – this may involve the establishment of an arm's length management organisation.

Strategy implementation

In developing the implementation plan, five key principles for the strategy have been identified:

- **Needs led** - Intervention in the housing system is required to enable workers to be recruited to support Orkney's Islands existing and future communities, including delivery of essential public services and enabling students to move to Orkney.
- **Collaboration** – The challenges of recruitment and retaining incoming households is experienced across sectors. Collaboration across a range of community planning partners will help achieve flexible and sustainable housing solutions to meet a range of needs.
- **Best Value** – Collaboration should drive economies of scale necessary in a relatively small community to get the best value housing options.
- **Placemaking and flexible tenure** – any new build supply will be delivered under the principles of sustainable placemaking, providing mixed and flexible tenure, so that if needs and demand change, properties can be changed tenure, or sold to the open market.
- **Housing for infrastructure construction workers** – the Council's strategic role, keyworker project management service, and additional capacity achieved through the RSL and/or new build commissioning programme management service will provide more skills and resources available to work with the infrastructure developers to agree solutions for the housing requirements for the construction workers and resulting permanent housing for long term jobs created.

Operational model

The operational model being pursued for delivering keyworker housing is as follows:

- Co-ordinated keyworker housing project management service – The Council has two functions
 - 1) its strategic and enabling role taking leadership in working with community planning partners to make sure this supply is delivered for the benefit of all partners and the whole community, and

2) a co-ordinating project management role. The role should be through a centralised project management team in OIC to co-ordinate the supply of housing for keyworkers for all departments, including development of policies and procedures, and developing partnership relationships across different organisations, and co-ordinating the procurement of the supply through the four different routes identified – private sector leasing (PSL), empty homes, acquisitions from the existing market, and new build. This includes liaison with NHSO and the universities to establish how their keyworker and student needs can be met through this collaboration.

- **Letting and property management** - The day to day letting and project management of the properties will be undertaken by the RSL or the arms-length company.
- **New build commissioning programme management** – if an existing RSL is attracted to develop in Orkney they will have their own design/programme management teams. If an option is pursued where the Council is developer/owner then additional resources will be required to commission this new build programme.
- **Timescales, phasing and flexibility** - a programme will be developed to deliver 305 bedspaces, around 220 properties over 10 years. There will phasing of the different types of supply – starting with PSL, empty homes, acquisitions, with new build having the longest lead in time of 18 months – 2 years to start on site.

Resource requirements

A breakdown of the Revenue and Capital implications **for the Council** of the blended strategy over the next 10 years provided and shows under scenario 1 - the new build development being under by an RSL partner and also under scenario 2 - where the Council undertakes the development directly then leases through HHA. This concludes

- **Recommended option – PSL, empty homes, acquisitions and RSL new build** - The net capital outlay estimated is £5.876m over the next 10 years assuming an RSL partner is secured to deliver new build element of the blended strategy. The net revenue account impact for the council is £1.87m over 10 years.
- **Second preferred option - PSL, empty homes, acquisitions and Council new build with letting through an arms length company** - net capital outlay estimated is and £27.69m with the Council undertaking the development directly, and the net revenue account impact is £1.066m over 10 years.
- All costs are shown at current values (ie excluding inflationary pressure at this stage).
- An allowance of £85,000 for the co-ordinating project management service annually has been included (all in costs) across both development scenarios.

Operational model - Summary of roles

	OIC	Community planning partners	RSL developer	Highland Housing Alliance/ other arms length company	External service providers
Strategic and enabling / leadership	✓				
Keyworker project management service	✓	Collaboration on housing required			
Private sector leasing procurement	✓	✓		Property/letting agency services	
Empty homes scheme	✓	Collaboration on housing required		Property/letting agency services	
Acquisition for rent	✓	Collaboration on housing required		Property/letting agency services	
Development of new housing supply – 1 st preference		Collaboration on housing required	✓ 1 st preference	Property/letting agency services	
Development of new housing supply – 2 nd preference	✓	Collaboration on housing required		✓ Lease from Council	✓ Design and programme management

Completions phasing example

	Years completions			Total
	1-2	2-5	6-10	
Leasing*	100 ¹	-60	-10	30 ²
Empty homes	10	15	15	40
Acquire for rent	20	30	35	85
Build for rent	0	100	50	150
	130	85	90	305
Total capacity created in the system				380

House Size Required		Occupancy Factor		Housing Provision
Size	Assumed	Maximised	Assumed	Rounded
1 bed	20%	1	100%	60
2 bed	50%	2	75%	120
3 bed	30%	3	50%	40
				220

¹ Includes all NHS current leasing from private rented sector (80) and additional PSL supply for OIC (20)

² Remaining leasing is Graham House nurses home

Implementation plan

The table below show the different tasks to implement the strategy with broad timescales split between set-up and implementation.

	Set up 2023/24		Implementation		
	April – June	June to December	Yrs 1-2	Yrs 2-5	Yrs 6-10
Governance	3 months CLT presentation HSCP discussion/ presentation OIC / other approvals				
Keyworker project management co-ordination service		Recruit roles and establish service/partnership links			
PSL		Develop policies, procedures, legal agreements, procure letting agent	Start procurement	Procure/divest	Divest
Empty Homes		Develop policies, procedures, legal agreements, procure letting agent	Start procurement	Procure	Procure
Acquisition for rent		Develop policies, procedures, legal agreements	Start procurement	Procure	Procure
New build	Discussions with potential affordable housing supplier	Planning with new supplier Or If Council build - establish newbuild programme management office	Start procurement	Procure	Procure

1. Purpose of the keyworker housing strategy

Orkney Islands Council will be developing its overall Local Housing Strategy in 2023/24 which will identify housing needs and demand across all households. This work on keyworkers will feed into that strategy and provides the opportunity to make early inroads to meeting the needs of keyworkers and other essential incoming workers.

This keyworker strategy considers the housing needs and solutions required for households moving to Orkney for work or study. It has been commissioned by Orkney Islands Council (OIC), with consultation conducted across community planning partners, individual households, private landlords and employers.

The strategy considers:

- keyworkers and other essential workers moving to Orkney permanently;
- agency/interim staff working in Orkney, who are living on Orkney for work, but who are permanent residents elsewhere;
- students moving to Orkney for study
- workers required for potential infrastructure construction projects;

The strategy development process has involved:

- Housing demand and supply analysis – analysis of the fundamental housing market and economic drivers, and the existing housing supply. This research included four surveys – households that have moved or wish to move to Orkney for work, employers, private landlords and students.
- Option appraisal – identification of the strategic options to address the need for housing for these demand groups, and then delivery vehicle option appraisal, including financial appraisal.
- Strategy and implementation – setting out the principles of the strategy, operational model, and how the objectives will be delivered over the next 10 years.

At the same time as this strategy development has been ongoing, OIC has started the Housing Needs and Demand Assessment (HNDA) which will set out the housing requirements of all residents and housing demand groups and is the evidence based required for the Local Housing Strategy and the Local Development Plan. The HNDA will be completed in 2023.

2. Housing demand and supply

2.1 Population and households

Population

Orkney’s population has been growing at 5% over the last decade - a higher rate than all other parts of the Highlands and Islands (3%) and at a faster rate than Scotland overall (3%).

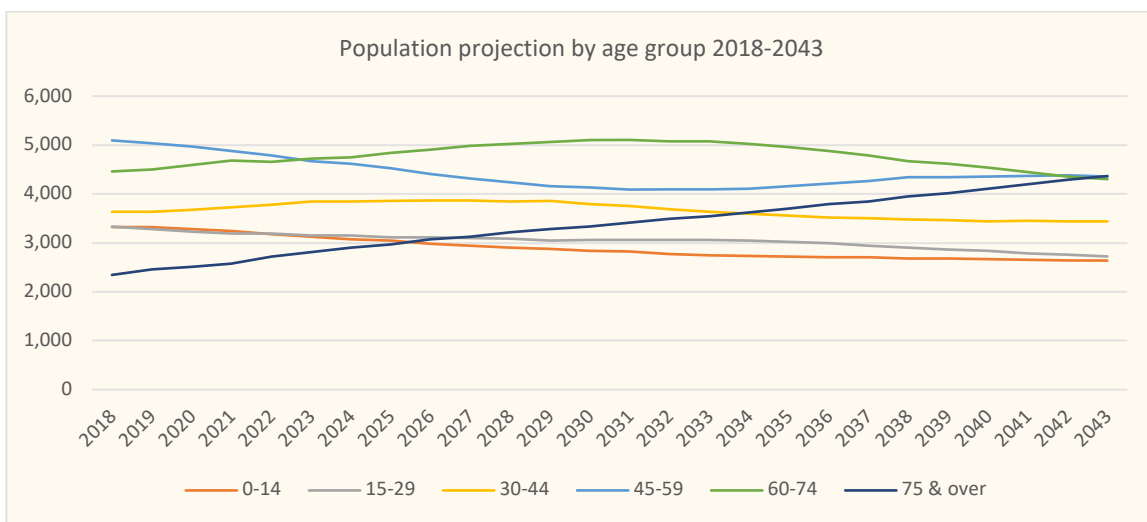
Table 1: Population change, 2011 and 2021 (Orkney, Scotland and Highland comparator areas)

	2011	2021	% change
Orkney Islands	21,420	22,540	5%
Scotland	5,299,900	5,479,900	3%
Moray	93,470	96,410	3%
Highland	232,730	238,060	2%
Shetland Islands	23,240	22,940	-1%
North Ayrshire	138,090	134,220	-3%
Argyll and Bute	88,930	86,220	-3%
Na h-Eileanan Siar	27,690	26,640	-4%

Source: <https://www.nrscotland.gov.uk/statistics-and-data/statistics/statistics-by-theme/population/population-estimates>

However, forward projections, based on 2018 data, see the population reducing to from the current estimated 22,540 to 21,828 by 2043³, with an expected reduction in the population of younger age groups – mostly the 0-14 years age group, but also the 15-29 years showing reductions (driven also by the static or gradual reduction of the 30-59 years olds over the next 10 years), and an increase in those aged 75 years and over. This projected population reduction, despite previous trends of growth is because of the age structure of previous population growth.

Figure 1: Orkney population projections by different age groups (2018-2043)



³ This projected population reduction, despite previous trends of growth is because of the age structure of previous population growth.

Source: <https://www.nrscotland.gov.uk/statistics-and-data/statistics/statistics-by-theme/population/population-projections/sub-national-population-projections/2018-based/summary-datasets>

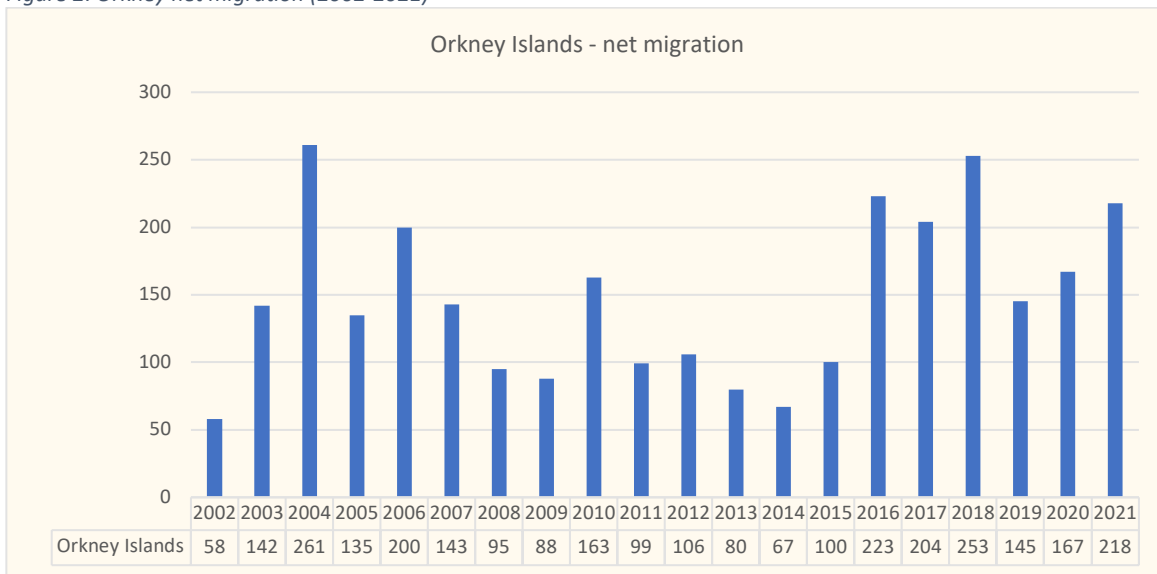
However, these official projections are based on past trends, and do not take into account most recent trends including the significant economic development projected for Orkney over the next 20 years in the renewables industries, or the current high vacancy rates across the public and private sectors (see below). In addition, **the official statistics do not account for the high ‘supplementary’ workforce** - agency and interim staff - who work on Orkney but are not permanent residents, but who are a constant workforce requirement and who use permanent housing accommodation on Orkney. OIC and NHS expect this supplementary workforce to be an ongoing feature for at least the next decade. The scale of this supplementary part of the workforce is discussed in more detail below.

Migration

Overall, there has been strong positive net migration to Orkney in recent years, ranging from less than 60 people in 2002 with an increasing trend over the last 6 years to more than 250 in 2018 and 200 in 2021. The numbers of people moving into Orkney since 2016 has been between 700-940, whereas people moving out of Orkney has been between 530 to 730 per annum.

The most recent migration figure represented net in migration in all age groups, except those aged 15-19 years (driven by out-flow for further education) and 65-69 years. At the same time there were 54 more children aged 0-14 years and an additional 185 people of working age (between 20-64 years).

Figure 2: Orkney net migration (2002-2021)



Source: <https://statistics.gov.scot/home> (Net migration)

Household population and projections

The number of households in Orkney has increased steeply over the last 20 years - by 29% - again, much higher than Scotland as a whole (15%). **The number of households are projected to continue to increase**

by around 8% or 792 households over the 30 years 2018-2043⁴. The largest increase in population projected will be in Kirkwall West, followed by East Mainland, South Ronaldsay and Burray. The greatest loss of population is predicted in the North Isles and Kirkwall East. Again, these projections are based on past trends, and we need to look at the projections in the light of community planning partners' view on how this relates to the reality for Orkney's current experience and aspirations, and for this study in particular, in relation to the population of younger and working households.

In relation to **household type and age** - in all scenarios, there is projected to be a significant increase in single and two-person households and a reduction in the number of families over time. It is this latter reduction in families including working households that will be a specific policy priority for OIC and partners, to sustain Orkney's existing and future communities.

A key indicator for sustainable economic growth is **the balance of working age and non-working age** population. Recent research for Highlands and Islands Enterprise⁵ (Indigo House) found very high dependency ratios in Orkney (the proportion of people of non-working age compared with those of working age), projected to be 85.7 by 2043, compared with 81.8 across the Highlands and Islands and 65.9 across Scotland. Orkney's extremely high projected dependency ratio suggests the need to take action to shift the balance of the population to sustain the current population through a workforce able to provide essential public and private services, and to enable sustainable economic growth.

2.2 Workforce planning

Workforce challenges are clear in the public sector and private sectors in Orkney. The following analysis considers the current and future position on the workforce in Orkney from major public sector and university and private sector employers, and considers how this affects demand for housing, both temporary and long-term demand.

Orkney Islands Council

Data provided by OIC shows

- The current OIC workforce of 2,704 (1,653 FTEs) has increased slightly over the last 3 years (2%). Over those 3 years there have been on average 723 Council vacant posts advertised each year (ranging from 513 to 877). On average 177 of these posts were unfilled each year - 23% of all advertised posts, although 28% unfilled advertised posts in the current year (2022/23).
- As at 13th January 2022, from the establishment of 3,042 permanent and temporary posts there was 520 vacant posts (17% vacancy rate).
- Over the last 3 years around 7% of all OIC advertised posts were offered to individuals living outside Orkney, or 30 posts on average per annum.

⁴ <https://www.nrscotland.gov.uk/statistics-and-data/statistics/statistics-by-theme/households/household-projections/2018-based-household-projections> (Detailed Scottish Area Tables)

⁵ <https://www.hie.co.uk/research-and-reports/our-reports/2022/december/20/rural-and-regional-disadvantage-in-the-highlands-and-islands/>

- The average annual salary of all OIC recruits was approximately £25,700; Orkney resident OIC recruits average salary was £25,174 but incoming recruits earned more, on average £34,700. This shows that these incoming employees tend to fill more specialist / senior roles.
- OIC data is not available on the type/size of households of recruits moving into Orkney.
- OIC offers a relocation package of £6k, or £8k for the outer Isles. Some recent OIC recruits moving to Orkney suggest this relocation amount is relatively low compared to the actual costs, suggesting the Council could increase this amount to improve the overall package and could help in attracting more people. It could explain why lower income jobs are less prevalent amongst incoming recruits.
- Looking at the current vacancy rate combined with the trends in recruitment trends over the last 3 years, we can expect between **35 and 50 households moving to Orkney for OIC jobs each year**. Based on survey evidence and consultation (See Annex 1 and section 2 below) we know the majority of these recruits require permanent housing options - private rent initially, or purchase, but find it very difficult to find any housing.
- In addition, OIC data estimates it uses around **85 agency/interim staff at any one point in time**, the majority of whom work and live weekly on the islands (but who have permanent residence elsewhere). Consultation with OIC also confirms the use of agency/interim staff is increasing - while it has been a feature particularly for senior managers for a while, it is seen as a deepening issue over the last 3 years, with an increasing requirement for agency and interim staff to fill front line statutory roles, particularly in social care, and social work services. This will be an ongoing requirement, given the ageing population, for at least the next decade. There is not a co-ordinated approach for agency/interim OIC staff with different Council departments attempting to secure housing for their different interims/agency staff, mainly from the private rented sector (rather than there being a centralised approach).

NHS Orkney

The NHS Orkney Workforce Plan (November 2022) sets out the current and projected position for NHS employment for the next 3 years. This shows that NHS Orkney currently has:

- The current NHS workforce headcount is circa 762 in a range of primary, community and hospital services. The workforce has increased by 15.4% since April 2019, or by 81.3 whole time equivalents (WTE).
- The total anticipated WTE required over the next 3 years is an additional 155 WTE, or 208 WTE including 53 WTE required for Orkney Islands Council social care services. Every NHS job family has anticipated gaps, ranging from 3 WTE in Medical and Dental to 75.5 WTE in Nursing and Midwifery.
- One of the main strategic drivers to the vacancy rate is the ageing population, with staff aged over 55 years equating to 24.2% of the NHS workforce with median age of 45 years old. NHS Orkney has also had the second highest sickness absence figure in Scotland for territorial boards (based on February and March 2022).
- As a result, NHS Orkney is currently very reliant on supplementary staffing including costly agency usage. On average, over the last 3 years, there has been an equivalent of 44 WTE required per month in excess, over-time and bank hours. Nursing/Midwifery is the job family with the largest

supplementary staffing usage. In addition, the use of agency workers is commonplace with an average of 19.3 WTE per month and around 9-10 locums (mainly doctors) per month (29 agency/locums in total). The majority of agency and locum staff travel to Orkney for work, with a permanent residence elsewhere but require accommodation while working in Orkney.

- Analysis of jobs offered by NHS over the last 3 years shows that there have been on average 150 jobs offered and accepted in each of the last three years (2019/20 to 2021/22), ranging from 59 in 2019/20 (part year) to 268 in 2021/22. **Around 22% of these were recruited from outside Orkney - 33 on average per annum**, mostly from mainland Scotland or elsewhere in the UK, and tended to be Medical and Dental, Nursing and Midwifery and Allied Health Professionals roles.
- The average salary of all recruits over these three years was approximately £32,000; Orkney resident recruits average was £26,000 and incoming employees earned on average £52,000, demonstrating that these roles were more specialist. NHS Orkney offers a relocation package of £8k per household, although this is only available for potential employees at Band 5 or above (£26k) and it is suggested that without this support it is unlikely for lower incomes to apply and relocate to Orkney.

NHS Orkney is planning to fill the vacancies through various routes (youth employment, apprenticeships, international recruitment, talent leadership and development etc). The Workforce Plan identifies the complexities of being a remote and rural with the limited local workforce pool and impact it has on its ability to attract future candidates and contribute to unfilled vacancies, although recent campaigns have been successful in attracting a range of recruits including hard to fill posts. One common approach is the use of annualised hours contract where the colleague is not full time but works a set number of weeks throughout the year for NHS Orkney. This gives colleagues the opportunity to work in a remote and rural position for part of the year and have contracts elsewhere in the country, or indeed the world, for the remainder of the year. That being said, some of the more NHS recent applicants have spoken about their love of Orkney and wanting to move with their families to the island. Out of 6 consultants recently recruited 4 have relocated to Orkney with their families on full time contracts. Consultation with NHS Orkney confirms that the current model of recruitment for employment mixed with use of agency/locum staff will continue for the foreseeable future (suggested next 10 years) due to the aging workforce.

Consultation with NHS Estates department shows what NHS has procured **a total of 80 bedspaces for temporary housing solutions for temporary/agency NHS staff/students** as follows, which has been an increasing portfolio over recent years:

- Graham House provides 30 rooms (leased by the NHS from the Council)– 16 rooms are used for student nurses and 14 for staff (bank nurses often from outer isles, new starts including internationally recruited nurses, and junior doctors). This accommodation is available for 3 months for new staff until they find their own accommodation.
- Orkney Housing Association – one block of 6 flats to NHS Orkney, 11 rooms are leased from OHAL - 1 x 1 bed and 5 x 2 beds. NHS then leases to employees/agency staff through an occupancy agreement.
- Private rentals - 22 residential properties, total of 39 bedspaces are leased from private landlords - 17 flats are 2 bedroom and 5 are single occupancy. This for use by staff including locums under occupancy agreements with NHS Orkney.

- For both the private rentals and housing association properties, these are all shared i.e. NHS Orkney lets rooms to occupants (not the entire flat) so different households are sharing in all these properties (except the one bedroom properties).

Consultation with NHS Orkney confirmed that it is very difficult for new employees to find permanent accommodation of their own, and for those living in Graham House for 3-6 months it is very difficult to find accommodation in that timescale. This puts stress on the individuals, an increasing number of whom are recruited from long distances in the UK or internationally. It also puts pressure on the NHS accommodation portfolio when people have to stay longer than 3-6 months in this temporary accommodation. The NHS accommodation portfolio has increased over the last three years, and while it is considered that the current portfolio is sufficient for the NHS temporary accommodation needs, if agency staff were to increase then there could be a requirement for more NHS temporary housing. NHS state it is getting increasingly difficult to procure private rentals with less landlords contacting the NHS Estates team (example of 3 landlords have sold their properties out of the NHS portfolio over the last few months). There is also limited capacity within the NHS Estates team to deal with residential property management. This model of employment is projected to continue for the next decade due to the ageing workforce, and to provide continued flexibility and resilience for the health service in Orkney through off-island bank, agency and use of flexible employment models including annualise hours.

Therefore, considering the ongoing and future potential housing demand from NHS employees, looking at the all the projected staffing requirements over the next 3 years (155 WTE, or 208 WTE including 53 WTE OIC social care staff), and considering this against turnover and recruitment trends over the last 3 years (around 22% coming from outside Orkney), then we can expect an additional **34 NHS Orkney recruits (excluding OIC social care staff, accounted for in OIC above) moving to Orkney for NHS jobs annually**. Data on the size/type of households recruited is not available from the NHS recruitment system. In addition, the **temporary housing requirements listed above for student nurses, junior and agency/locum staff is currently 80 bedspaces**.

Police Scotland

The Scottish Police Authority (SPA) currently owns 1x8 person hostel (for individual Police Officers) and 4x3 bedroom houses (in Nicolson Street, Kirkwall) used for officers moving to Orkney with partners/families for rent under occupancy agreements with SPA.

The SPA has recently developed and approved its revised housing strategy for all its housing stock which is predominantly held across the Highland and Islands. Its new strategy is that where possible it will dispose of current properties and seek to lease from other housing providers as they are more likely to have properties that meet quality standards, and are professionally managed. The exception is police hostels, or where there are no suitable alternatives to the current SPA housing provision, in which case these will continue to be owned and improved/maintained by the SPA. The police housing requirements on Orkney are:

- The existing hostel will be retained and maintained by SPA
- SPA will seek to dispose of its owned 4x3 bedroom houses which are not fit for purpose/ do not meet quality standards. The SPA will seek 4 alternative family sized housing whether for lease from another provider, failing which it will purchase properties for SPA ownership and maintenance.

Universities and ORIC

There are three education institutions on the islands – Orkney College/University of Highlands and Islands (UHI) based in Kirkwall, Heriot Watt University (HWU) and Robert Gordons University (RGU) – both of which operate out of Stromness and are associated with Orkney Research and Innovation Campus (ORIC) focused on Orkney’s global lead in the field of renewable research and innovation.

Orkney College UHI

Orkney College UHI has identified housing as a problem for a number of years for students and staff moving to Orkney for study or work. This includes those moving from the outer isles to mainland Orkney. Orkney College UHI provides a mix of full time and part time tertiary education including distance learning. Statistics for the last full five academic years (2017/18 to 2021/22) provided by Orkney College UHI show:

- The total annual headcount has been an average of around 2,300 over the last 5 years (latest year 2021/22 almost 2,500). The College provides a diverse offering: the majority of the College annual intake is for further education (on average 1,900 or 82%), followed by undergraduate (around 250 or 10%) and postgraduates (around 212 or 9%). The majority of students are part-time (on average 91%) and most students (85%) come from Orkney. 17% of the total intake, come from the outer Isles.
- The college estimates that annually **over 100 students annually are likely to be seeking accommodation on Orkney mainland.**
- In relation to new staff, Orkney College has recruited 19 (headcount) from outside Orkney during the last 5 years. Of these, **13 were required to move to Orkney for their new posts.**

The College has ambitions for growth to ensure its curriculum is sustainable, both in further and higher education. Consultation has been undertaken with two Orkney College UHI departments whose students most commonly come from outwith Orkney. The Institute for Northern Studies typically enrolls 100 students each year and believes that this could be increased by 20% if more accommodation was available. It also argued that the lack of accommodation limits what the college can do for summer schools, with the revenue and associated economic benefit that could flow through to the Orkney economy. The Archaeology Institute also argues that the lack of accommodation is capping its growth for students, but also makes it difficult to recruit staff – it was stated that over the past 5 years it has become noticeably more difficult for the Department to recruit staff because of the lack of accommodation to rent, and latterly the speed of house sales and the amount houses go over the asking price which means that people arranging mortgages find they can't complete and house purchases fall through. In terms of attracting students to the Archaeology Institute to Orkney, there are around 54 Archaeology Orkney based students, but far more based elsewhere in other UHI campuses elsewhere in the Highlands and Islands (who may also be taught by Orkney staff remotely). It is argued that the equivalent growth seen elsewhere on other UHI campuses has been stifled in Orkney due to the lack of accommodation in Orkney. For the current academic year an estimated 10 undergraduate and postgraduate students (total 57 enrolled) were unable to enrol for the Archaeology course - directly attributed to the lack of housing accommodation.

The College does not provide any accommodation, although it directs students and staff to the College webpage with a list of estate agents and potential boarding options and assists where possible with searches. Last year the College explored options with the Hostelling Scotland to use their accommodation

in Kirkwall (jointly with Heriot Watt) outwith the summer months for student accommodation. This was to provide 25 spaces for students - 10 for HW and 15 for Orkney College UHI. That discussion was not resolved in time for 2022/23 academic year but is being reconsidered for 2023/24, and potential for a similar arrangement in future years has not been discussed. The College has not made any future projections for student housing requirements, although ideally the College is looking for a solution which is fit for purpose for students in terms of quality of accommodation.

Orkney Research and Innovation Centre (ORIC)

ORIC Campus is a joint venture between Highlands and Islands Enterprise (HIE) and Orkney Islands Council. It is a multi-million-pound project based in Stromness that has created a new and improved home for Orkney's wide range of energy and low-carbon expertise. It seeks to compliment and build on the world class knowledge base that exists in Stromness and Orkney generally around the energy and renewables industry. The first two phases of the £6.8m project are complete, and the next phase of development was included in Islands Growth Deal, with total investment being £13m.

The campus is a 3.75 acre site providing a range of office, meeting room, exhibition and breakout space - ~3,200 sq m in total. It is host to 7 organisations including Heriot Watt University and Robert Gordon's University, the European Marine Energy Centre (EMEC), Acquatera, Solo Energy and Orkney Hyperbaric Trust. 165 people work or study at the campus with 131 nationalities represented, and with the Growth Deal investment this number is projected to double. However, this cannot happen without more housing accommodation in Stromness (or in travelling distance), with the original funding ambition for this requirement excluded from the Islands Growth Deal. ORIC has been working in partnership with HWU to identify options for new build housing including a combination of student and staff housing in Stromness. See further below.

Heriot Watt University

Heriot Watt University (HWU) is based in Stromness and like UHI has also identified housing as a problem which is stifling student applications to HWU Orkney. HWU's courses are focused on marine technology for postgraduate students, and alongside the ORIC's vision for growth, the University is committed to expanding the Campus and the target set in its Strategy 2025 is to grow the student numbers at its Orkney Campus to at least 70. One of the main risks to this plan is the lack of a reliable supply of good quality, sustainable residential accommodation available for students.

Statistics provided by HWU show for the last 3-5 years:

- The total postgraduates completing a 1 year MSc is approximately 15-22 students over the last 3-5 years. For the current years 2022-23 only 10 students enrolled which was disappointing, with lack of accommodation seen as the main inhibitor to enrolments.
- The majority of students are full-time with only a small percentage being part-time. This usually is only 1 student per year.
- The majority of students are international, 5-6 from Scotland/rest of UK, with 1 or 2 from Orkney.
- There are currently 10 full time staff.

HWU has outlined its plans for growth including its quantified need for 75 student bedspaces. Whilst its preference is to satisfy the 75-bed requirement in Stromness, it is recognised that the solution could be spread over more than one location, including areas outside of Stromness towards Kirkwall. It will consider Purpose-Built Student Accommodation, conversions of existing buildings and modular systems to satisfy the University's requirement. The University's knowledge of the demand for accommodation from both students, staff and from other ORIC partners means that HWU is confident that 75 beds will be filled quickly. The University is also prepared to enter a Nominations Agreement with a developer that will commit the University to a minimum of thirty-five (35) beds for an initial term of 10 years from the date the accommodation is formally handed over to the University. HWU tested the market in early 2022 through a Public Prior Information Notice (PIN), and while there were many conversations held with potential student accommodation developers, in the end no solution was found, and the PIN was withdrawn in August 2022. There are continuing discussions with one potential developer, but the University and ORIC are continuing to look for land, developers and funding options to find a solution. HWU has also explored options with UHI/Orkney College to use the youth hostel in Kirkwall, with 40 short term lets potentially available, but this option has not been pursued further for 2022/23. If a solution is not found, HWU will have to revise its growth plans.

Robert Gordons University (RGU)

RGU has a small presence based at ORIC at Stromness. It has 2 staff, and all its graduate apprenticeships are already resident on the islands (c.15 students). However, RGU has growth plans for the next 5 years, with ambitions to grow with 3-4 more PhD students and 3 additional staff members who will be living full time in Orkney. While these numbers may seem small, the limited housing options could mean these numbers would be difficult to achieve.

In addition to ongoing undergraduate and postgraduate courses, RGU currently welcomes student fieldwork trips and project visits for 3-4 days in Orkney for up to 20-30 people. However, there is always a struggle to find accommodation for visitors (using 10 different accommodation providers – hotels, B&Bs, Airbnbs, other holiday accommodation), and so numbers are limited, and these visits cannot happen in the summer due to tourism taking all the accommodation. In future RGU would like to increase the number of these visits and course options, but this growth ambition is stifled due to accommodation limitations. It is concluded that RGU is losing students to other universities due to the lack of accommodation. For staff the cost of housing that is available to buy is considered expensive.

The European Marine Energy Centre (EMEC)

EMEC Ltd is the world's first and leading facility for demonstrating and testing wave and tidal energy converters – technologies that generate electricity by harnessing the power of waves and tidal streams – in the sea. EMEC is also pioneering the development of a green hydrogen economy and smart local energy systems. It has grown rapidly since its inception 2003 and now with over 60 FTEs. EMEC expects to continue to grow over the coming years.

Consultation with EMEC confirms that securing housing is a problem for new, incoming employees. It is difficult to attract people to move to Orkney generally, and the lack of housing makes it worse. Both renting and house purchase is described as equally difficult in terms of availability (affordability less of a problem), with the rental market described as 'informal' and 'word of mouth', making the overall

'package' of moving to Orkney more difficult. EMEC supports incoming employees to find accommodation if necessary and over the last 3-4 years, around 37 employees have needed some support from the company in sourcing accommodation (using local contacts and navigating the housing market). The types of households moving in were predominantly single people (50%), couples (33%) and families (17%). The company has considered purchasing a property for incoming employees, but the cost and work involved with having an HMO meant this option was rejected. The company is continuing to grow, but the lack of housing availability is expected to be a continuing barrier to attract new employees to Orkney.

Private sector employers

It is not possible to quantify the housing requirements of individual households recruited across all private sector industry in Orkney. However, in order to obtain a sense of experiences from the private sector, a survey of employers was conducted in early 2023 as part of this strategy development (See section 3 below and Appendix 1). There were 52 valid responses to the Employer Survey with mainly small businesses responding. While this means the findings cannot be generalised across the whole private sector in Orkney, it is sufficient response give us an indication of the key issues in relation to housing affecting businesses. Respondent businesses were from a very broad range of sectors but with hospitality (31%) being most common. 78% of businesses were located in Mainland.

Most respondent businesses indicated recent/projected growth - the average number of employees increased from 15 to 16 over the past 3 years and this average figure is projected to increase quite significantly from 15 to 19 over the next 3 years. Amongst these businesses, 658 people had been recruited over the past 3 years, with the number of recruits ranging from none to 140 per individual business. Of these recruits, 537 (82%) were from Orkney and 121 (18%) were from outwith Orkney. This 18% 'external' recruitment rate is lower than the NHS Orkney external recruitment rate of 22%, but much higher than the OIC rate of 7%.

Over half of respondents, 59% indicated that it has been difficult to recruit employees over the past 3 years or so compared to only 9% that considered it to be easy (32% gave a "neither / nor" response). 51% expect recruitment to become more difficult over the next 3 years or so. The most common recruitment difficulties relate to lack of people available to recruit in Orkney (77% of respondents) and lack of suitable housing for potential employees (62%). A very substantial proportion of employers – 68% feel that housing is a significant problem in Orkney.

2.3 Potential economic growth

Islands Growth Deal

In addition to the ongoing economic activity in Orkney, there is significant potential for growth. The Islands Growth Deal programme "Our Islands Our Deal" Heads of Terms was agreed in March 2021. This set out a programme to achieve growth with support from the UK and Scottish Governments. Three projects are supported for Orkney Islands Council – the Scapa Flow Future Fuels Hub, the Orkney World Heritage Site Gateway and the Orkney Research and Innovation Campus (described above). The key themes in the Deal were to lead the way to a low carbon future, support growth and future industries, and support thriving sustainable communities.

Finstown SSEN Interconnector Substation

In December 2019 planning consent was provided to [Scottish and Southern Electricity Networks to erect a 220/132kV substation](#) (the Interconnector) comprising electrical infrastructure and buildings, and all associated requirements. This development is a strategically important piece of infrastructure driven by the requirement to provide a transmission network connection from Orkney to the mainland and to support renewable energy generation. It is predicted to help stimulate development opportunity in the marine renewables sector and provide opportunity for other renewable energy developments, with important consequences for future security of energy supply in the UK. While planning consent has been provided, the development will not start planning for construction until an announcement is provided by OFGEM when the needs case for Orkney will be officially approved expected in Spring 2023. In Construction work in the interconnector and related upgrade work is projected as 2025-2029, with operation of the new cable to the mainland from 2027.

Indicative labour requirements for the construction of the interconnector, combined with other electrical update work across the islands suggest significant implications for housing requirements during the construction:

- **Indicative numbers of construction personnel** per phase (Table below) shows the number rising from 30 people each quarter in year 1 to a peak in 176 in the middle year before dropping down to 26 per quarter, with a 4-year construction phase. Workers will be a mix of full time and part time.

Table 3-2: Anticipated Construction Employment Levels

Phase	Estimated Labour Requirement
Q2 2020	30
Q3 2020	37
Q4 2020	93
Q1 2021	126
Q2 2021	176
Q3 2021	176
Q4 2021	176
Q1 2022	176
Q2 2022	163
Q3 2022	152
Q4 2022	72
Q1 2023	46
Q2 2023	34
Q3 2023	26

Source: SSEN Environmental Impact Statement, Page 3-7

- Consultation with OIC Planning department also confirms that associated with this strategic development is the wider upgrade of the electricity network in Orkney – both underground and overground (not subject to this Planning application) and so the number of construction personnel associated for the electricity work is likely to be greater than listed above – **estimated at over 200**, but exact numbers unknown at this stage.
- There will be a **requirement for accommodation to house the 200 construction workforce** during the construction of the transmission works. The planning application shows that SSEN’s preferred approach is to use local accommodation providers, with a ‘Meet the Buyer’ event to be held in order to determine the level of local accommodation which is available, including use of

vacant/empty/second homes. Should additional accommodation be required, the developer states options for the provision of a work camp will be explored with Orkney Islands Council. Ideally this would be located within approximately 15 miles, and a 20-minute commute from the Finstown Substation site. Consultation with OIC Planning confirms that a separate application would be required for the housing provision, and consultation suggests that since so much in the local housing market has changed since this application (2019) that a fresh approach may be required. Options may involve the construction of a work camp in one local village, or over a number of different villages to minimise the impact of temporary housing in one location.

- Long term jobs created for the operational phases of the electrical upgrade are estimated to be much lower and will likely be tens of jobs required long term on the islands.

Orkney Harbours Masterplan

The [Orkney Harbours Masterplan](#) Phase 1 projects are progressing through Outline Business Case, exemplary design development and consents processes. The projects will be considered by Orkney Islands Council in early 2023, with potential commencement of construction from mid 2024 for Scapa Deep Water Quay initially. Scapa Deep Water Quay and Orkney Logistics Base will generate employment opportunities, through the construction phase and thereafter once the infrastructures are operational.

The proposed projects were defined and developed as part of the Orkney Harbours Masterplan Phase 1 (the “Masterplan”). The Masterplan was approved by Council in April 2020 and is a blueprint providing a framework for the long-term future of Orkney’s harbour infrastructure. The Masterplan has been adopted as Planning Policy Advice and has status as a material consideration in the determination of relevant planning and works licence applications.

The three projects being taken forward at this time are described as follows:

- **Scapa Deep Water Quay** comprises new harbour infrastructure on the coastline of Mainland Orkney between Kirkwall and Holm within Scapa Flow, one of the largest natural deep water harbours in Northern Europe. The project will provide circa 620m of deep water access and up to 20 hectares of laydown area behind the quay for the offshore wind market.
- Hatston Pier and Terminal (to be rebranded as **Orkney Logistics Base**) is located on the Orkney Mainland coast to the immediate northwest of Kirkwall. It is Orkney’s primary commercial terminal and gateway to Aberdeen and north to Shetland. The longest existing berth is 385m in length, offering 10.5m draft. The original pier was built in 2002, and a 160m extension was completed in 2013.
- **Lyness** is an existing facility located on the island of Hoy, which had particular prominence as a former wartime Royal Navy base. Investment is required to create a hard standing laydown area behind the quay. There is one site in close proximity to the quayside comprising 3.76 hectares which will be developed to provide a suitable laydown area for these activities.

Jobs during construction

Scapa Deep Water Quay will be constructed over three to four years – for the analysis construction impacts have been profiled over the years 2024 to 2026. It is a major infrastructure project and is

estimated to create a **substantial number of temporary jobs over that period**. There are less construction jobs for the Orkney Logistics Base and Lyness projects given their smaller scale.

Direct jobs are estimated for civil engineering activities that will take place in Orkney:

- Total of 1,449 jobs on a temporary basis
- 80% of these will be filled by people from outside Orkney – 1159
- 20% are potential director jobs for Orkney residents/businesses – 290
- Further indirect and induced employment opportunities for Orkney's supply chain and work force during construction – 400 in total between 2024 and 2030.

Jobs created in operational phase

The following sets out estimates of operational jobs created long term:

- The total number of FTE jobs for Scapa Deep Water Quay varies from 73 to 100 between 2027 and 2034. Between 2035 and 2044 this number is estimated to be in the region of 50 FTE. Based on the above it would be a fair assumption that 50 jobs remained post-2034. Most of these jobs comprise employees based at the offshore wind marshalling and assembly facility or workers within the local supply chain – involved in some construction and assembly work, likely to be predominantly welding, painting, blasting.
- For the Orkney Logistics Base the total number of FTE jobs is fairly constant at around 94 per annum from 2032 onwards. Again, these are largely involved in the offshore sector both Operations and Maintenance (O&M) workers and those in its supply chain although these jobs will be more specialised than those at Scapa Deep Water Quay, with a whole range of jobs focused on control centre for the offshore wind farm (71 of the total direct, indirect and induced jobs is associated with offshore wind) and the maintenance of the turbines at site.

Summary

During the construction period there is likely to be a large number of workers coming to Orkney. Potential options being considered in the Business Case include hotels and self-catering, but additional temporary accommodation is also required – such as the 'floatels' that have been used in Shetland for oil and gas workers and also now for the Viking Energy project and suggestions around local companies experienced in developing modular office accommodation which could potentially be developed into modular accommodation.

Roughly speaking there are around **50 – 100 longer term jobs at each of Scapa Deep Water Quay and Orkney Logistics Base once operational i.e. total of 200 longer term jobs**. The Business Case assumes ideally as many of these jobs would be taken up by people living in Orkney but realistically a substantial number will be taken up by people externally who will move to Orkney. If it was assumed that 50% of jobs were filled by external candidates, this could mean 100 new incoming residents, potentially bringing a family with them to Orkney.

Flotta oil terminal – transition to hydrogen hub

The Flotta Terminal has been operational since 1976 and has made a significant contribution to Orkney's economy and communities for more than 40 years. In May 2000 Repsol Sinopec Resources UK Limited became the major shareholder and operator of the terminal. Repsol Sinopec has a vision to transition the oil industry to clean, green energy and a secure future for skilled oil and gas workers in Scotland and across the UK. [The Flotta Hydrogen Hub](#) project is a potential £multi-billion project and would enable the terminal to be progressively transformed over time into a diversified energy hub where conventional oil and gas operations continue, co-existing alongside the development of a sustainable long-term green future for the facility.

The repurposing of Flotta will require retraining and upskilling the current workforce as well as the creation of long-term skilled jobs during both construction and hydrogen operations.

Scapa Flow (as discussed above) is one of the largest natural harbours in the world, and northern Europe, and this presents an opportunity for ship-to-ship transfer operations and to re-purpose the water way to accommodate more clean energy transfers, helping to further strengthen Orkney's blue economy.

At this stage the project is at 'vision' stage and so the detail on timescales are unknown. While the Hub will be serviced by retrained existing workforce, it is unknown to what extent additional workers will be required at the Hub. It should be noted that currently the Flotta workforce live on Orkney's mainland and commute to Flotta on a regular ferry provided by the terminal.

2.4 House prices, rents and affordability

House prices and rents

Average house prices in the Orkney Islands have increased over time and are now much closer to the Scottish average than previously. House price pressure is a clear indicator of demand/supply imbalance. The average house price in 2021-22 was £186,956, compared with £201,744 for Scotland overall. Average Orkney prices have edged above those of Shetland and remain significantly higher than in the Outer Hebrides.

In 2021, the average 2-bed private rent in the Highlands and islands was £643 – the Broad Rental Market Area that includes the Orkney Islands. The 2-bedroom Local Housing Allowance rate is £126.58 per week or just under £550 per month. Online search shows private lets in Orkney are in short supply, with a 4-bed property in the Isles for £550 and a 3-bed modern apartment on the West Mainland advertised for £750 per month on one site and Facebook having two 1-bed flats advertised for £425 and £525 per month. These rents would be affordable for people earning between £20,000-£25,000 (assuming 25% of net income is spent on rent).

Orkney Islands Property Developments Ltd (letting agent) data shows Orkney 1-bedroom private rents at around £400-£450 with larger properties at around £600-£700 a month. The only other letting agent (D&H Law) indicated rents of £600-700 for 2-bedroom properties in Kirkwall with prices in Stromness similar. These rents would be affordable at incomes of around £20,500-£28,000 for a £600 rent and salary of

£24,000 to £33,600 at a £700 rent. Rents were higher (£850) for 3-bedroom property in Kirkwall with outside space. That would need an income of £30,000- 40,000 per annum to be affordable (at 25% ratio).

The private rented sector survey 2023 (see section 3 and Appendix 1) asked private landlords for indications of rent levels with responses as shown below. Over half of landlords stated that rents had increasing either significantly or a bit over the past 3 years.

Type of property	Number of survey responses	Mean	Median
A 2-bedroom flat in Kirkwall or Stromness	108	£551	£550
A 3-bedroom house in Kirkwall or Stromness	84	£655	£650
A 2-bedroom house in a smaller settlement or rural area	81	£512	£500
A 3-bedroom house in a smaller settlement or rural area	89	£568	£600

Therefore, taking all the evidence together, the average private sector rents for 2-bedroom properties in Orkney appear to be around £600 per month.

Social rents are more affordable than private rents, at approximately £400 per month for a 2 bed property to £466 per month for a 4 bedroom property. All social rents would be affordable to incoming NHS and OIC workers on median or higher incomes.

There is a lack of information in the market on the rental market to provide an accurate picture of where mid-market rents should be pitched. Generally speaking, we would look for mid market rents to be between the social rent and the private rent, with the LHA rate (£126.58 per week or just under £550 per month) often used as a threshold for mid-market rents. In the absence of detailed local data (to be supplemented by private landlord survey), the BMRA rates have been used in the affordability assessment below.

Affordability assessment

The table below summarises how affordable different types of accommodation in Orkney are to different key/essential worker demand groups against the 25% test (i.e. housing costs are not more than 25% of income).

Type of rent/mortgage	Mortgage/rent	Household income	Affordable – Yes/No
Sale median £150,000 (Kirkwall) £167,000 (Stromness)	Monthly mortgage amount £763-£923	Average of all recruits - £26K-£32K	No
		Average incoming worker - £35K-52K	Yes
		Average Orkney resident recruit - £25K-£26K	No
		Band 2/3 key workers (e.g. nurses) - £18K-£20K	No
Private rent 2 bed – £600 per month	£643	Average recruit - £26K-£32K	Yes
		Average incoming worker - £35K-52K	Yes
		Average Orkney resident recruit - £25K-£26K	Yes
		Band 2/3 key workers (e.g. nurses) - £18K-£20K	No
Social rent 2 bed - £400 per month	£387	Average recruit - £26K-£32K	Yes
		Average incoming worker - £35K-52K	Yes
		Average Orkney resident recruit - £25K-£26K	Yes
		Band 2/3 key workers (e.g. nurses) - £18K-£20K	Yes
Mid Market Rent 2 bed LHA rate - £550 per month	£550	Average recruit - £26K-£32K	Yes
		Average incoming worker - £35K-52K	Yes
		Average Orkney resident recruit - £25K-£26K	Yes
		Band 2/3 key workers (e.g. nurses) - £18K-£20K	No
Shared private rent £324	£324	Average recruit - £26K-£32K	Yes
		Average incoming worker - £35K-52K	Yes
		Average Orkney resident recruit - £25K-£26K	Yes
		Band 2/3 key workers (e.g. nurses) - £18K-£20K	Yes

2.5 Summary – housing demand from keyworkers and other essential incoming workers

This analysis has shown there is considerable ongoing demand for keyworkers, other essential workers and students moving to Orkney for work, with different types of key/essential workers, with different housing requirements as summarised in the table below:

- **Permanent movers who need transitional housing** - these households initially want a transitional housing solution until they find their preferred permanent housing option – whether private renting or ownership.
- **Supplementary workforce** - These are individuals across OIC and HSCP/NHS with housing require for a constant supplementary workforce, who live on Orkney for work but who are permanently resident elsewhere.
- **Student housing** – requirement for a mix of undergraduate (Kirkwall) and postgraduate students (Kirkwall and Stromness).
- **Infrastructure projects temporary construction workers** – A significant temporary housing requirement for the short-term (2-5 years estimated from 2024) and with the possibility of this provision contributing to future permanent housing requirements for the wider population.

Demand group	Estimates	Housing requirements
Permanent key/essential incoming workers (public sector) Note: public sector only – quantification is not possible for all the private sector but see survey findings.	70-90 households Note: Inflowing households per annum. Low /high estimate based on recent recruitment performance, or recruitment from current vacancy rate.	Households want initial ‘transitional’ private rented (not social) before finding long term solution either private rent or purchase. Average Incomes for incoming workers over £35k.
Supplementary workforce ‘temporary’ housing	165 bedspaces Note: 80 NHS and 85 OIC, individual bedspaces at any point in time	Individual or sharing rented arranged/paid through employment contract
Student housing Students moving to Orkney mainland from outer islands or outside Orkney	50 bedspaces Note: annual requirement 50/50 undergraduate and postgraduate	Kirkwall (15) and Stromness (35) unmet demand and growth ambitions
Total Public sector + student only	305 bedspaces Minimum requirement	Minimum requirement at any one point. Note minimum requirement as permanent incoming households may be moving with households/family.

Infrastructure projects	<p>1359 bedspaces construction phase</p> <p>Plus long term demand - Operational phase of infrastructure development projected 200 new long term - 100 net in-movers.</p>	<p>Construction phase potentially 2-5 years from 2024.</p> <p>Operational phase from 2027.</p>
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Note: The minimum 305 bedspace requirement excludes the requirements/supply provided Police Scotland which includes 1x8 person hostel and 4x3 bedroom family houses. These are all owned by Police Scotland. The family homes provide permanent resident housing options.

2.6 Housing supply

Overall housing stock

The latest stock estimates for Orkney⁶ show:

- Total housing stock of 11,356 properties in 2020, of which an estimated 10,245 were occupied.
- The stock profile is 65% owner-occupied, 10% private rented and 15% social rented. This is a higher level of ownership compared with dwellings in Scotland overall (59%).
- Estimates⁷ of the housing stock type and size shows that the stock is generally larger, with limited supply of smaller properties and flats.

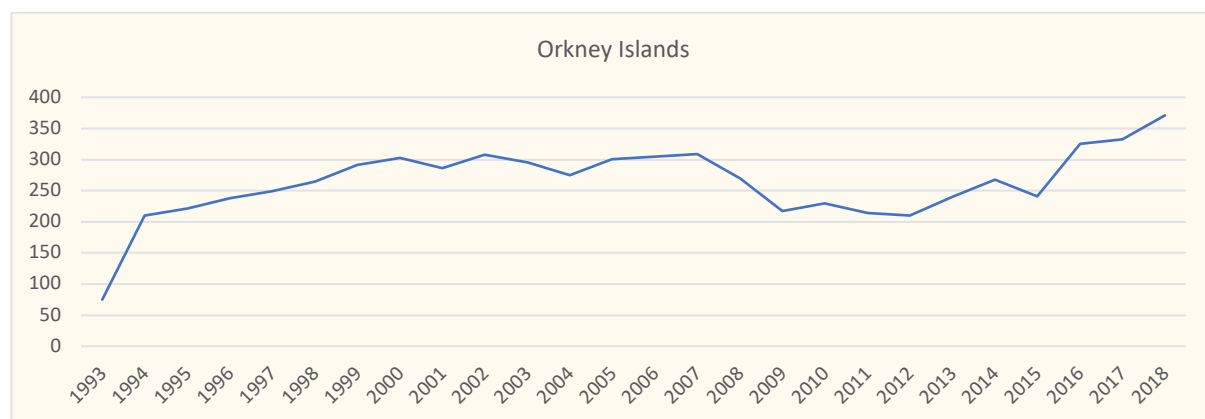
Home ownership

The latest data on sales volumes (up to 2018), shows an increase in property sales over time. Consultation confirms there was a housing 'boom' post the Covid pandemic, and this, alongside data on price inflation indicates an increase in demand for owner-occupied housing. The average house price in 2021-22 was £186,956, now close to the Scottish average (see affordability assessment above).

⁶ <https://www.gov.scot/publications/housing-statistics-stock-by-tenure/>

⁷ <https://www.nrscotland.gov.uk/statistics-and-data/statistics/statistics-by-theme/households/household-estimates/small-area-statistics-on-households-and-dwellings>

Figure 3: House sales over time, Orkney Islands



Source: statistics.gov.scot

Since 2016, private sector new-build properties have tended to be larger, with around three-quarters having three or more bedrooms and a third having four or more bedrooms. At the same time an additional 50 flats have been built, roughly split between one- and two-bedroom properties. More than half of the properties built in the social rented sector were of this size – over 100 units of the 130 properties built. Only 14 of the flats built were in the private sector and only a total of 112 one- or two-bedroom properties were built privately. This indicates a tendency for private sector new-build to be larger and higher value properties. The qualitative research shows that there is lack of availability and choice, especially for smaller one- and two-bedroom properties, particularly flats, which incoming households may want, either initially while they work out the longer term housing options, or for permanent housing.

Private renting

The private rented sector has remained fairly stable:

- In 2020/21 there were an estimated 1,089 private rented properties on the landlord register, similar to the 2016/17 estimate:
- Published statistics suggest the PRS is 10% of dwellings in 2019 and 11% in 2018, 12% in 2016 and 11% on 2014⁸.
- The 2023 Private Landlord Survey (Section 3 and Appendix 1) asked landlords what they felt about demand. 90% of respondents considered demand to be high, including 63% that considered it to be 'very high'. The majority (72%) indicated that demand has increased with 53% arguing it has increased significantly. Most (60%) also believed demand will continue to increase over the next 3 years, including 36% that think it will increase significantly.
- It is notable that most of the landlords stated that they most commonly let to people from Orkney (46%), but a quarter of landlords said they let to a mix of Orkney residents and people moving into Orkney and 29% of landlords said they let mainly or exclusively to people moving to Orkney.

⁸ <https://www.gov.scot/publications/housing-statistics-stock-by-tenure/>. Note two data points – 2017 at 8% and 2013 at 17% stand out as anomalies

Social renting

From the household survey undertaken for this strategy, we know that incoming keyworkers and other essential incoming workers tend not to seek social rented housing. Data shows social housing is in very high demand:

- There are currently 1,087 people on the common waiting list (Council and Orkney Housing Association).
- Over the period from 2014 to 2022, OIC has let an average of 120 lets a year, so the current waiting list is almost 10 times larger than annual supply. The West Mainland has a small turnover - 12% of the stock but just 4% of lets. East Mainland and Isles have a higher proportion of turnover.
- Overall, 70% of OIC properties are either bedsits or 1-2 bedroom properties. The Isles properties tend to be larger, mainly 3-bedroom, while the West Mainland also has proportionately more larger properties.
- Kirkwall is in highest demand - accounting for 60% of all first choices. Stromness is also popular, with 14% of choices. Most social housing applicants - 60% require one-bedroom properties, 15% two-bedrooms, and 13% require larger properties.

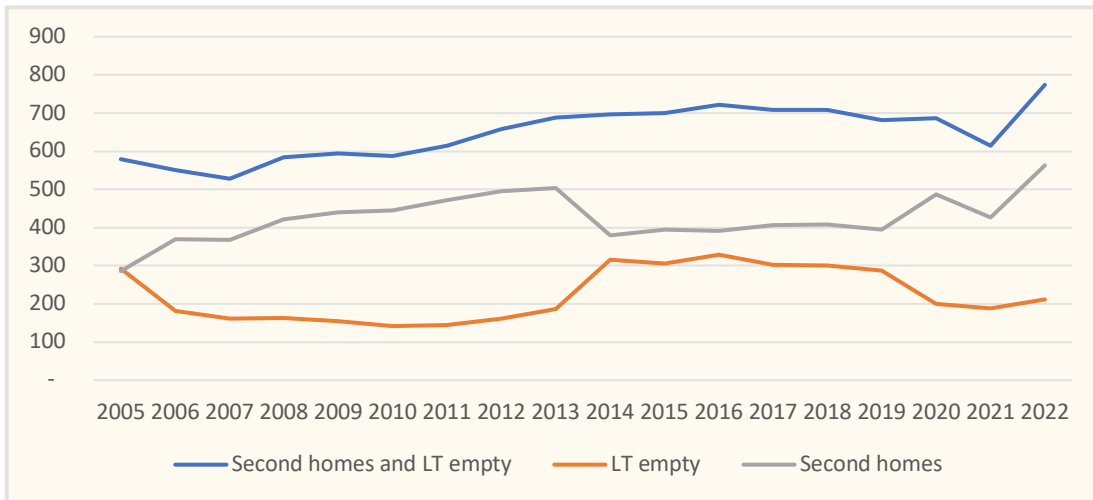
Empty homes and holiday homes

The latest data shows that in 2022 there were:

- 427 unoccupied exemptions and 211 long-term empty homes, making a total of 638 empty homes within the county according to council tax figures.
- A total of 66 properties have been reported by Orkney Islands Council to the Scottish Empty Homes Partnership as being brought back into use with help from our Empty Homes Services since the financial year 2016-17.
- The chart below shows there had been a slight downward trend in second homes and long-term empty properties more recently, but a sharp increase in 2022. There was also some evidence of reporting changes between 2014 and 2019, where a drop in second homes was matched by a mirrored increase in long-term empty properties.
- In addition, there were reported to be 426 holiday homes. Research in 2019 on short-term lets⁹ found 296 Airbnb listings in Orkney, of which 198 were whole properties although there will be duplication.

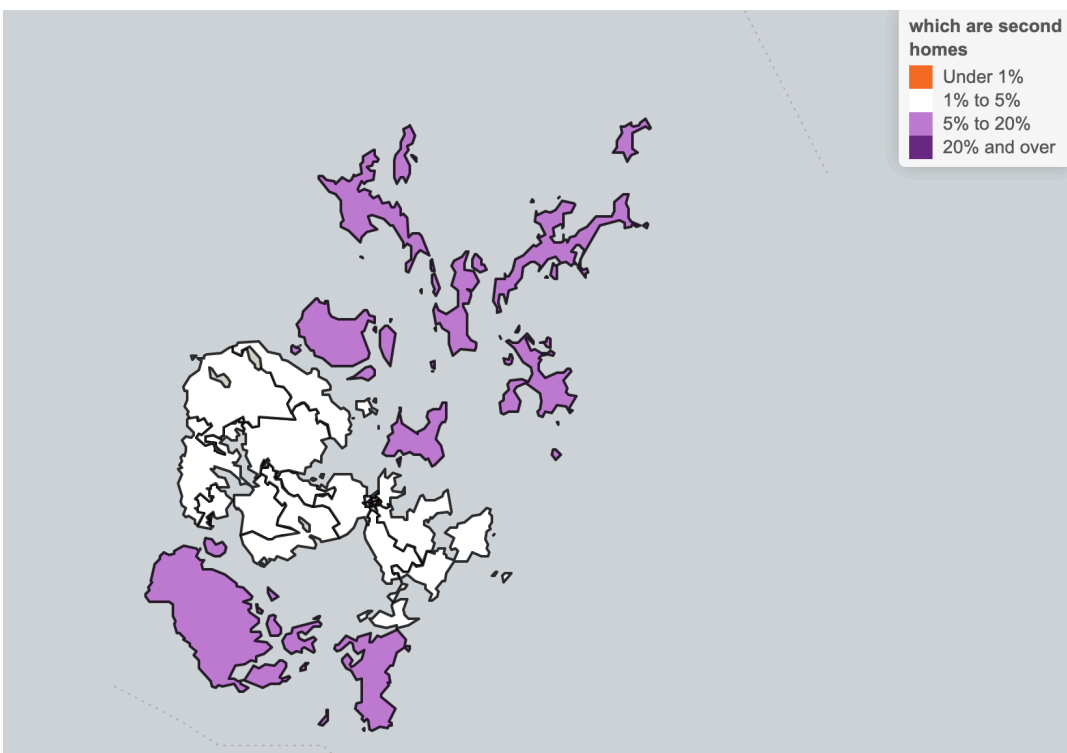
⁹ [Research into the impact of short-term lets on communities across Scotland](#)

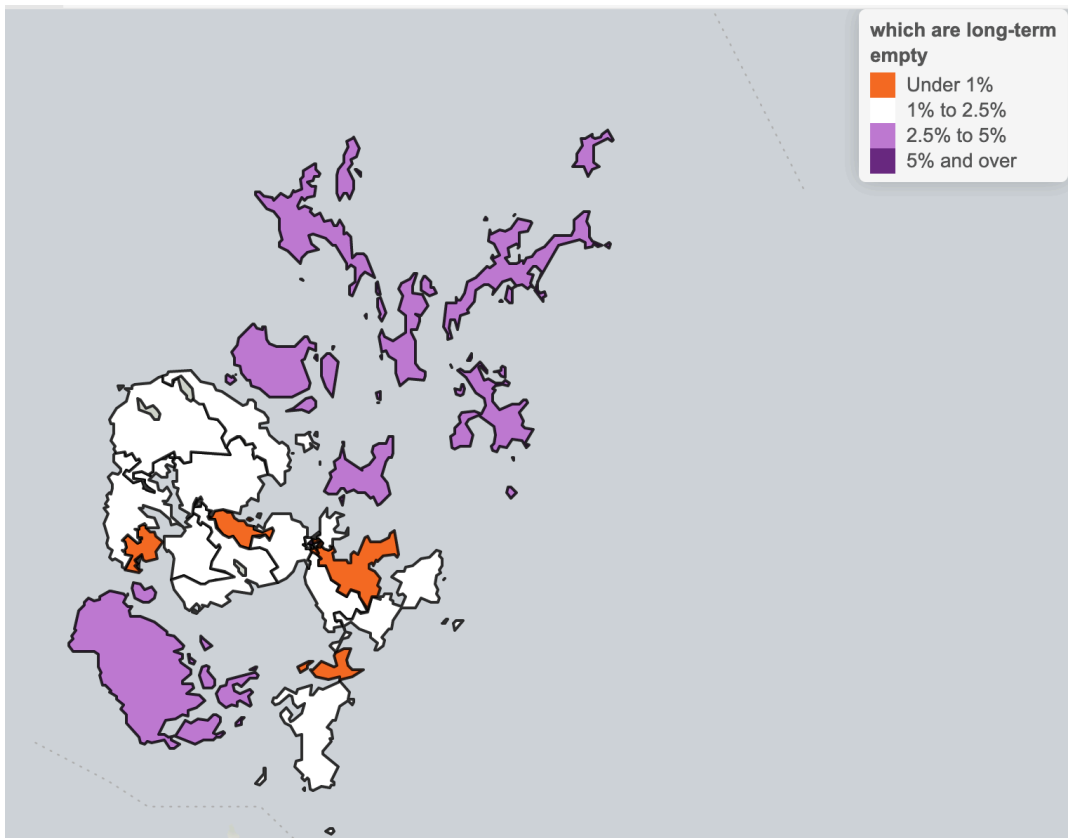
Figure 4: trends in second homes and long-term empty properties in Orkney



Source: <https://www.gov.scot/publications/housing-statistics-empty-properties-and-second->

The maps below demonstrate that the majority of second, and long-term empty homes are on the outer isles, rather than the mainland where there is greatest housing demand, certainly for incoming workers for public services.





<https://scotland.shinyapps.io/nrs-small-area-household-estimates/>

Housing targeted for keyworkers and other essential incoming workers

As discussed in sections above there is very little housing supply specifically targeted for keyworkers and other essential incoming workers:

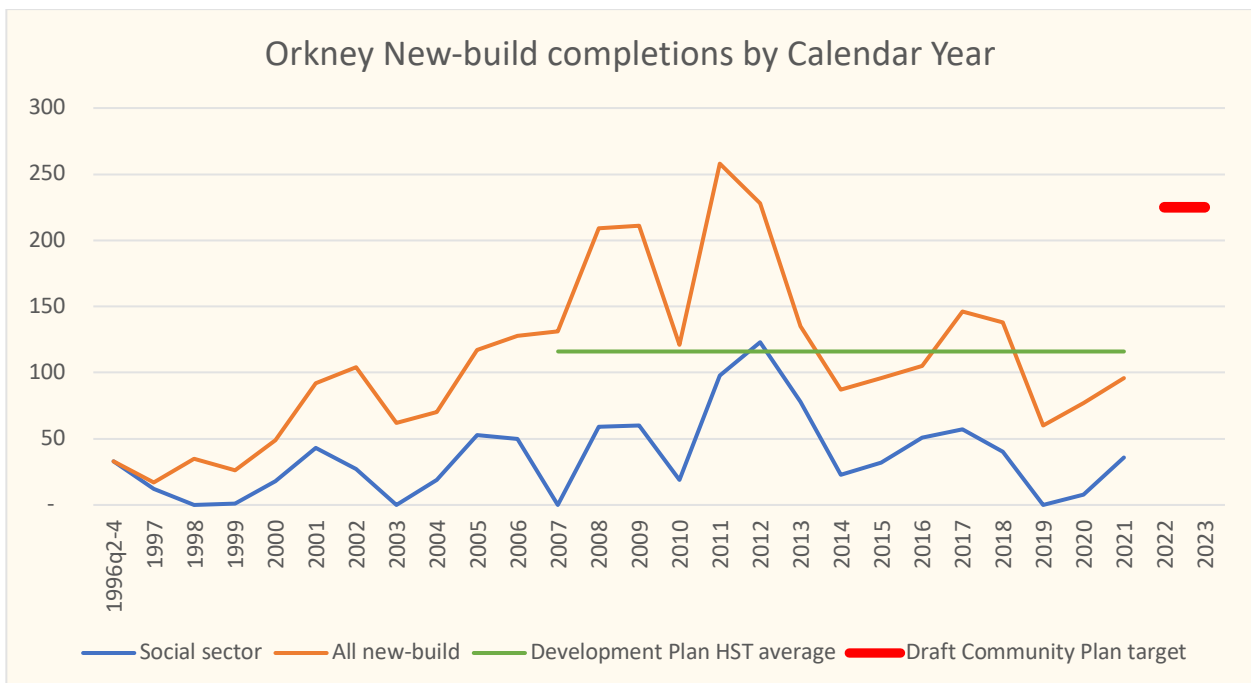
- Orkney Islands Council staff have to find their own options in the market. Different managers from different Council departments help in securing housing for agency and interim staff housing from the market. There is no co-ordination across the Council to assist incoming permanent or agency staff.
- The NHS has procured 80- bedspaces from a combination of sources from Graham House nurses home (leased from OIC), 11 bedspaces (6 flats) from OHAL and 39 bedspaces (17 flats) are leased from private landlords. For both the private rentals and housing association properties, these are all shared i.e. NHS Orkney lets rooms to occupants (not the entire flat) under occupancy agreements so different households are sharing in all these properties (except the one bedroom properties).
- Police Scotland has 1x8 person hostel, and 4x3 bedroom family homes, all in Police Scotland's ownership. It will retain and maintain the hostel, and is looking to dispose and lease family homes due to investment requirements. If this plan fails, it will retain and invest in the family homes.
- The 2023 Employer survey (section 3 and Appendix 1) showed that of the 42 businesses that answered a question about whether they helped their employees with their housing needs in any way, 26% of those responding indicated that they did so by helping employees to find a suitable home, 19% by directly providing accommodation. Those directly providing accommodation were spread across a range of sectors.

New housing supply

Annual new build completions in Orkney have seen a fair degree of volatility, with an average of 110 over the last 10 years but ranging from fewer than 50 units to over 250 at the peak in 2012 (see Figure 3 below).

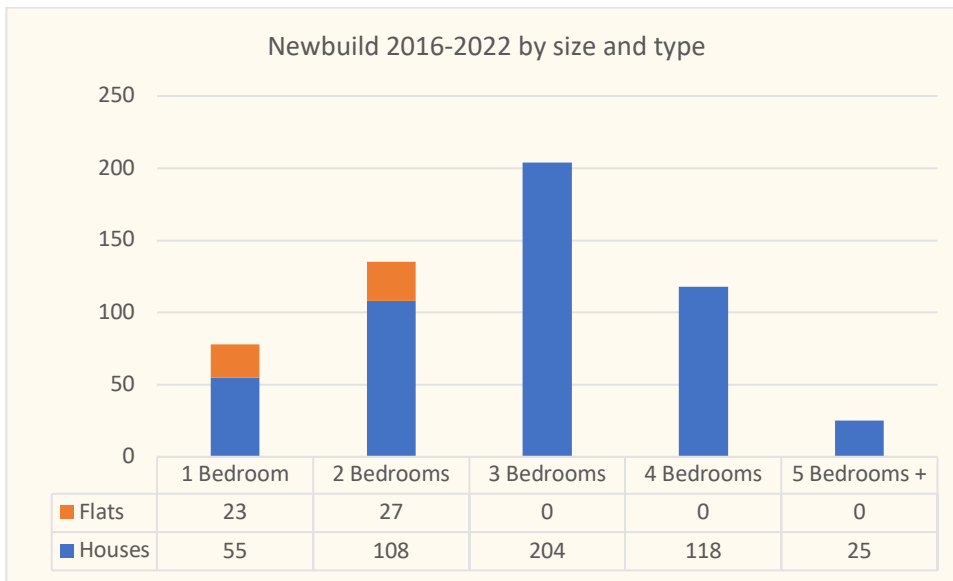
- Private sector completions have averaged around 80 per annum ranging from 54 in 2016 and a peak of 160 in 2012. Social sector completions have tended to be around 50 units a year or fewer, except in the peak in 2012 when 123 completions were delivered.
- Most new build since 2016 has been 3-bedroom and larger properties, and few flats, exacerbating the current prevalence of larger houses in the overall housing stock profile, and lack of choice across the housing system (Figure 5 below).
- The higher completion rates across sectors tended to be around 10 years ago. Builds rates have slowed significantly over the last 5 years with a total average of 103 across sector.
- When compared to the Housing Supply target (Local Development Plan 2017) of a total of 1,159 over 10 years (580 pro rata for five years), the new build supply of 517 over 5 years 2017 to 2021 falls short of the target by 63 houses.
- The chart below also shows a substantially higher annual new build target of 225 units shown in the current draft Community Plan. However, this is subject to review pending the development and publication of the Housing Need and Demand study underway in 2023.

Figure 5: Trends in house-building in Orkney – all units and social sector units



Source: <https://www.gov.scot/publications/housing-statistics-for-scotland-new-house-building/>

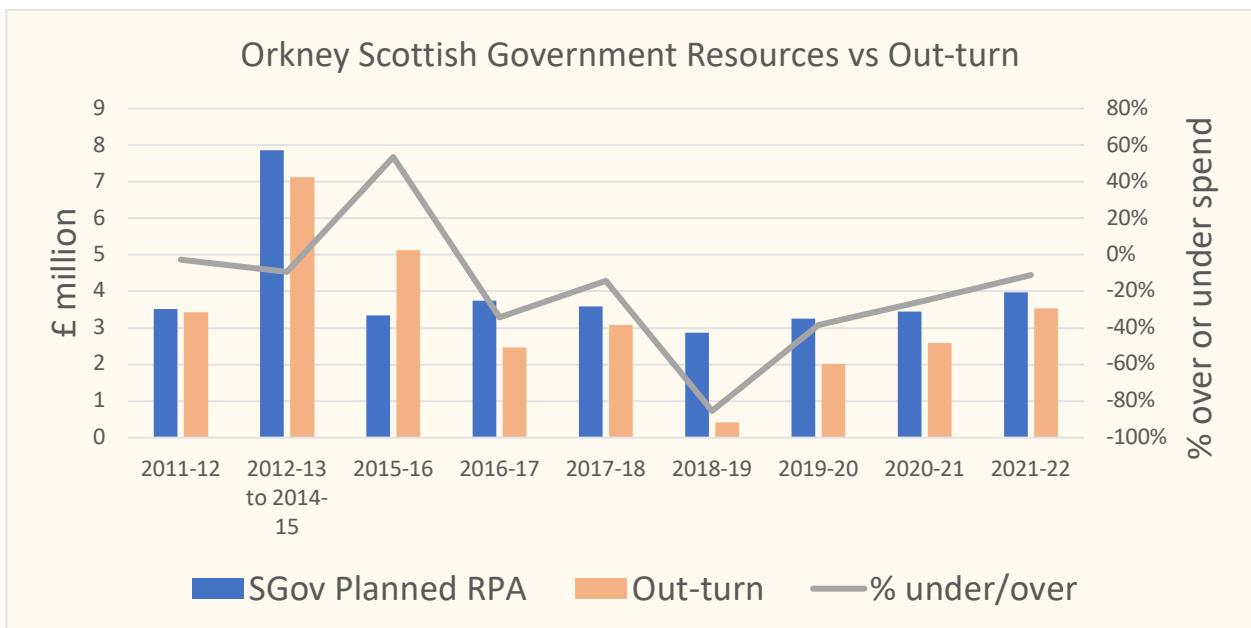
Figure 6: The size, type and tenure of new-build properties



Source: OIC

While there are clear signs of unmet demand and need (rising prices, rising waiting lists and homelessness), there are also key indicators that the supply system has not been able to keep up with demand. The chart below shows that there has been significant underspend since 2015/16 on Scottish Government funding for a range of new supply (social rent, mid-market rent and low cost home ownership). This is explained by organisational and financial, and regulatory constraints in the current housing supply system, although there is a good amount of effective land supply.

Figure 7: Scottish Government resources versus out-turn



2.7 Summary - demand and supply

The analysis shows:

- The fundamental housing market drivers – increasing population and households, and local economic performance and strong prospects for growth means there is high demand for housing from existing households, incoming workers, and students driven by Orkney’s centre of excellence for renewables.
- There are significant workforce challenges with high vacancy rates, the ageing workforce and very high dependency ratio which taken together means these challenges will continue, with the increasing use of agency and interim staff on the islands in public services. The private sector also face these recruitment challenges.
- Housing is a key factor in enabling recruitment and retention of essential workers to sustain Orkney’s existing communities, and support growth, and a key priority for community planning partners will be to attract and retain working age households, and young people, to rebalance the household population and the current high dependency ratio.
- Incoming households find it very difficult to find the right and type of housing to meet their needs and for some, the lack of housing means they do not take up offers of employment on Orkney. Employers say recruitment is getting more difficult, with two key reasons being lack of suitable people living on Orkney, and lack of housing. The key problem for most incoming workers is lack of housing (volume), and while affordability is also cited as a problem, most incoming households earn over £35k for who market rates are affordable.
- Indicators of the housing demand supply imbalances are clear – rising volume of house sales, rising house prices and rental values, and very high demand for social housing. At the same time the new housing supply system has not kept pace with demand and there have been significant underspends over the last eight years on Scottish Government new build funding, showing lack of capacity in the supply system.
- There is lack of choice in the current housing supply – dominated by large houses, with lack of supply of smaller houses, flats, starter homes, and private rented housing which can be used as ‘transitory’ housing options for people moving into Orkney.
- It is estimated that at least 305 bedspaces are required for keyworkers/other essential workers and students and most (with the exception some NHS staff) have to find their own solutions in the market which is difficult, and a deterrent for some to move to Orkney and a driver for some households to move off-island.

3. Experience of households moving to Orkney for work or study

3.1 Purpose of the surveys

As part of the keyworker housing strategy development, a series of linked surveys were undertaken to understand the issues of housing needs and demand in Orkney, focusing specifically on how the availability and affordability of housing affects the ability and willingness of people to move for work or study in Orkney. There were four related surveys covering the following discrete groups:

- People that had moved to Orkney for reasons of work within the past 5 years, or who had moved within Orkney for such reasons, and people that wanted to move to Orkney for reasons of work in the future (“recent and possible movers”).
- A similar survey of recent and possible movers but focused particularly on students.
- A survey of private sector landlords
- A survey of employers.

A detailed survey is provided as Appendix 1 .

3.2 Recent and Possible Movers to Orkney or Within Orkney

There were 237 valid responses to the “movers” survey.

When people have moved to, or within, Orkney for reasons of work this has generally been for full-time work and most commonly in the education and research sector (28%), followed by health and social care (25%) and other public services (16%). The level of roles has varies but generally has comprised either skilled or managerial roles.

Most commonly, survey respondents in this category were from outwith Scotland but in the UK (42%) and from elsewhere in Scotland (37%), outside of UK (7%) with 14% being from various parts of Orkney. In most cases (86%) the aspiration was to move to Mainland (32% Kirkwall, 7% Stromness, 27% elsewhere in the mainland).

Only 16% of respondents moving in this way said that they found suitable accommodation easily and quickly in the area that they wanted, with 66% saying that they had found accommodation but that it took a long time and 16% not yet having found accommodation,

Most commonly, when people first moved to Orkney, or within Orkney, for work, they were looking to rent a home privately (53%) or to buy a home (28%). Only 12% bought a home when they first moved to Orkney but 51% have now done so. 51% rented privately when they first moved to Orkney but this figure has now reduced to 30% as people eventually buy a home.

Overall, only 13% of these respondents said it was easy for them to find a suitable home, with 80% saying it was difficult, including 54% that said it was very difficult, and the remainder giving a “neither / nor” response.

Respondents identified multiple problems in finding a suitable home, with finding a home at the right price being cited by 52% of people but people also identifying other issues including suitable tenure (47%), suitable location (44%), size of home (38%) and type of home for their needs (34%).

Those survey respondents with an aspiration to move to Orkney in the future mainly lived in Scotland currently (56%) but with 33% living elsewhere in the UK and 10% overseas.

This group were fairly evenly divided between those who would wish to work full-time (51%) and those who would wish to work part-time (41%). The somewhat more “speculative” nature of this interest is reflected in a high “don’t know” response in terms of the level of job people would anticipate moving for.

66% of this group would anticipate moving to the mainland (32% Kirkwall, 7% Stromness, 27% elsewhere in the mainland). 17% indicated either the North or South Isles with the remainder giving an “Other” or “Don’t Know” response.

Significantly more people amongst this group indicated that they would be looking for a social rented home when they first move to Orkney (27%) compared to 39% a bought home and 20% a private rented home.

Overwhelmingly, the longer term aspiration is for a bought home (80%). Most commonly, the aspiration would be for a flat or house in a “rural area” (40%) or a house in a town or village (30%). Most commonly, the aspiration would be for a 2-bedroom home (37%) followed by 3 bedrooms (29%) or 1 bedroom (22%).

The average gross household income amongst respondents as a whole was £50,498 and for those that quoted an actual or anticipated figure were they to move to Orkney this figure was £51,916. Were people to buy a home in Orkney, or to have already done so, their approximate monthly budget on average would be £1,031 (24% of anticipated gross household income). Were people to rent a home in Orkney, or to have already done so, their approximate monthly budget on average would be £823 (19% of anticipated gross household income).

3.3 Recent and Possible Movers to Orkney or Within Orkney – Students

There were 42 valid responses to the student survey.

74% of these survey respondents had moved to Orkney to study, 10% had wanted to move to Orkney to do so and 2% had moved within Orkney to study; the balance of 14% of respondents comprised people wishing to move to Orkney to study in the future.

66% of respondents who were already studying in Orkney¹⁰ were studying at a postgraduate level and 34% at an undergraduate level. 91% were studying full-time. Most commonly, respondents were studying at UHI / Orkney College.

A spread of responses was apparent in terms of whether these student respondents had come from elsewhere in Scotland (44%), elsewhere in the UK (31%) or outside of the UK (25%). Their aspiration was

¹⁰ The relatively small base of 32 respondents should be noted.

overwhelmingly to live in Mainland (59% Kirkwall, 28% Stromness, 6% elsewhere in the mainland) reflecting the location of their education providers.

Only 16% of respondents moving in this way said that they found suitable accommodation easily and quickly in the area that they wanted, with 78% saying that they had found accommodation but that it was difficult / took a long time and 6% not yet having found accommodation,

Most commonly, when people first moved to Orkney, or within Orkney, for study, they were looking to rent a home privately (50%) or to share with friends and relatives (22%). None had an immediate aspiration to share with an existing Orkney resident but this was the case in reality for 16% of people when they first moved. A spread of tenures is now apparent amongst these respondents including 31% living in a privately rented home and a further 19% sharing with another student in a privately rented home, and 22% in a bought home.

Overall, only 10% of these respondents said it had been easy for them to find a suitable home, with 84% saying it was difficult, including 45% that said it was very difficult, and the remainder giving a “neither / nor” response. Most commonly, respondents identified problems in finding a suitable home relating to location (66%), price (63%) and tenure (63%).

Amongst those that may wish to move to Orkney to study in the future¹¹ all would be looking to study at postgraduate level and at UHI / Orkney College. 90% would wish to live in Kirkwall. 50% would initially wish to live in a privately rented home and 20% in a social rented home. In 50% of cases, the aspiration would be for a 1 bedroom home.

The average anticipated monthly income amongst respondents was £1,171. Their approximate monthly budget for housing costs would be £548 (47% of gross monthly income).

3.4 Private Sector Landlords

There were 190 valid responses to the private sector landlords survey.

48% of landlords had been letting out properties for more than 10 years, 22% for between 5 and 10 years, 15% for between 2 and 5 years and 15% for less than 2 years.

186 landlords provided data on the number of properties they let out in Orkney, with this figure being 379. 89% of these properties were in Mainland, with 63% being in Kirkwall, 61% of properties were houses and 70% had 2 bedrooms or fewer.

Comparatively few landlords indicated that they had either sold properties they owned that were previously privately rented within the past two years (7%) or moved properties that they owned from Short Term Lets to long-term residential lettings within the past two years (also 7%).

The most common method of sourcing tenants is word of mouth (52%) followed by social media (29%) with 15% of landlords using each of local press advertising and online advertising (15%).

¹¹ The very low base of 10 respondents should be noted.

90% of landlords indicate that the demand for the privately rented properties that they have is high, with 63% indicating that this is “very high”. 62% indicate that demand has increased over the past 3 years, including 53% that it has increased significantly. 60% anticipate a further increase in demand over the next 3 years or so.

New tenants taken on over the past 3 years or so have mainly or exclusively been existing Orkney residents for 46% of landlords, mainly or exclusively people moving to Orkney for 29% of landlords, and a roughly even mix for the remaining landlords. Some or all tenants are friends or family for 22% of landlords.

The median duration of a tenancy is between 2 and 5 years.

79% of landlords that expressed a view felt that market prices for homes in the long-term residential letting sector had increased in the past 3 years including 30% that felt this increase had been significant (defined in the survey as more than 20% total increase).

The approximate average monthly rent levels that landlords would seek for a variety of types of property would be £551 for a 2-bedroom flat in Kirkwall or Stromness, £655 for a 3-bedroom house in Kirkwall or Stromness, £512 for a 2-bedroom house in a smaller settlement or rural area, and £568 for a 3-bedroom house in a smaller settlement or rural area.

3.5 Employers

There were 52 valid responses to the Employer Survey.

The average number of employees within those businesses that provided the relevant information has increased from 15 to 16 over the past 3 years and this average figure is projected to increase quite significantly from 15 to 19 over the next 3 years.

48 businesses provided information about the number of people they had recruited to work in Orkney over the past 3 years or so. Amongst these businesses, 658 people had been recruited, with the number of recruits ranging from none to 140. Of these, 537 (82%) were from Orkney and 121 (18%) were from outwith Orkney.

Respondents were from a very broad range of sectors but with hospitality (31%) being most common. 78% of businesses were located in Mainland.

59% of respondents indicated that it has been difficult to recruit employees over the past 3 years or so compared to only 9% that considered it to be easy (32% gave a “neither / nor” response). 51% expect recruitment to become more difficult over the next 3 years or so.

The most common recruitment difficulties relate to lack of people available to recruit in Orkney (77% of respondents) and lack of suitable housing for potential employees (62%).

A very substantial proportion of employers feel that housing is a significant problem, with 68% describing it as thus.

54% of employers that expressed a view say that potential employees have not been able to join due to a lack of suitable housing and 34% that employees have been unable to stay with them for this reason.

Most commonly, the specific problems in relation to housing are perceived to relate to price (83%), location (70%) and tenure (68%).

38% of employers say that they help their employees with housing in some way, this including helping them to find a suitable home (26%) and directly providing accommodation (19%).

Case studies

The following case studies provide a sample of actual examples of keyworkers/other essential incoming workers, and students on their experience in search for housing and from employers on their experience in supporting employees search for housing.

A **public sector manager** moved from England with family of 4 and a dog. They could not find anything to rent that was suitable and that would take pets. They found no availability in the PRS and short term lets were very expensive. The family never dreamed of applying as homeless, so did not explore this route and were told there 'was no chance' with social housing. The family ended up living in a motorhome for one year family, having to move from campsite to campsite. They pursued three different purchase options before finally one was successful. They were not cash buyers so this put them at a disadvantage in very buoyant market. This family concluded it is mainly an availability issue, not an affordability issue, especially if you come to Orkney with some equity. But it was noted that starter homes are "few and far between" "so you need equity to have a chance on Orkney".

A **senior health sector data analyst** moved for a promoted post in Orkney from mainland Scotland. She couldn't believe how difficult it was to find housing, and as a single person found there were no options there were available. She wanted to live in Kirkwall, and just wanted a small flat relatively near her work. She looked online before arriving, asked her new employer but nothing was available, and was about to decline the job but then a contact directed her to a guesthouse. She moved in there thinking this would be a stopgap – she pays £480 per month for a bedroom. There is a central kitchen on the ground floor where she can make her breakfast, and evening meals. "It's not great because my bedroom is on the top floor and I have no living space other than my bedroom." She has been living there since February 2022; she looked for housing but has got to a point that she has stopped looking as there is nothing at all in the market. She's a single person and is just looking in Kirkwall as that's where his job is and doesn't want to be travelling. She doesn't know what will happen when it comes to the tourist season, and has given up looking for other accommodation. She believes housing is the "most serious problem" and "they have to get housing sorted if Orkney is going to survive".

A **property services worker** moved from the south of England with partner and dog. There was "absolutely nothing to find in the private renting". He tried the 'merkat place' social media but anything was snapped up immediately. They also applied to the Council and housing, but there were long waiting lists and told they were not an emergency for homeless accommodation. He considered coming up on his own and getting a short term let but these were really expensive and would mean having to keep moving around. In the end bought a house unseen, and luckily could do so quickly as it was a cash purchase otherwise they would have lost it. They moved in but hated the property and are now selling and purchasing something else 12 months later which made a very initial period and could have resulted in them leaving. His observation was "there is absolutely no transitional rented housing, certainly for incoming people."

While affordability was not a problem for us, prices are inflated for what you get, and there needs to be much more choice of smaller 2 bedroom properties”.

One **university Curriculum leader** moved up to Orkney from mainland Scotland, with his partner and family of three children. Even though he had Orkadian family and therefore had contacts they couldn't find anything to rent, and at the last minute managed to find a studio flat. The size of the family and ages of the children was not suitable for everyone to be living overcrowded. The solution was found for one of the children to living elsewhere sofa surfing with his wider family. After 6 months in this situation they managed to find a bungalow to rent with 3 bedrooms £850pm and are now searching for a property to buy.

A **student social care worker** was on placement in Orkney. She came with one of her children who was unable to stay at home with the rest of her family while on placement. She was unable to find rented housing while on placement other than short term lets, and had to move around every month. The lets were also very expensive. Despite this, she and her son loved Orkney and he was very settled at the local school. She was planning to apply for a permanent opportunity and she said the “Council was crying out” for new workers, and move up the rest of her family including her partner and two other children. But she was unable to apply for the opportunity as she wasn't able to find housing for her and her family.

A **tech company** based in Orkney has grown significantly over the last 10 years, and due to the type of industry this company is in, it is able to attract and employ young people – around 50% come from Orkney (including graduates from the college) while the other 50% are incoming workers, mainly from UK but also wider international recruits. Increasingly, over the last 3 to 5 years the company has noticed that recruits are finding it more difficult to find accommodation. This has got to stage where the company is offering new recruits to work remotely, removing the necessity to move to Orkney, but the owner has also noticed that young single employees are unable to move into their own independent housing, and young couples and families are gradually moving off-island to get the type of housing they want. While their company can provide the flexibility to do this and work remotely, it seems to the owner that Orkney is gradually losing its younger workforce including families due to the housing situation. It was also commented that it is “*literally impossible to organise a company wide conference*” on Orkney now (for about 100 people) due to lack of housing accommodation in any period other than winter, due to tourism.

Food and drink industry – a food production company offered a skilled worker a senior role from mainland Scotland to help the company continue its expansion plans. However, the recruit established quickly that there was no rented housing accommodation on the mainland and despite efforts of employing company, was unable to assist and the potential recruit declined the offer due to the fact that he couldn't get housing.

One student recounted how she moved to Orkney mainland from the outer isles. Throughout her undergraduate studies at Orkney UHI she has always lodging in someone's spare front room. She is now a postgraduate and would love to have the experience of sharing with other students, or other independent accommodation but this type of housing not available. **Two other students** were enrolled on a course taught from Orkney, but due to lack of accommodation they have had to relocated to different UHI campuses on the Scottish mainland and be taught remotely by Orkney lecturers – they are studying archaeology for which Orkney is renowned and occasionally travel to the islands for field work but would love to be living in Orkney permanently.

4. Option Appraisal

4.1 Conclusions from the housing demand and supply study

Drawing on the evidence from the housing demand and supply study, and the four surveys we conclude:

- **There is demand for a minimum of 305 bedspaces per annum for public sector keyworker/other essential workers and students.** This comprises a mixture of people moving to Orkney Islands permanently (90), agency/interim staff (165), student moving to the mainland (50). This is the minimum since some of the people moving for Orkney permanently are likely to come partners/family. We can therefore assume 305 bedspaces equates to at least 200 homes.
- **Housing demand from most of the incoming workers moving permanently to Orkney** is for private rented housing initially, before most move onto home ownership, but with around 30% still wanting private rented housing. These households want mainly 2-bedroom flats or houses, followed by 3-bedrooms or finally 1-bedroom in towns, villages or rural areas. Based on analysis of recruitment data, most of these incoming workers have individual salaries averaging over £35k (ranging from £32k-58k). The survey showed the median gross household income was £50,000 and their monthly rental budget would be £750. This in line with the affordability assessment based which showed these incoming workers would be able to afford the average Orkney private rents of approx. £600-650 per month, and would be able to afford up to £750 per month. Survey respondents said the median monthly budget for owning would be £1,000 per month, again which is in line with the affordability assessment which showed incoming workers would be able to afford average home ownership costs on Orkney. However, frontline keyworkers and students (e.g. nurses, social care workers, social workers with salaries of £18-25k) would not be able to afford market rent levels and would only be able to afford mid-market rent, or sharing in market rent properties.
- **The housing market is not serving incoming workers or students**, with the vast majority (80% of survey respondents) finding it difficult (54% very difficult) to find suitable housing – its takes a long time and there is lack of options, and people generally do not feel they can get the right price, tenure, type or size of housing. Employers are finding it increasingly difficult to recruit, with the two main reasons being lack of people available to recruit in Orkney and lack of suitable housing for potential employees. A third of employers try to help potential employees find housing, but like individual households find it very difficult. There is clear evidence of potential recruits rejecting offers due to lack of housing.
- **There is an increasing requirement to use agency and interim staff** in the public sector, driven by the workforce challenges of the ageing population with increasing vacancy rates. The use of interim and agency staff are relatively expensive resources, but the public sector sees this an ongoing requirement for at least the next decade due to the population/workforce profile. The NHS houses temporary staff in the nurses home Graham House, but increasingly procures from the private rented sector, but also Orkney Housing Association which takes stock out of the mainstream market for residents. Likewise the Council also uses private rented housing for agency staff, again taking stock out of the market for other permanent residents. In the Council individual departments organise this housing requirement rather than there being a centralized approach.
- **Students moving to Orkney** also find it very difficult to find housing, and the universities argue that lack of housing the numbers applying for course, particularly in key areas of renewables and

archeology for which Orkney are renowned. The housing challenge is stifling growth in the education and innovation sectors, and means lost opportunities of attracting young people who may then stay on Orkney on completion of their studies, and contribute to growth sectors.

- **In conclusion, there is clear evidence for the requirement to intervene for provision for keyworker/other essential incoming worker housing** through the provision of additional supply, and other housing options, targeted for this group, potentially combined with student housing provision. There is also an opportunity for joint working across the public sector to provide the benefits of economies of scale in procurement, placemaking and ongoing management of housing for these demand groups.
- **In addition, there is a likely requirement for 1,359 bedspaces for construction workers** for the potential infrastructure projects that may start in the islands from 2024 (pending approvals). These are temporary housing requirements, but it is estimated that at least 200 additional long term jobs will be created for the operational phases, 100 of which are assumed to be filled by incoming workers. The temporary housing requirements will have to be resourced through the developers, but there is an opportunity here to harness a legacy through this provision for permanent housing.

4.2 Option appraisal

Having identified the clear need for intervention for keyworker housing provision, the next stage of the strategy development considers 1) The strategic options – WHAT are the main options? 2) Then the delivery vehicle options - HOW should the provision be delivered?

Strategic options

The purpose of the strategic option appraisal is to consider what the main strategic options are for increasing the supply of housing options for keyworker/other essential workers/students. The tables below set out a description of the options, the pros and cons of each option and the investment appraisal. Appendix 2 provides the detailed financial appraisal and assumptions.

The delivery vehicle option appraisal then considers the best value vehicle for provision of new build.

Strategic option appraisal – Conclusion and recommendation

It is concluded through the strategic option appraisal that the best option to pursue **is a blended option – a combination of Private Sector Leasing Scheme, bringing empty homes into use, acquisition for rent and build for rent**. This blend provides the opportunity for speed of commissioning through private sector leasing, and to some extent bringing empty homes and acquisition for rent, while planning and commissioning is ongoing for new build for rent which will have a lead in time of at least 18 months. In financial terms, the best value is provided by acquisition for rent, and build for rent.

Strategic options - description of options

Option 1 Do nothing	Option 2 Private sector leasing scheme	Option 3 Build for rent	Option 4 Acquisition for rent	Option 5 Refurbish empty homes
<p>Individual households and students are left to find their own way in the housing market.</p> <p>OIC and NHS continue their current approach to procurement of housing for agency/interim staff.</p> <p>The NHS has a co-ordinated accommodation service. The Council does not have a co-ordinated service.</p> <p>The Universities provide assistance to find housing options in the market but there is no co-ordinated accommodation service across departments/universities.</p> <p>Private sector employers sometimes assist employees to find housing.</p>	<p>OIC establishes a private sector leasing scheme where the Council enters head lease/acts as lead tenant and onward leases onto a private letting agents for letting as occupancy agreements (e.g. for temporary agency staff), or for individual letting to households under PRT. The Council would lease from the landlord for say 5 years providing a guaranteed rent and would take the void risk. An internal OIC project management team would set up the scheme and procure the properties, while the day to day letting and property management would be undertaken by a letting agent. Scope for collaboration with the HSCP/NHS estates team/Universities to achieve economies of scale.</p>	<p>New supply build for rent for mid-market and potentially private rent depending on delivery vehicle.</p> <p>Let for target group with different end users including individual households, agency staff and students.</p> <p>There are a range of supply delivery vehicle options for mid-market and private rent (see delivery vehicle options below).</p> <p>Scope for OIC to own/ landlord but would not be able to directly let for mid-market or private rent unless through an external arm's length company/letting agent.</p>	<p>Purchase from second hand market or 'off-shelf' from new build by private developers for mid-market and potentially private rent depending on landlord vehicle.</p> <p>Like new build, there are a range of supply delivery vehicle options.</p> <p>Scope for OIC to purchase/own/ landlord but not able to directly let for mid-market or private rent unless through an external arm's length company/letting agent.</p>	<p>Provide advice, assistance and local authority grant to empty homeowners to bring properties back into use.</p> <p>There would be conditions associated with grant that the owner of the property acts as private landlord, lets through a registered letting agent, and lets to the target client group for say 5 years.</p> <p>Clawback of grant if any conditions of grant breached.</p> <p>This should be aligned with a review of the Council's empty homes policy in relation to compulsory purchase orders and wider empty homes strategy.</p>

Strategic options – pros and cons

Option 1 Do nothing	Option 2 Private sector leasing scheme	Option 3 Build for rent	Option 4 Acquisition for rent	Option 5 Refurbish empty homes
<p>Individuals continue to find their own way in market and/or have to liaise with employers to try to find a solution.</p> <p>Outcomes are: Unsuitable housing – price, type, size, location.</p> <p>Use of expensive holiday accommodation by individuals and by Council/NHS/private employers for staff.</p> <p>Move is delayed and/or extremely stressful.</p> <p>Individuals do not apply for jobs due to Orkney’s reputation of poor housing options.</p> <p>Individuals rejects offer after realising no housing options.</p>	<p>This is a relatively quick option of procuring housing (1-2 months) for the target demand group for a fixed amount of time say 5 years.</p> <p>This assumes the market responds – this depends on the right price and terms, but the comfort of guaranteed rental income, and all property management dealt with through a head lease should provide some incentive.</p> <p>It may encourage some supply moving from short-term lets into long term residential.</p> <p>However, in the short-term this takes some housing supply out of the system for other residents. But this will be returned to the market when new supply comes on stream in 2 years.</p>	<p>Provides additional supply required, but takes 18 mths+</p> <p>A flexible design model (size and type) could be developed to cater for different demand group – individual households, agency staff sharing or student sharing.</p> <p>Also, flexible tenure model could be used so if built to ‘Housing for Varying Needs’ and supplied by either the Council or RSL then properties could be flipped between social housing or mid-market/private rented housing depending on the housing needs at the time.</p> <p>Could be sold in the market if needs/demand changes (if Scot Gov grant funded this would have to be returned/ recycled).</p>	<p>Provides additional supply required, takes about 3-6 months assuming properties available to acquire.</p> <p>Different size and type of properties could be acquired to cater for different demand group – individual households, agency staff sharing or student sharing.</p> <p>Unlikely to provide flexible tenure option as if purchasing on open market/from private developers will be built to building standards (not HfVN).</p> <p>Could be sold in the market if needs/demand changes (if Scot Gov grant funded this would have to be returned/ recycled).</p> <p>Protects supply against sale for short term lets.</p>	<p>Brings existing housing stock back into use and improves the stock while meeting demand for target market.</p> <p>Time required to bring homes back into use will vary depending on the condition of the home from 3-12 months.</p> <p>Conditions of grant used to bring empty home back into use will guard property use against short term lets.</p> <p>Conditions of grant will require property to be let through registered letting agent, ensuring professional property management.</p>

Strategic options – Financial appraisal (see Appendix 2 for detailed appraisal and assumptions)

Project Appraisal	Option 1 Do nothing	Option 2 Private sector leasing scheme	Option 3 Build for rent	Option 4 Acquisition for rent	Option 5 Refurbish empty homes
NPV Pre Grant (30 YRS)	n/a	-£391,938	-£19,568,112	-£9,419,080	-£565,558
NPV Post Grant (30 YRS)	n/a	-£391,938	-£1,393,012	£626,340	-£565,558
YR30 Cash (Disposal)	n/a	n/a	£78,443,420	£63,943,660	n/a
Deliverables & Timescales					
Housing Units	Nil	20	220	220	40
Lead in time	n/a	1-2 months	18-24 months	3-6 months	3-6 months
Time to completion	n/a	2-3 YRS	5-10 YRS	5-10 YRS	2-3 YRS
Expenditure Estimates					
Estimated capital outlay	n/a	n/a	£44,000,000	£33,000,000	£600,000
Per 2 bed unit	n/a	0	£200,000	£150,000	£15,000
Annual expenditure per lease*	n/a	£956	n/a	n/a	n/a
Cost to council	Indirect. Opportunity Cost of Income Foregone.	Y	Possible deficit subsidy required	Y if direct	Y

*Excludes demand risk. IFRS16 may require scoring against capital.

Financial Appraisal

Option 1 Do nothing	Option 2 Private sector leasing scheme	Option 3 Build for rent	Option 4 Acquisition for rent	Option 5 Refurbish empty homes
<p>Poor value for money.</p> <p>Available Council resources not deployed to support strategic requirements.</p> <p>No direct additional revenue or capital cost to the Council. However, poor value for money as no <u>net additional housing outputs</u> provided.</p> <p>Indirect opportunity cost of net additional council tax foregone.</p>	<p>Lowest cost option in the short and medium term demonstrating value for money for the bedspaces that can be delivered.</p> <p>Cost estimated at £1,000 per bedspace per year.</p> <p>However, cannot deliver/supply at the scale required to satisfy demand.</p> <p>As the lowest cost option, it should form part of the financial strategy for the blended approach and the units available procured/prioritised in the early years, as an early win.</p>	<p>Highest cost option in the short to medium term but delivering the strongest value for money over the longer term (30 years) as flexibility in future years to sell assets created on open market or to flip to social housing (provided built to required standard).</p> <p>Estimated build cost per new home built at £250,000 (equivalent to £165,000 per bedspace if all 305 bedspaces delivered through this route)</p> <p>As the strongest value for money over the longer term (30 years), this option should form part of the blended strategy.</p>	<p>Lower cost option than build for rent due to current open market values being lower than build costs.</p> <p>Demonstrates value for money over the longer term. However, still a relatively higher cost option initially with less flexibility than build for rent over housing standards.</p> <p>Average acquisition cost assumed at £150,000 (equivalent to £100,000 per bedspace if all 305 bedspaces delivered through this route).</p> <p>As reasonable value for money is demonstrated over the longer term, this option should form part of the blended strategy.</p>	<p>Lower cost option per bedspace demonstrating value for money for the bedspaces that can be delivered in the short to medium term.</p> <p>Does not perform as well as other options in the long run as the asset remains in 3rd party ownership so grant is invested, with no financial return.</p> <p>Cost per bedspace estimated at £15,000.</p> <p>As a lower cost option which can be mobilised reasonably quickly, it should form part of the financial strategy during the early years of the plan where demand cannot be satisfied from option 2 (leasing) and/or options 3 and 4 (build or acquisition for rent).</p>

4.3 Delivery vehicle option appraisal

The purpose of the delivery vehicle option appraisal is to establish the best value option for delivering new supply for mid-market rent (MMR) and potentially private rent targeted to keyworkers/other essential workers and possibly students.

In developing the options it was noted that local authorities and housing association can only let on the basis of a Scottish Secure Tenancy (SST or SSST) i.e. social housing, or an occupancy agreement. As demonstrated by the housing demand and supply study, social housing is not relevant for most of this demand group. If the property is to be let as Private Residential Tenancy (PRT), then a property owned by the Council must be let through an arm's length for leasing MMR to individuals and property owned by a RSL must be leased to, and let by a private subsidiary (or owned and let by the private subsidiary).

In approaching the delivery vehicle option appraisal, a long list of options was first considered. This included Mid-Market rent being developed by Orkney Housing Association (OHAL). This has been discounted as OHAL does not have a private subsidiary and has indicated that its organisation and financial capacity is currently focused on development and management of social housing. The option of Orkney Islands Property Development Ltd also developing, owning and letting Mid-market/private rent was also explored and discounted as the company has stated it is not interested in new development; it is however interested in acting as a letting agent for the Council and/or other developers of new supply.

Given the current limited options available for new supply in the mid- and private rented sector on Orkney the option appraisal has also considered the introduction of new suppliers. These could include a range of different existing RSLs who are experienced in this type of market but not active in Orkney, and introduction of other specialists in provision of MMR and private rent to Orkney. This includes the Highland Housing Alliance which is active across the Highland and islands area and works in partnership with Highland Council to provide MMR and private rent, especially for keyworkers and other essential workers including those in the hospitality industry. Another potential new delivery vehicle is the Scottish Futures Trust (SFT) model of 'Housing Delivery Partnership' which have been adopted in Edinburgh and East Lothian. This involves establishing a new Limited Liability Partnership joint venture vehicle between the Council and SFT to develop and own new supply MMR, and using a letting agent for letting the properties.

It should be noted that [Scottish Government guidance](#)¹², and initial legal advice through Orkney Islands Council, suggests that if the appetite was to take any of the route involving the Council building/developing for MMR, letting would need to be through an arms-length external organisation. If the Council wishes to pursue this type of option, then further specialist legal advice would be required so that there is a clear understanding of what constitutes an arms-length external organisation in the context of residential tenancy law.

Also of importance is the fact that the Council is a "Rural Housing Body". This means the Council can place rural housing burdens with certain condition on any land (and building) its owns and subsequently sells – for example selling back to the Council and ensuring it is retained as affordable in future sales, or

¹² Affordable Housing Supply Programme, MHDGN 2022/02, November 2022, More Homes Division, Scottish Government

protecting it from holiday accommodation etc. Examples are found across rural Scotland including by Tighean Innes Gal in the Western Isles where it has found house values are not affected by the conditions.

The option appraisal tables below set out a description of the options, the non-financial considerations and the financial appraisal (Appendix 2 provides the detailed financial analysis and assumptions). All options are considered against a set of appraisal criteria: value for money – assessed through the financial and investment appraisal; organisational capacity to deliver and ability to contribute to wider housing objectives; timescales and pace of delivery; contribution to the local economy – including supply chain, sustainability and developing local capacity; and risk.

Delivery vehicle option appraisal – Conclusion and recommendation

The tables below provide conclusions on the recommended preferred option through a ranking system. This shows the preferred delivery options are:

- **1) Option 1** – inviting an **existing RSL with a private subsidiary, or other not for profit housing company (e.g. Highland Housing Alliance)** with track record but not currently active in Orkney to develop/own/let for MMR (and potentially market rent). Assuming the Council can attract the right supplier with track record, this option provides the organisational and financial capacity to deliver a new build programme, and also capacity to contribute to the wider placemaking including social housing supply, housing for sale for other need/demand groups and students bringing value to across Orkney's communities.
- **2) Option 3** – the Council develops/owns and leases to Highland Housing Alliance (HHA) through a partnership arrangement – this may have to be an arms length company. This would combine the potential tenure flexibility of the Council building/owning through an arms length company with the expertise of HHA with its track record in developing and letting MMR for key/other essential workers. However, the Council lacks capacity – it is able to commission 2x20 housing schemes per annum (allowing for all other build priorities in the council) and these two schemes are likely to be prioritised to Council social housing. Therefore, if the Council is to build for this client group it requires more capacity. If this option is required in absence of a RSL coming to Orkney, then the Council would require additional external commissioning support for design and programme management.

The Council being a Rural Housing Body is of significance for Option 2 should be Council wish to consider selling any of these properties in future (title conditions could safeguard for affordable housing, or safeguard against holiday accommodation, for example).

The Strategy section below outlines how the various strands of the strategy would come together.

New Supply delivery vehicle options – description of options

Option 1 Invite existing RSL with private subsidiary not currently active in Orkney to develop/own/let for MMR and potentially market rent	Option 2 Council develops/own for MMR and leases to a local property management company	Option 3 Council develops/owns for MMR and leases to Highland Housing Alliance (HHA) for letting and property management	Option 4 Highland Housing Alliance (HHA) develops/owns/lets for MMR	Option 5 Scottish Futures Trust (SFT) Housing Delivery Partnership
<p>This involves inviting an established housing association with strong organisational and financial capacity, and proven track record in supplying private rented housing options including MMR and potentially private rent.</p> <p>Preferably, OIC would be seeking a new RSL partner with experience in developing a place based approach to mixed tenure development, meeting demand of a range of client groups including key/other essential incoming workers and students.</p> <p>Grant would be provided to RSL by Scottish Government for MMR (not private rent</p>	<p>The Council would develop and own the housing as MMR and lease to A local letting agent let under PRT.</p> <p>A ‘flexible’ tenure model could be used so if built to ‘Housing for Varying Needs’ then properties could be flipped between social housing or mid-market depending on the housing needs at the time.</p> <p>Grant would be provided to Council by Scottish Government for MMR.</p> <p>Could be sold in the market if needs/demand changes (Scot Gov grant would have to be returned/ recycled).</p> <p>Scope for market rent but state aid rules apply/ Subsidy Control legislation.</p>	<p>As for Option 2 but Council leases to HHA and let under PRT.</p>	<p>HHA would develop and own the housing as MMR and potentially also for private rent.</p> <p>A ‘flexible’ tenure model would not be used as HHA is not a RSL and would not provide social housing.</p> <p>HHA current financing model with Highland Council uses local authority prudential borrowing at commercial rates. Financing for private rent uses a private finance facility.</p> <p>Grant would be provided to HHA by Scottish Government for MMR.</p>	<p>A new joint venture vehicle as a Limited Liability Partnership would be created between OIC and SFT. OIC would have the majority voting in the LLP.</p> <p>Board of Members (elected members, officers and SFT), and Board of Management (officers and SFT).</p> <p>The vehicle would develop and own properties with letting /property management through a letting agent.</p> <p>Financing through prudential borrowing and Scottish Government MMR grant.</p> <p>Scope for market rent but state aid rules apply.</p>

New Supply delivery vehicle options – option appraisal (see second table and appendix 2 for VFM/financial appraisal)

Option description / criteria	Option 1 Invite existing RSL but new to Orkney	Option 2 Council develops/owns and leases through local property management company	Option 3 Council develops/owns and leases to Highland Housing Alliance (HHA)	Option 4 Highland Housing Alliance (HHA) develops/owns/lets	Option 5 Scottish Futures Trust (SFT) Housing Delivery Partnership
Organisational capacity to deliver and contribution to strategic housing objectives	RSL would be invited with strong organisational capacity and track record to deliver. Able to design and develop across tenure. Could add capacity for wider social rent and housing for sale supply, assuming right partner.	Council has limited delivery capacity. would require external design and project management support to commission new housing. Provides tenure flexibility.	Council has limited delivery capacity. Would require external design and project management support. Provides tenure flexibility. HHA has track record/able to advise on MMR development/letting.	HHA has capacity and track record to deliver MMR development although there would be initial establishment period for HHA in new geographic market.	Council has limited legal/financial/management capacity to support creation of new joint venture. Like Option 2 and 3 requires external support to commission new housing.
Timescales and pace of delivery	Ability to deliver at pace	Limited capacity could be mitigated by additional design/project management resources	Limited capacity could be mitigated by additional design/project management resources	Delivery timescales could be affected by HHA establishing in new market.	Lead in time to set up the vehicle before planning and delivery can start.
Contribution to the local economy and local capacity building	As a new supplier in Orkney would need to use existing supply chain. May use local letting agent.	Using existing supply chains and should help develop local capacity.	Combination of existing supply chain and using HHA own staff based in Inverness.	Combination of existing supply chain and using HHA own staff based in Inverness.	Combination of existing supply chain and using SFT expertise based in Edinburgh/central belt.
Risk	Low, assuming partner can be attracted	Medium	Medium	Medium	High
Overall assessment and ranking	1	4	2	3	5

VFM/financial appraisal

	Option 1	Option 2	Option 3	Option 4	Option 5
Option description / criteria	Invite existing RSL but new to Orkney	Council develops/owns and leases to a local property management company	Council develops/owns and leases to Highland Housing Alliance (HHA)	Highland Housing Alliance (HHA) develops/owns/lets	Scottish Futures Trust (SFT) Housing Delivery Partnership
NPV Pre Grant	-£13,090,531	-£14,788,531	-£14,788,531	-£13,889,722	-£15,288,224
NPV Post Grant	-£2,498,737	-£4,196,737	-£4,196,737	-£3,297,928	-£4,696,430
YR30 Cash (Disposal)	£49,516,902	£46,759,382	£46,759,382	£48,219,245	£45,948,346
Value for money Assessment	Maximises value for money as RSL partner assumes development risk and minimises asset management and debt servicing obligations to council.	Suboptimal arrangement in which VFM is not optimised relative to other options examined.	Suboptimal arrangement in which VFM is not optimised relative to other options examined.	Suboptimal arrangement in which VFM is not optimised relative to other options examined.	Suboptimal arrangement in which VFM is not optimised relative to other options examined.

Strategic options – Housing for Infrastructure Construction Workers

The following sets out the potential strategic options for delivering of housing for infrastructure construction workers. At this stage, financial appraisal has not been undertaken until more detail of the prospective developments are known. It is recommended that the options developed with the infrastructure developers secures some legacy for Orkney islands – including Option 3 Empty Homes, Option 6 – building temporary and permanent housing in different locations.

	Option 1 Do nothing	Option 2 Private rented sector	Option 3 Improve empty homes	Option 4 Build temporary camp in one location	Option 5 Build temporary camp in several different camps across different locations	Option 6 Build partial temporary, partial permanent housing in different locations	Option 7 'Floatel'
Description	Leave to market – infrastructure companies to decide how best	Either through individual market or contractors leasing from PRS	Developer funds refurbishment to X standard for letting to workers, makes good on completion	Developer builds temporary housing camp in one location	Developer builds temporary housing camps in several locations	Developer build temp and permanent housing	Developer construction workers only live on floatel
Pros and cons of option		Increased income for landlords Takes housing out of the system for others. E.g. hospital build	Improves stock while meeting demand for target market Increased income and asset value for property owner.	Significant impact for local community in one location May have positive legacy through serviced land even if not permanent housing.	Less impact on local communities if spread the housing build. Positive legacy through serviced land.	As for option 5 and 6 with benefit of legacy permanent housing and serviced land.	No leasing from PRS, no new temp or permanent build. No legacy achieved for serviced land, or permanent housing supply.

5. Strategy and implementation plan

5.1 Principles

The principles of this strategy are:

- **Needs led** - Intervention in the housing market is required to enable workers to be recruited to support Orkney's Islands existing and future communities, including delivery of essential public services and enabling students to move to Orkney.
- **Collaboration** – The challenges of recruitment and retaining incoming households is experienced across sectors. Collaboration will help achieve flexible and sustainable housing solutions to meet a range of needs.
- **Best Value** – Collaboration should drive economies of scale necessary in a relatively small community to get the best value housing options.
- **Placemaking and flexible tenure** – any new build supply will be delivered under the principles of sustainable placemaking, providing mixed and flexible tenure, so that if needs and demand change, properties can be changed tenure, or sold to the open market.

5.2 Operational model

The operational model being pursued is as follows:

- **Co-ordinated keyworker housing project management service** - The Council has two functions here – its strategic and enabling leadership role working with community planning partners to make sure this supply is delivered, and a co-ordinating operational role. The co-ordinating role should be through a centralised project management team to procure and co-ordinate the supply of housing for keyworkers, including development of policies, procedures and partnership relationships. This team will also liaise with Universities to establish how their students' needs can be met through this collaboration.
- **Letting and property management** - The role of the OIC key worker project management team is to commission and co-ordinate supply. A letting agent will be commissioned for day to day letting and property management.
- **Blended model of supply** - Securing housing targeted for key- and other essential workers will be through a blended approach – procuring housing through private sector leasing (short term), bringing empty homes back into use (short/medium term), acquisition of homes from the open market or developers (short/medium term) and new build for mid-market rent (medium to long term). In the long term, the aim would be to return private sector leasing properties back to the market once new supply is in place.
- **New build commissioning programme management** – for the new build element of the programme there may be a requirement for additional design and programme management commissioning services. This depends on the option pursued. If an existing RSL is attracted to develop in Orkney they will have their own design/programme management teams. If an option is pursued where the Council is developer/owner then additional resources will be required to support a new build programme.

Operational model - Summary of roles

	OIC	Community planning partners	RSL developer	Highland Housing Alliance/ other arms length company	External service providers
Strategic and enabling / leadership	✓				
Keyworker project management service	✓	Collaboration on housing required			
Private sector leasing procurement	✓	✓		Property/letting agency services	
Empty homes scheme	✓	Collaboration on housing required		Property/letting agency services	
Acquisition for rent	✓	Collaboration on housing required		Property/letting agency services	
Development of new housing supply – 1st preference		Collaboration on housing required	✓ 1 st preference	Property/letting agency services	
Development of new housing supply – 2nd preference	✓	Collaboration on housing required		✓ Lease from Council	✓ Design and programme management

Timescales, phasing and flexibility - a programme will be developed to deliver 305 bedspaces, around 220 properties over 10 years. The conversion from bedspaces to housing units is based on assumptions taken on demand for household size based on the survey and household trends, with assumptions on occupancy rates as shown in the tables below.

An **example** is provided below. This shows inflows and outflows of different supply options over time. The model is flexible; if for example the supply chain is slow for acquisitions and new build, then other supply could be sought from private sector leasing/empty homes. If demand changes, there is the ability to divest of supply from private sector leasing and empty homes (after end of a 5-year contract). This flexible model means that greater capacity is provided in the overall system as based on this example it is assumed that 70 properties are ‘returned’ to the market as new supply comes on stream – in this case capacity for 380 units is created.

	Years completions			Total
	1-2	2-5	6-10	
Leasing*	100 ¹³	-60	-10	30 ¹⁴
Empty homes	10	15	15	40
Acquire for rent	20	30	35	85
Build for rent	0	100	50	150
	130	85	90	305
Total capacity created in the system				380

House Size Required Size	Assumed	Occupancy Factor		Housing Provision Rounded
		Maximised	Assumed	
1 bed	20%	1	100%	60
2 bed	50%	2	75%	120
3 bed	30%	3	50%	40
				220

¹³ Includes all NHS current leasing from private rented sector (80) and additional PSL supply for OIC (20)

¹⁴ Remaining leasing is Graham House nurses home

- **Housing for infrastructure construction workers** – the Council’s strategic role, keyworker project management service, and additional capacity achieved through the RSL and/or new build commissioning programme management service will provide more skills and resources available to work with the infrastructure developers to agree solutions for the housing requirements for the construction workers, and resulting permanent housing for long term jobs created.

5.3 Resources

A breakdown of the Revenue and Capital implications **for the Council** of the blended strategy over the next 10 years is summarised below. This details the new build development being under by an RSL partner (see first table) and also where the Council undertakes the development directly (see second table). All costs are shown here at current values (ie excluding inflationary pressure at this stage) for comparison purposes.

1) Preferred option with RSL providing new build and council undertaking PSL, empty homes and acquisitions

Option 1: Council do PSL, Empty Homes and Acquisition for Rent (through Mg Agent). RSL Partner provides New Build

Revenue	YR1	YR2	YR3	YR4	YR5	YRS 6 -10	All
NRI (Mg Agent)	£0	-£21,784	-£43,568	-£65,352	-£87,136	-£1,213,476	-£853,105
Admin	£75,000	£35,000	£35,000	£35,000	£35,000	£175,000	£390,000
Leasing	£9,850	£19,700	£19,700	£19,700	£19,700	£98,500	£187,150
Debt charges (Acq'n)	£20,800	£57,200	£109,200	£161,200	£213,200	£1,586,000	£2,147,600
	£105,650	£90,116	£120,332	£150,548	£180,764	£646,024	£1,871,645
Capital							
Empty homes	£125,000	£125,000	£125,000	£125,000	£125,000	£125,000	£750,000
Acquire for Rent	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£3,500,000	£8,500,000
Acquire for Rent AHSG	-£460,000	-£460,000	-£460,000	-£460,000	-£460,000	-£506,000	-£2,806,000
	£665,000	£665,000	£665,000	£665,000	£665,000	£2,551,667	£5,876,667

2) 2nd option whereby council builds and HHA leases, council undertake PSL, empty homes and acquisitions.

Option 2: Council do PSL, Empty Homes and Acquisition for Rent	Council Builds and leases through HHA						
	YR1	YR2	YR3	YR4	YR5	YRS 6 -10	All
Revenue							
NRI (Mg Agent)	£0	-£21,784	-£43,568	-£65,352	-£87,136	-£1,213,476	-£853,105
NRI (New Build)	£0	£0	-£43,610	-£137,060	-£230,510	-£1,638,490	-£2,049,670
Admin	£160,000	£85,000	£85,000	£85,000	£85,000	£425,000	£925,000
Leasing	£9,850	£19,700	£19,700	£19,700	£19,700	£98,500	£187,150
Debt charges (Acq'n)	£20,800	£57,200	£109,200	£161,200	£213,200	£1,586,000	£2,147,600
Debt charges (NB)	£0	£0	£184,426	£184,426	£245,902	£2,151,639	£2,766,393
	£190,650	£140,116	£311,148	£247,914	£246,156	-£69,833	£1,066,151
Capital							
Empty homes	£125,000	£125,000	£125,000	£125,000	£125,000	£125,000	£750,000
Acquire for Rent	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£3,500,000	£8,500,000
New Builld	£0	£0	£4,918,033	£4,918,033	£6,557,377	£8,196,721	£24,590,164
New Build Grant	£0	£0	-£1,229,508	-£1,229,508	-£1,639,344	-£2,049,180	-£6,147,541
	£1,125,000	£1,125,000	£4,813,525	£4,813,525	£6,043,033	£9,772,541	£27,692,623

As detailed above, in the tables set out, for the Council the resourcing implications include:

- The net capital outlay estimated under scenario 1 is £5.876M over the next 10 years assuming an RSL partner is secured to delivery new build element of the blended strategy and £27.692M for scenario 2 if the Council undertake the development directly.
- The net revenue account impact for the council is £1.871M over the next 10 years under scenario 1 and £1.066M under option 2.

5.4 Implementation plan

The tables below show the different tasks to implement the strategy with broad timescales split between set-up and implementation.

	Set up 2023/24		Implementation		
	April – June	June to December	Yrs 1-2	Yrs 2-5	Yrs 6-10
Governance	3 months CLT presentation HSCP / Orkney partnership OIC / other approvals				
Keyworker project management co-ordination service		Recruit roles and establish service/partnership links			
PSL		Develop policies, procedures, legal agreements, procure letting agent	Start procurement	Procure/divest	Divest
Empty Homes		Develop policies, procedures, legal agreements, procure letting agent	Start procurement	Procure	Procure
Acquisition for rent		Develop policies, procedures, legal agreements	Start procurement	Procure	Procure
New build	Discussions with potential affordable housing supplier	Planning with new supplier Or If Council build - establish newbuild programme management office	Start procurement	Procure	Procure

Appendix 1 – Surveys report (separate report)

Appendix 2 – Financial appraisal

Financial Appraisal Methodology

Each of the options was appraised using the 30-year net present value methodology which is a primary litmus test of strategic value for money for areas of public policy intervention (nationally, regionally and locally) including in housing. It enables consistent assessment and then comparison of alternatives to test the extent to which there is sufficient strategic financial value in the option to deliver the stated objectives which generally involve:

- (a) Meeting an initial investment outlay and ongoing management and maintenance obligations;
- (b) Keeping rents and other charges to end users affordable; and,
- (c) Delivering quality services.

All in the context of:

- (d) A fully funded and sustainable project business plan/business case.

Specifically, here for Orkney Islands, the strategic requirement is the **delivery of 305 additional key worker bedspaces**.

The 30-year funding cashflows, discounted cashflows and sensitivity analysis were modelled for each option and appraised using our proprietary financial model. In assessing the strategic value of the options, the following primary aspects were examined – strength of the cashflow performance in the Short, Medium and Long Term, the Net Present Value of the discounted cashflows and the Debt Financing Requirement/Exposure.

The net present value calculation is applied because reviewing the cashflows of themselves does not reflect the time value of money or quantify financial risk in a directly comparable way. For example, two of the options could generate the same volume of cash over the 30 years. However, the availability or ready access to that cash can be very different. One option for example could involve generating most of the cash in the early years and the other only in later years (year 30 alone even). The NPV allows direct comparison of alternative cashflows profiles underpinning different strategic choices.

As with most interventions of scale, delivery is reliant on debt funding and there is a requirement to ensure that the levels of debt required are affordable to the end users (key workers in this case) and are sustainable to the business plan which includes demonstration that they can reasonably be repaid within the term of the existing business plan.

A summary of the comparative appraisal of the options now follows – the strategic options are discussed first then the delivery options. The assumptions underpinning the appraisal of each are discussed below.

Strategic Options Financial Appraisal

Table 1 sets out the 30-year NPV for each of the options, the delivery timescales assumed, and initial capital outlay estimated for options 2 to 5. Option 1 – stay as you are, did not form part of the detailed financial appraisal.

Table A1 – Strategic options – Financial Appraisal Overview

Project Appraisal	Option 2 Private sector leasing scheme	Option 3 Build for rent	Option 4 Acquisition for rent	Option 5 Refurbish empty homes
At 3%				
NPV Pre Grant (30 YRS)	-£391,938	-£19,568,112	-£9,419,080	-£565,558
NPV Post Grant (30 YRS)	-£391,938	-£1,393,012	£626,340	-£565,558
NPV Post Disposal (30 YRS)	n/a	£78,443,420	£63,943,660	n/a
At 3.5%				
NPV Pre Grant (30 YRS)	-£367,246	-£18,354,889	-£8,806,840	-£531,059
NPV Post Grant (30 YRS)	-£367,246	-£1,303,859	£586,881	-£530,493
NPV Post Disposal (30 YRS)	n/a	£73,493,640	£59,883,238	n/a
Deliverables & Timescales				
Housing Units	20	220	220	40
Lead in time	1-2 months	18-24 months	3-6 months	3-6 months
Time to completion	2-3 YRS	5-10 YRS	5-10 YRS	2-3 YRS
Expenditure Estimates				
Estimated capital outlay	n/a	£44,000,000	£33,000,000	£600,000
Per 2 bed unit	0	£225,000	£150,000	£15,000
Annual expenditure per lease*	£956	n/a	n/a	n/a
Cost to council	Y	Possible deficit subsidy required	Y if direct	Y

Overall, our analysis found that over the longer term the build for rent (option 3) and acquire for rent (option 4) deliver stronger value for money relative to the other options because the homes are in the ownership of the public sector estate in its widest sense. In Option 3 New housing assets are created for the benefit of Orkney whilst existing assets are utilised or brought back into use under the other options. However, the lead in times are long for creating new homes and so acquisition for rent (option 4), private sector leasing (option 2) and refurbishment of empty homes (Options 5) will be required in the short to medium term. All options have something to offer but each has very different financial profile.

The key financial assumptions in assessing the strategic options included:

- Average leasing cost of £956 per bedspace leased (option 2). Whilst each key worker is responsible for their own rent, the Council would incur annual costs for example in respect of H&M inspection fees, repair costs. Demand risk payment may also fall to the council in the event of properties being void but this would need to be assessed/negotiated on a contract-by-contract basis;
- Average rent levels overall of £548.50 per month. The same rent was assumed for option 3 and 4, arguably rents on new build properties could be set potentially higher than rents on existing refurbished properties, other things remaining equal and given the improved energy efficiency/lower running costs of a new build property.
- Average annual operating costs of £2,050 per home for ongoing management and maintenance of the properties under options 3 and 4.
- Average all in development costs of £250,000 per new home built (option 3), £150,000 for acquisition for rent (option 4) and £15,000 (option 5) for empty homes refurbishment (based on a 2 bed property). The reason that the new build development cost is higher than acquisition is that the new build standards will be Housing for Varying Needs so the properties can be 'flipped' from mid-market rent to social rent if the need/demand changes in future.
- Average grant of £75,000 in line with the affordable housing programme for mid-market renting (option 3) and £46,000 (option 4).
- Financing cost of 5% on average across all options where relevant.

The Initial Assessment based on 30-year discounted cash flow/NPV appraisal at a discount factor of 3% and 3.5% in line in line with HM Treasury Green Book. Full funding cashflows also prepared to assess debt financing requirement.

Table 2 sets out the conclusion from the financial appraisal of the strategic options.

Table A2 Strategic options – Summary Financial appraisal

<p>Option 2 Private sector leasing scheme</p>	<p>Option 3 Build for rent</p>	<p>Option 4 Acquisition for rent</p>	<p>Option 5 Refurbish empty homes</p>
<p>Lowest cost option in the short and medium term demonstrating value for money for the bedspaces that can be delivered.</p> <p>Cost estimated at £1,000 per bedspace per year.</p> <p>However, cannot deliver/supply at the scale required to satisfy demand.</p> <p>As the lowest cost option, it should form part of the financial strategy for the blended approach and the units available procured/ prioritised in the early years, as an early win.</p>	<p>Highest cost option in the short to medium term but delivering the strongest value for money over the longer term (30 years) as flexibility in future years to sell assets created on open market or to flip to social housing (provided built to required standard).</p> <p>Estimated build cost per new home built at £250,000 (equivalent to £165,000 per bedspace if all 305 bedspaces delivered through this route)</p> <p>As the strongest value for money over the longer term (30 years), this option should form part of the blended strategy.</p>	<p>Lower cost option than build for rent due to current open market values being lower than build costs.</p> <p>Demonstrates value for money over the longer term. However, still a relatively higher cost option initially with less flexibility than build for rent over housing standards.</p> <p>Average acquisition cost assumed at £150,000 (equivalent to £100,000 per bedspace if all 305 bedspaces delivered through this route).</p> <p>As reasonable value for money is demonstrated over the longer term, this option should form part of the blended strategy.</p>	<p>Lower cost option per bedspace demonstrating value for money for the bedspaces that can be delivered in the short to medium term.</p> <p>Does not perform as well as other options in the long run as the asset remains in 3rd party ownership so grant is invested, with no financial return.</p> <p>Cost per bedspace estimated at £15,000.</p> <p>As a lower cost option which can be mobilised reasonably quickly, it should form part of the financial strategy during the early years of the plan where demand cannot be satisfied from option 2 (leasing) and/or options 3 and 4 (build or acquisition for rent).</p>

Delivery Options

Having concluded that a blended approach was required to deliver the 305 additional bedspaces for key workers over the short, medium and long term. The following delivery options were identified:

- **Option 1** - Invite existing RSL with private subsidiary not currently active in Orkney to develop/own/let for MMR and potentially market rent
- **Option 2** - Council develops/own for MMR and leases to A local letting agent Ltd for letting and property management
- **Option 3** - Council develops/owns for MMR and leases to Highland Housing Alliance (HHA) for letting and property management
- **Option 4** - Highland Housing Alliance (HHA) develops/owns/lets for MMR
- **Option 5** - Scottish Futures Trust (SFT) Housing Delivery Partnership

The Appraisal for each is summarised in table 3.

Table A3 – Delivery Options Financial Appraisal Summary

Option description / criteria	Option 1 Invite existing RSL but new to Orkney	Option 2 Council develops/owns and leases to a local property company	Option 3 Council develops/owns and leases to Highland Housing Alliance (HHA)	Option 4 Highland Housing Alliance (HHA) develops/owns/lets	Option 5 Scottish Futures Trust (SFT) Housing Delivery Partnership
NPV Pre Grant	-£13,090,531	-£14,788,531	-£14,788,531	-£13,889,722	-£15,288,224
NPV Post Grant	-£2,498,737	-£4,196,737	-£4,196,737	-£3,297,928	-£4,696,430
YR30 Cash (Disposal)	£49,516,902	£46,759,382	£46,759,382	£48,219,245	£45,948,346
Value for money	Minimum cost to Council. Maximises value for money as RSL partner assumes development risk and minimises asset management and debt	Suboptimal arrangement in which VFM is not optimised relative to other options examined.	Suboptimal arrangement in which VFM is not optimised relative to other options examined.	Suboptimal arrangement in which VFM is not optimised relative to other options examined.	Suboptimal arrangement in which VFM is not optimised relative to other options examined.

servicing obligations to council.				
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Our analysis found that Option 1 optimises value for money as the RSL partner has the pre-existing development capacity to deliver projects of scale.

Our analysis also found:

- It is difficult to distinguish on a financial basis between options 2 and 3 at this stage. If the council decides to develop then the procurement of a letting and property management agent would be further considered/tendered at the appropriate time. However, options 2 and 3 do not perform as well as option 1 due to the higher annual running costs which the council would have to incur to increase its current development capacity to deliver the programme for key worker housing and due to the lower grant rates available to OIC compared to an RSL partner;
- On the basis of the financial assessment, the SFT housing delivery partnership model is costly due to the additional costs of supporting the JV. Alternative ways of supporting the JV could be further explored by the Council and SFT eg through more significant up front investment, secondment of existing staff but this would require further detailed consideration and would not outperform option 1 in the short to medium term. On the face of it, the SFT option may be useful in the longer term (where there is market failure/supply chain issues), but is not the most cost effective where existing delivery/industry capacity exists as in Option 1. Consequently, on the basis of the appraisal it is suboptimal relative to option 1.
- If building to a higher social housing standard to retain the flexibility to flip the MMR units back to social housing at some point then either grant at social housing levels will be required as part of the initial development and/or additional deficit funding support will be required eg from OIC. On the basis of our analysis the project cashflows do not directly support the cost of the additional specification without further subsidy.

The financial assumptions applied to each of the **delivery options** include:

- 220 new homes of which 110 are new build for MMR, 60 are acquisitions for MMR, 30 are refurbishment of empty homes and 20 are leased.
- All in development costs at £225,000, grant levels at £58,500 for RSL and £53,000 for OIC. Additional grant is available under certain conditions (up to £17,300 for example £4,000 for heating producing zero emissions). In addition, Scottish Government retains flexibility to award above benchmark rates and it is assumed that maximum grant rates will be pursued/secured.
- An allowance of £85,000 for the project management service annually has been included (all in costs) across both Council development scenarios (Option 2 and 3) and in Option 5 to support the JV. An allowance of £40,000 for commissioning/contract management has been provided in respect

of option 4. Additional £25,000 for governance in respect of option 5 has been provided. All costs are shown at current values (ie excluding inflationary pressure at this stage).

Resources

A breakdown of the Revenue and Capital implications **for the Council** of the blended strategy over the next 10 years is summarised below. This details the new build development being under by an RSL partner (see first table) and also where the Council undertakes the development directly (see second table). All costs are shown here at current values (ie excluding inflationary pressure at this stage) for comparison purposes.

3) Preferred option with RSL providing new build and council undertaking PSL, empty homes and acquisitions

Option 1: Council do PSL, Empty Homes and Acquisition for Rent (through Mg Agent). RSL Partner provides New Build

Revenue	YR1	YR2	YR3	YR4	YR5	YRS 6 -10	All
NRI (Mg Agent)	£0	-£21,784	-£43,568	-£65,352	-£87,136	-£1,213,476	-£853,105
Admin	£75,000	£35,000	£35,000	£35,000	£35,000	£175,000	£390,000
Leasing	£9,850	£19,700	£19,700	£19,700	£19,700	£98,500	£187,150
Debt charges (Acq'n)	£20,800	£57,200	£109,200	£161,200	£213,200	£1,586,000	£2,147,600
	£105,650	£90,116	£120,332	£150,548	£180,764	£646,024	£1,871,645
Capital							
Empty homes	£75,000	£75,000	£75,000	£75,000	£75,000	£75,000	£450,000
Acquire for Rent	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£3,500,000	£8,500,000
Acquire for Rent AHSG	-£460,000	-£460,000	-£460,000	-£460,000	-£460,000	-£506,000	-£2,806,000
	£615,000	£615,000	£615,000	£615,000	£615,000	£2,501,667	£5,576,667

4) 2nd option whereby council builds and HHA leases, council undertake PSL, empty homes and acquisitions.

	Option 2: Council do PSL, Empty Homes and Acquisition for Rent (through OIPD)			Council Builds and leases through HHA			
Revenue	YR1	YR2	YR3	YR4	YR5	YRS 6 -10	All
NRI (Mg Agent)	£0	-£21,784	-£43,568	-£65,352	-£87,136	-£1,213,476	-£853,105
NRI (New Build)	£0	£0	-£43,610	-£137,060	-£230,510	-£1,638,490	-£2,049,670
Admin	£160,000	£85,000	£85,000	£85,000	£85,000	£425,000	£925,000
Leasing	£9,850	£19,700	£19,700	£19,700	£19,700	£98,500	£187,150
Debt charges (Acq'n)	£20,800	£57,200	£109,200	£161,200	£213,200	£1,586,000	£2,147,600
Debt charges (NB)	£0	£0	£184,426	£184,426	£245,902	£2,151,639	£2,766,393
	£190,650	£140,116	£311,148	£247,914	£246,156	-£69,833	£1,066,151
Capital							
Empty homes	£75,000	£75,000	£75,000	£75,000	£75,000	£75,000	£450,000
Acquire for Rent	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£3,500,000	£8,500,000
New Builld	£0	£0	£4,918,033	£4,918,033	£6,557,377	£8,196,721	£24,590,164
New Build Grant	£0	£0	-£1,229,508	-£1,229,508	-£1,639,344	-£2,049,180	-£6,147,541
	£1,075,000	£1,075,000	£4,763,525	£4,763,525	£5,993,033	£9,722,541	£27,392,623

As detailed above, in the tables set out, for the Council the resourcing implications include:

- The net capital outlay estimated under scenario 1 is £5.575M over the next 10 years assuming an RSL partner is secured to delivery new build element of the blended strategy and £27.4M for scenario 2 if the Council undertake the development directly.
- The net revenue account impact for the council is £1.871M over the next 10 years under scenario 1 and £1.066M under option 2.

Strategic Financial Conclusions and Recommendations

Our appraisal found option 1 is the option which is most likely to be deliver the bedspaces required in Orkney. On the basis of the financial appraisal of the strategic delivery options, we are therefore recommending option 1. Once a key partner is identified detailed financial planning of the implementation strategy will be required.

Essential Workers Funding Case

ORKNEY ISLANDS COUNCIL

Final Report

11 Oct 2023



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Executive Summary

This paper is an addendum to the Indigo House Group Report dated March 2023. It sets out the **funding business case** for the delivery of the Essential Workers Strategy which identified the need for a net additional 305 bedspaces (220-unit equivalent) to be provided over the next 10 years on a mid-market renting basis.

The funding case for the following three key options are set out in this paper:

- **Option 1 – attract an existing RSL** with a private subsidiary (or alternatively other MMR provider such as Highland Housing Alliance) to Orkney to deliver the acquisition and build for rent programmes with the Council administering the leasing scheme and the empty homes grant subsidy programme. This approach was identified in the Essential Workers Strategy, as the preferred option as it is the **lowest cost option** to the Council **in the short to medium term**.
- **Option 2** - In the event that an RSL partner (other MMR provider) cannot be attracted to Orkney, we then explored the Council investing in the new build and acquisition programmes from the **Strategic Reserve Fund**. The properties would be held on the Council's Strategic Reserve Fund as investment properties and managed and let at arm's length from the Council.
- This arm's length arrangement can be with any 3rd party provider who has legal competency to contract with the Council and can provide private residential tenancies. This could be the private residential subsidiary company of an established RSL in Scotland, Highland Housing Alliance or an Arms-Length Company set up for the purpose.
- Investment from the Strategic Reserve Fund is assumed on the basis of a planned 70:30 debt equity financing structure. The Council would still administer the leasing scheme and the empty homes grant subsidy programme.
- **Option 3** – again, if an RSL partner (or other MMR provider) cannot be attracted to Orkney, the Council would deliver the acquisition and build for rent programmes through a **special purpose vehicle established for the purpose**. The Council would still administer the leasing scheme and the empty homes grant subsidy programme.

Our analysis found:

- **Option 1** is the lowest cost option over the next 10 years requiring just over £2M. It also limits the Council's financial exposure to acquisition and development risk, at least in the short term. It is however, a spend based approach only. That said, it enables early provision and is recommended as part of the overall approach. Consequently, the general fund implications to deliver the PSL scheme and the empty homes grants and to co-ordinate the overall implementation of the Essential Workers Strategy apply also to Option 2 and 3. This is new expenditure and cannot be met from within existing budgets.
- **Option 2** takes a strategic approach to delivering investment in the local housing markets across Orkney. It requires £8.5M from the Strategic Reserve Fund over the first 5 years (at 5.2%) to unlock delivery of a £43M programme of acquisitions and new build for Essential Workers Housing. Significant leverage is possible with every £1 invested by the Council attracting a

further £4 for investment. That said it is reliant on £2.5M additional upfront public investment. This is a strategic approach to management of the Council's balance sheet and creating value for local communities. It provides an effective value for money approach for increasing housing supply or effecting housing market change in challenging market conditions.

- It is based on the premise that key public sector partners – OIC and Scottish Government - can take a long-term view and that by providing early upfront investment, they can leverage significant private funding and investment to provide considerable additionality to local community and Islands life.
- It also assumes that, as the market starts to perform, the public sector partners will exit at an appropriate point so that the initial financial investment made can be withdrawn, making it available for further reinvestment in other local projects.
- At this point in the economic cycle, our analysis also suggests it demonstrate value for money relative to other investment choices and meets the 5.2% return required in line with the current investment strategy for the Strategic Reserve Fund.
- The approach is not risk free, certain conditions need to be in place and downside risks will have to be appropriately managed. These conditions and some of the key risks are considered in this paper. No investment comes without risk and there is significant financial risk attached to any major programme, more so at the current time. All aspects of the plan will require to be kept under review as the programme is designed and implemented.

Our analysis also found:

- **Option 3**, establishing an SPV is also a strategic approach. It has the benefits of Option 2 but as it involves additional costs it is more expensive relative to Option 2. It therefore requires additional up front upfront investment of a further £2M in the first 5 years (so £4.6M in total in the first 5 years), it involves the debt finance being drawn earlier to cover the additional costs involved – from year 5 instead of year 6 – and takes 3 years longer to repay. It may also involve more security obligations for any private finance including the Council acting as Guarantor. However, it enables risks to be ringfenced and may be necessary if the legal competency is not there for Option 2. The additional upfront subsidy of £2M reduces the peak debt required £0.300M compared to Option 2 but as already highlighted, it takes longer to repay.
- Overall, both Option 2 and Option 3 represent strategic approaches to investment in local communities across Orkney and pave the way for broader investment strategies.

1. Introduction and background

This paper is an addendum to the Indigo House Group Report dated March 2023. It sets out the **funding business case** for the delivery of the Essential Workers Strategy which identified the need for a net additional 305 bedspaces (220-unit equivalent) to be provided over the next 10 years on a mid-market renting basis using a **blended approach comprising 4 key interventions** as follows:

- (1) a private sector leasing scheme to provide 20 additional units (40 bedspaces/leases);
- (2) an acquisition for rent programme to deliver 60 units;
- (3) a new build for rent programme to deliver 110 units; and
- (4) an empty homes grant subsidy scheme to bring 30 properties back into use. Empty homes in OIC are more than double the Scottish average (10% compared to 4%) and so the essential workers strategy is also expected to contribute to other national housing objectives.

The Essential Workers Strategy confirmed these interventions are required to deliver the **Mid-Market Renting housing outcomes** sought at the **pace and scale** required to address significant pressure in Orkney's rural housing system to accommodate **local residents** and **incoming workers** involved in delivering **essential public services, and essential private sector services including those involved in tourism, and potential economic development** across Orkney. The private sector leasing scheme, empty homes grants and acquisition for rent programmes can all be mobilised quicker than a new build programme and so enable some short- and medium-term provision for Essential Workers whilst a longer-term new housing supply programme is established.

It is important to note that delivery of the MMR housing programmes for Essential Workers sits in the **broader context** of delivering much needed additional housing across **all tenures** for the Orkney Islands, as set out in the Housing Needs and Demands Assessment, the emerging Local Housing Strategy and the Strategic Housing Investment Plan. Delivery of MMR housing for Essential Workers and delivery of additional social housing or other new build housing programmes are therefore **complementary programmes** and **are not mutually exclusive**.

Essential Workers are defined in the Mid-Market Renting Allocations Policy as including Health and social care staff, employees of NHS Orkney and Orkney Islands Council, and employees of agencies providing health and care services on behalf of NHS Orkney or Orkney Islands Council; Other employees or contractors required to deliver essential public services (e.g. fire, police); Construction workers required to support Orkney's local economy; Hospitality workers required to support Orkney's local economy and other workers that can demonstrate their working status is essential to help sustain Orkney's communities and local economy.

The funding case for the following three key options are set out in this paper:

- **Option 1 – attract an existing RSL** with a private subsidiary to Orkney to deliver the acquisition and build for rent programmes with the Council administering the leasing scheme and the empty homes grant subsidy programme. This approach was identified, in the Essential Workers Strategy, as the preferred option as it is the **lowest cost option** to the Council **in the short to medium term**.
- **Option 2** - In the event that an RSL partner (or other MMR provider) cannot be attracted to Orkney, we then explored the Council investing in the new build and acquisition programmes from the **Strategic Reserve Fund**. The properties would be held on the Council’s Strategic Reserve Fund as investment properties and managed and let at arm’s length from the Council. Investment from the Strategic Reserve Fund is assumed on the basis of a 70:30 debt equity financing structure. The Council would still administer the leasing scheme and the empty homes grant subsidy programme.
- **Option 3** – again, in the event that an RSL partner (or other MMR provider) cannot be attracted to Orkney, the Council to deliver the acquisition and build for rent programmes through a **special purpose vehicle established for the purpose**. The Council would still administer the leasing scheme and the empty homes grant subsidy programme.

It is important to note that Option 3 still requires investment and funding from the Council via the Strategic Reserve Fund and/or the General Fund. It has been assumed this is also structured on a 70:30 debt equity financing structure to enable comparison on a like for like basis with Option 2.

The table below provides a summary of who delivers what under each option.

Funding Options	Option 1 – RSL/MMR Partner	Option 2 – Strategic Reserve Fund	Option 3 - SPV
1 - PSL Scheme	OIC	OIC	OIC
2 - Acquisition for MMR	RSL	OIC	SPV
3 - Build for MMR	RSL	OIC	SPV
4 - Empty Homes Grant	OIC	OIC	OIC

Like many local authorities across Scotland and the rest of the UK, Orkney Islands Council is under considerable financial pressure. Over the past 10 years, council spending has been part funded by contributions of £74.6M from the Strategic Reserve Fund. Of this, a total of £54.7M (or 73%) was used to balance the General Fund budget. A total of £2.9M (3.8%) funded previous house build programmes.

Given this context, funding case options 2 and 3 were therefore examined to explore the potential for:

- (a) mitigating the impact of any additional and ongoing expenditure arising on the Council’s general fund; and
- (b) to assess whether a target rate of return could be generated for any investment provided via the Council, particularly via the Strategic Reserve Fund.

Like many others, the funding context is complex for Orkney at the current time. At a recent roundtable meeting on infrastructure investment for Scotland representatives from Scottish Futures Trust, the Scottish National Investment Bank (SNIB) and the UK Infrastructure Bank (UKIB) discussed where they can play a role, at various positions in the capital stack, with the aim of unlocking development wherever that might be needed. In the current economic climate, participants from all sides acknowledged the difficulties being caused by continuing inflationary challenges on the one hand, and rising interest rates on the other. The cost of capital was also recognised as a challenge, while costs in the supply chain, including labour and materials, are all going up. Agreeing prices with developers to deliver new housing was also highlighted as a major difficulty in this environment. As one put it “the case to invest in new assets is now harder than perhaps at any point in the past five or even 10 years”.

The options set out here for Orkney have been developed following discussions with Orkney Islands Council finance and housing teams who have worked with us to identify a solution capable of delivering the required housing outcomes required in the context of a fully funded business plan and we would like to acknowledge their input and time.

Our key findings are summarised overpage and more detailed consideration of the funding requirements and financial risks of each of the options then follows. All options are based on the delivering 220 units, which has been aligned to the latest housing supply requirements as set out in the Housing Need and Demand Assessment. The scheduling of which is summarised below.

PROGRAMME	YR1 2024/25	YR 22025/26	YR3 2026/27	YR4 2027/28	YR5 2028/29	YR6 2029/34	10YRS
1 - Empty Homes	2	6	6	6	5	5	30
2 - PSL	5	10	5	-	-	-	20
3 - Acquisition for rent	1	5	20	20	10	4	60
4 - Build for rent	-	-	10	20	20	60	110
Total - Annual Completions	8	21	41	46	35	69	220
Cumulative Provision	8	29	70	116	151	220	

It is also worth noting in all funding case options, the management and letting activity is undertaken at arm’s length from the council as the Council is not permitted to issue private residential tenancies (PRT) required for Mid-Market renting purposes.

Ownership of the Asset can be with the Council, RSL or SPV. This arm’s length arrangement can be with any 3rd party provider who has legal competency to contract with the Council and can provide private

residential tenancies. This could be the private residential subsidiary company of an established RSL in Scotland, Highland Housing Alliance or an Arms-Length Company set up for the purpose. The different ownership and management arrangements under each of the interventions are summarised below.

Programme	Asset Status	Management & Letting Arrangement	Target
1 - Empty Homes	Private Ownership	N/a	30
2 – PSL	Managed Only	Head lease between Council and Owner	20
3 - Acquisition for rent	Owned	At Arm’s Length from the Council	60
4 - Build for rent	Owned	At Arm’s Length from the Council	110
		Total Provision Planned	220

2. Option 1 – Partnership with an existing RSL/MMR Provider

In this option the Council will deliver the private sector leasing scheme and administer the empty homes grant. The RSL partner will deliver 170 units of essential workers housing through acquisition and/or new build which the council will monitor through the SHIP. The RSL will own and manage the assets acquired and built.

Under this option the total cost to the Council is an estimated net revenue expenditure of £2.083M over the next 10 years. Table 1 provides a breakdown, effective from 1st April 2024, by expenditure programme. This would require to be met by the Council’s general fund and the expected outlay in the next financial year 24/25 is £0.147M.

Table 1: Net Revenue Expenditure from 1st April 2024 – Option 1

Expenditure Programme	YR1	YR2	YR3	YR4	YR5	YR6-10	ALL 10 YRS
All figures expressed on outturn values	24-25	25-26	26-27	27-28	28-29		
PSL	£7.9	£24.7	£34.0	£34.7	£35.4	£187.7	£324.3
Empty Homes	£50.0	£150.0	£150.0	£150.0	£125.0	£125.0	£750.0
Direct Costs PSL + Empty Homes	£57.9	£174.7	£184.0	£184.7	£160.4	£312.7	£1,074.3
Administration (full strategy)	£89.5	£93.3	£96.3	£98.2	£100.2	£531.8	£1,009.2
Net Revenue Cost £000s	£147.4	£268.0	£280.3	£282.9	£260.5	£844.5	£2,083.5

Table 1 details:

- Total direct expenditure in delivering the PSL and Empty Homes Grants of £1.074M over the next 10 Years.
- This includes £0.324M on the PSL scheme, which is 30% of the total **direct** spend for this option. This represents £0.032M on average per year and delivers 20 PSL units annually from 1st April 2025 with 5 provided next year and all 20 in place by the end of year 3 (March 2027).
- It also includes total expenditure of £0.750M on empty homes grants, which is 70% of the total **direct** spend. This represents £125,000 per year on average for 6 years with 30 grants made by year March 2030.

Table 1 also details:

- Over the next 3 years a total of £0.695M is required - £147.4M next year in 24-25, £0.268M in 25-26 and £0.280M in 26-27. This is new expenditure required to deliver on statutory housing obligations which cannot be met within existing resource allocations.

- Oversight and co-ordination of the Essential Workers Strategy is estimated to cost £1.009M over the next 10 years. This includes direct project management and administration of the PSL and Empty Homes Grants and oversight and co-ordination of delivery of the whole of the Essential Workers strategy. A provision of £85,000 annually has been included. The estimates currently assume the project administration is in place for the full 10 years, which may or may not be required, if some programmes are completed earlier (Empty Homes Grants by year 6, for example) and is perhaps worth some further consideration.

A detailed breakdown of the expenditure estimates for Option 1 is provided in Appendix 1, together with a summary of the assumptions and estimates applied. Suffice to note here, the expenditure estimates are based on:

- A net outlay to the Council of around £1,500 per private residential property leased per annum. This is based on a 2-bed property being shared by 2 essential workers on average with underoccupancy rates of 3.3% and letting agent fees of 12%.
- A maximum empty homes grant award of £25,000 per successful application to enable the property to meet the statutory Repairing Standard required in the private rented sector. The £25,000 is a maximum cap with no further inflationary provision included.
- Project Management costs increasing in line with CPI + 0.5% annually until year 5 and CPI + 0.25% thereafter.

There is no capital outlay for the Council under this option as the properties are acquired and built by the RSL partner (or other MMR provider).

Funding this option

The expenditure involved in delivering Option 1 requires to be met directly from the General Fund. Two possible sources of funding have been identified:

- The Scottish Government announced recently that £25 million will be made available from the 2023-28 Affordable Housing Supply Programme to help to make best use of underused or empty properties by making them available for key workers in rural communities and others in need. Our understanding is that further details on the application process will be shared with local authorities soon. We have not assumed any funding from this source, as yet, but would expect this potential source of funding to be pursued with the Scottish Government.
- In addition, Council Tax Income from second homes is currently budgeted at £0.240M per annum. If available at this level it could potentially cover the expenditure on Option 1. However, there is an opportunity cost of diverting this funding to support the Essential Workers expenditure programmes.

Financial assessment, risk and sensitivity testing

Option 1 is the lowest cost option over the next 10 years and limits the Council's financial exposure, at least in the short term. It is however, a spend based approach only. It is estimated to cost the council £2.083M over the next 10 years. It is negatively valued at £1.513M, based on a 6% real term discount rate (and £1.649M at 3.5%).

We also tested the sensitivity of the expenditure estimates to changes in key variables as follows:

- An increase in the void rate to say 10% (from 3.3%) adds around £12,160 per annum (£121,600 over the 10-year period). This is important to note as the cost to the Council will vary depending on the mix of properties leased if the demand risk sits with the Council. Occupancy based on a one 1-bedroom property for each Essential Worker (i.e. no sharing), would increase costs by about £65,000 over the 10-year period.
- An increase in the letting agent fee from say 12% to 15% would result in an additional £5,400 per annum or £54,000 over the 10-year period.
- Any increase in the net outlay to the Council by say £500 per property leased increases the cost by around £11,340 per annum or by around £113,400 over the 10 years period.

The sensitivity testing suggests that whilst it is the lowest cost option over the next 10 years, budgets and actual costs will have to be kept under regular review. It highlights that the costs of delivery are highly variable to relatively modest movements in prices and to the occupancy arrangements (with 2 Essential workers sharing a 2-bedroom property being the most cost effective for the Council). This will require regular monitoring as the environment continues to be challenging with significant upward pressure on costs and since the choice of properties available to lease in Orkney will be constrained (so not all properties leased will end up being 2 bedrooms).

The operating arrangements for the PSL scheme would be set out in the operational documents including the head lease agreement with the property owner and with the lettings agent.

Other points to consider:

Two further points are worth noting:

- The accounting treatment of the private sector leasing scheme will have to be kept under review by the Council as the detailed implementation arrangements of the scheme are established. The financial analysis has been prepared on the basis of the scheme being treated as revenue expenditure as dealt with under IFRS15.
- However, IFRS16, which the finance team are currently reviewing, is designed to classify all long-term leases as capital and to ensure that the rights and liabilities of long-term leases are fully reflected on the relevant balance sheet. The impact of classifying the essential worker

housing scheme as long-term leases under IFRS16 would be to reduce the revenue expenditure involved annually and to increase the capital expenditure recorded in the year that the lease is entered into. Regardless of whether the contracts are reported under IFRS15 or IFRS16, is not expected to materially impact on the direction of travel for delivery of the strategy.

- Specialist VAT advice may also be required to ensure that additional expenditure in relation to Essential Workers Programmes, combined with other Council expenditure plans, do not impact on the council's partial exemption threshold which currently sits below the 5% de minimus level required.

As set out in the Essential Workers Strategy (March 2023) delivery of this option is dependent on:

- Attracting an established housing association with strong organisational and financial capacity, and proven track record in supplying private rented housing options including MMR and potentially private rent.
- Preferably, OIC would be seeking a new RSL partner (or other MMR provider) with experience in developing a place-based approach to mixed tenure development, meeting the demands of a range of client groups including key/other essential workers and students.
- Grant for new build and acquisitions would be provided to the RSL (or other MMR provider) by the Scottish Government for MMR.

It is also worth noting here that HHA, although not an RSL, would be a relevant partner but that the 'flexible' tenure explored in the Essential Workers Strategy would not be possible as they do not provide social housing.

Financial Conclusion on Option 1

Option 1 is the lowest cost option over the next 10 years and limits the Council's financial exposure, at least in the short term. It is however, a spend based approach only.

Whilst it is the lowest cost option over the next 10 years, budgets and actual costs will have to be kept under regular review. The sensitivity analysis set out here highlights that the costs of delivery are highly variable to relatively modest movements in prices and to the occupancy arrangements (with 2 Essential workers sharing a 2-bedroom property being the most cost effective for the Council). This will require regular monitoring as we continue to operate in an environment with significant upward pressure on costs and since the choice of properties available to lease in Orkney will be constrained (so not all properties leased will end up being 2 bedrooms).

Early funding of the PSL Scheme and Empty Homes Grants programmes will need to be met from the Council's General Fund. It is new expenditure requiring to be funded from the General Fund and cannot be met from existing budgets. As delivery of the early provision through the leasing and the empty homes grant is an integral part of the Essential Workers Strategy these costs apply to all 3 options. The Options now considered through the SPF (Option 2) and SPV (Option 3) route address the unlocking of the £42.3M capital programme requirements – the new build and acquisition programmes.

3. Option 2 – Strategic Reserve Funding Option

In this option the Council:

- delivers the empty homes grants and private sector leasing scheme as for option 1 at a cost to the general fund of £2.083M over the next 10 years; and,
- invests £8.5M from the Strategic Reserve Fund to lead delivery of a £42.3M acquisition and build programme and provide 60 units and 110 units respectively.

Under this option, the properties acquired and built are held as **investment properties on the Strategic Reserve Fund “SRF”**. Assets held on the Balance Sheet as owned by the SRF are treated as investment properties which must **generate a market return** or **grow in value** in order to comply with the Local Authority Accounting Code of Practice. The SRF currently owns the industrial estates and strategic land purchases (both of which comply with the purpose of the SRF).

The investment properties acquired and built are then leased to a 3rd party provider to be managed and let at arms-length from the Council.

Table 2 below sets out the 10-year investment programme and indicative funding profile.

Table 2: 10 Year Essential Workers Capital Programme £M

	YR1	YR2	YR3	YR4	YR5	YR6-10	ALL 10 YRS
Capital Funding	24-25	25-26	26-27	27-28	28-29		
Acquisition for Rent	£0.179	£0.937	£3.880	£3.967	£1.825	£1.085	£11.873
New Build for Rent	£0.000	£0.000	£2.567	£5.250	£5.368	£17.226	£30.412
Total Capital Expenditure	£0.179	£0.937	£6.447	£9.217	£7.194	£18.310	£42.285
Funded by:							
SRF Investment	£0.000	£0.000	£2.401	£6.049	£0.049	£0.000	£8.500
Debt Finance	£0.000	£0.000	£0.000	£0.000	£4.882	£12.636	£17.518
Grant (AHG)	£0.050	£0.250	£1.900	£2.800	£2.250	£5.650	£12.900
SG	£0.129	£0.687	£1.809	£0.000	£0.000	£0.000	£2.625
Contribution from operations	£0.000	£0.000	£0.337	£0.368	£0.012	£0.024	£0.742
Total Capital Funding	£0.179	£0.937	£6.447	£9.217	£7.194	£18.310	£42.285

Table 2 shows:

- the total estimated cost of delivering the acquisition and new build investment programme is £42.285M.
- The programme requires just over £1.1M over the next 2 financial years, it then considerably gears up in year 3 (26-27) with a spend of just under £6.5M.
- Over the first 5 years, to 31st March 2029, a total of £24M is planned under this option. The remaining £18.3M is invested in years 6 to 10.

It also shows:

- Just under £12M is required to deliver the acquisition programme and £30M to deliver the new build programme.

A detailed breakdown of the expenditure estimates for Option 2 is provided in Appendix 2, together with a summary of the assumptions and estimates applied. In summary, this is based on:

- Acquisition costs of £170,000. These are all inclusive of any legal and refurbishment costs required and any non-reclaimable VAT.
- Build costs of £225,000 per unit. The build cost is also all-inclusive of any new build commissioning costs including design and professional fees. In option 1, if an existing RSL is attracted to develop in Orkney they will have their own design/programme management teams. If Option 2 is pursued and the Council develops the MMR properties, then additional resources will be required to commission this new build programme. It has been assumed that these costs are capitalised and included within the total estimated capital programme. If these costs are not capitalised, then another £0.750M to £1M will be required from the General Fund Revenue Account over the next 10-year period.
- Grant rates at £50,000 and £90,000 per unit respectively. These rates are higher than benchmark rates and will require discussion with Scottish Government. The combination of investment by the Council and higher grant levels from the Scottish Government will be important in upfront investment and improving development capacity across the Orkney Islands. The equivalent cost of the programme at today's prices is £34.950M and inflationary pressure is estimated at £7.335M (so 21%). This inflationary pressure is significantly impacting on development viability and a discussion with the Scottish Government is required on additional support in the current climate. An additional grant contribution in the early years of £2.6M has been assumed (£2.5M at today's prices).
- Management costs (at 12% of rents).

Funding this option

Table 2 demonstrates the SRF initial investment of £8.5M is used to leverage significant other sources of funding (£33.8M) to deliver investment of additional scale across Orkney. Table 2 also details, the indicative funding required is as follows:

- **Strategic reserve fund investment of £8.5M** being required over the next 5 years as the programme gets underway. The plans include a 5.2% target investment return rate to meet the requirements of the fund and the code of practice.
- **Debt finance of £17.5M** being required from year 6 of the plan with a long-term financing rate of 5% assumed; and,
- **Affordable Housing Grant** from the Scottish Government of £12.9M.
- **Additional funding support** of £2.6M over the first 5 years is also required. In the base plan this is assumed by year 3 but there is some flexibility within the plan over when this is provided. Unlocking investment of £43M requires this additional upfront public investment to address prevalent barriers and so at this point it is assumed that a discussion will take place with the Scottish Government. Possible funding streams for this will have to be discussed.
- **Net cash from operations** of £0.7M over the next 10 years (post Arms-length management and finance servicing costs).

Based on this profile the plan delivers as follows – over the first 10 years – the **initial investing phase**:

- Leverage of 1:4 so for every £1 invested by the SRF a further £4 is invested in Orkney.
- An investment return of 5.2% for the SRF or around £0.450M on average annually. Investment from the Strategic Reserve Fund would be expected in advance of the debt finance and there is scope to increase the level of investment by the SRF relative to the debt if this is of interest to OIC.
- Investment assets which are estimated to be worth circa £35M - £45M by the end of the initial 10-year investment phase. The Orkney housing market has grown by considerably more in recent years, outperforming the Scottish Average growth levels. An additional 0.5% growth per annum broadly increases the valuation by £2.3M and selling the 60 units acquired for rent would generate circa £13M at that point. This provides the opportunity for the SRF to exit at this stage.

Over the longer term (years 11 to 30) – the **operating phase**:

- the plan is debt free from year 24 and is cash generative with closing cash of £5.7M estimated at bank.

This option is a **strategic approach to investment**. Clearly there is significant financial risk attached to any major programme, more so at the current time and all aspects of the plan will need kept under review as the programme is designed and implemented. In this option the development risk sits with the Council, albeit the Council could seek to procure a development partner who may be better placed to manage this risk.

Financial assessment, risk and sensitivity testing

Table 3 sets out the overall performance of the investment property cashflows, the debt profile, the asset values created and the overall NPV. It also sets out a summary of sensitivity analysis also undertaken.

Table 3: Summary Appraisal - Option 2 - Strategic Reserve Fund

Funder	Performance of Investment Property Cashflows					
	NPV £000s	Peak Debt £000s	Peak Debt YR	Debt Free YR	Cash YR30 £000s	Debt YR30
Base plan	£139	£26,262	10	24	£5,748	Nil
<i>Sensitivity Analysis (each one discrete)</i>						
No Property Sales	-£5,422	£28,193	24	N/A	£250	£27,475
Real Rent Growth + 0.5% to YR5	£345	£26,070	10	23	£6,864	Nil
Real Rent Growth + 0.5% from YR6	£477	£26,164	10	22	£7,999	Nil
Interest rate exposure +0.5%	£139	£26,877	10	28	£2,857	Nil
Inflationary pressure CPI at 4% to YR5	£139	£27,937	10	24	£6,154	Nil
No Upfront Funding Support	-£2,220	£30,305	10	N/A	£250	£3,930

Table 3 demonstrates:

- An overall positive NPV of £0.139M. This is based on discount rate of 6% which is the rate applied typically in social housing. At 3.5% (which is the Treasury Green Book appraisal rate) the NPV is £3.171M
- A peak debt financing requirement of £26.2M occurring in year 10 as the development programme completes.
- Debt being fully repaid over the term of the plan, with the plan debt free from year 24.
- An estimated £5.748M cash at bank at the end of the 30-year assessment term.

It is important to note that the units acquired for rent are not expected to be retained over the longer term and these units are currently assumed to be sold from year 11 of the plan over a 5-year period. This ensures overall borrowing costs are minimised through the term of the plan and ensure that, over the longer term, the quality of the MMR provision meets modern build standards expected for 'social' housing providers. Essentially, the units acquired for rent are only a transitional/medium term solution aimed at facilitating some pace and alleviating housing system pressure in the early years whilst the new build programme gains traction.

The sensitivity analysis also demonstrates that the plan is not viable on the basis of retaining all 170 units over the life of the plan and that the plan is negatively valued without circa £2.6M upfront support in the early years (£2.5M at today's prices).

That said, it also demonstrates some further capacity in the plan to withstand some additional adverse pressure – interest rate exposure +0.5%, for example. In addition, LHA rates have been frozen for 3 years since 2020 which presumably will be increased at some point over the couple of years, which should, potentially be beneficial to the plan.

Also important to note is the fact that the Council is a "Rural Housing Body". This means the Council can place rural housing burdens with certain condition on any land (and building) its owns and subsequently sells – for example selling back to the Council and ensuring it is retained as affordable in future sales, or protecting it from holiday accommodation etc. Examples are found across rural Scotland including by Tighean Innes Gal in the Western Isles where it has found house values are not affected by the conditions. No additional burdens have been assumed in the financial plan at this stage.

Other things to note:

- The strategy detailed that if built to 'Housing for Varying Needs' standards, then the properties could be flipped to social housing at a later date. However, build costs are challenging and so this would need to be a consideration on a site-by-site basis. Grant would be provided to the Council by Scottish Government for MMR.
- There may also be scope for market rent but state aid rules apply/ Subsidy Control legislation.

Financial Conclusion on Option 2

Option 2 is an investment option. It takes a strategic approach to delivering investment in the local housing markets across Orkney. It exceeds the minimum requirements of the SRF as the investment property cashflows can support an annual return of 5.2% whilst also creating housing portfolio /asset base which sits on the balance sheet and can be realised from year 11. An exit point is available from around year 11-15.

Significant leverage is possible with every £1 invested by the Council attracting a further £4 for investment. This is a strategic approach to management the Council's balance sheet and creating value

for local communities. It provides an **effective value for money approach** for increasing housing supply or effect housing market change in challenging market conditions.

It is based on the premise that key public sector partners – OIC and Scottish Government - can take a **long-term view** and that by providing early upfront investment, they can leverage significant private funding and investment to provide considerable additionality to local community and Islands life.

It also assumes that, as the market starts to perform, the **public sector partners will exit** at an appropriate point so that the initial financial investment made can be withdrawn, making it available for further reinvestment in other local projects.

It creates a sustainable funding environment for value creation for the long-term benefit of local communities and is consistent with concepts of **sustainability and circular local economy models** which can be further explored.

At this point in the economic cycle, our analysis, also suggests it demonstrates value for money relative to other opportunities and meets the 5.2% return which is in line with the current investment strategy for the Strategic Reserve Fund.

The approach is **not risk free**, certain conditions need to be in place and downside risks will have to be appropriately managed. These conditions and some of the key risks are considered in this paper and include OICs capacity to commission the build and oversee delivery. No investment comes without risk and there is significant financial risk attached to any major programme, more so at the current time. All aspects of the plan will require to be kept under review as the programme is designed and implemented.

It should also be noted that in both Option 2 and in Option 3 an RSL partner (or other MMR provider) could undertake the role of development partner with the Council acting as the key funding partner. This would facilitate ownership of the MMR investment properties by both the Council and the key partner depending on the Council's appetite. The key RSL or other MMR provider would then also manage **all** the investment properties at arms-length from the Council through an appropriate lease and management agreement.

4. Option 3 – Establish an SPV

In this option, a special purpose vehicle is established for the purposes of progressing the acquisition for rent and build for rent programmes. It is assumed, for the purposes of this report, that the SPV is 100% owned by the Council and that the SPV will own the assets acquired and built and that a letting agent will be used to manage the properties.

The legal constitution of the SPV will require further consideration but a company limited by guarantee, or a limited liability partnership are appropriate constitutions. Other corporate structures can also be considered including a company limited by shares.

The following provisions have been included:

- Set up costs of £0.250M have been included, spread over the first 3 years of the plan to ensure that the SPV is established with appropriate governance, finance and legal structures in place;
- Provision for the ongoing management of the SPV has been provided at £100,000 per annum for the 10 years of the acquisition and development programme. This is reduced to £40,000 per annum thereafter.
- VAT at 20% has been included for annual running costs.

All other assumptions have been held constant with Option 2. On this basis the SPV requires funding as follows:

- **Strategic reserve fund investment of £8.5M** being required over the next 5 years as the programme gets underway. The plans include a 5.2% target investment return rate to meet the requirements of the fund and the code of practice.
- **Structured debt finance of £16.64M** being required from year 5 of the plan with a long-term financing rate of 5% assumed; and,
- **Affordable Housing Grant** from the Scottish Government of £12.9M.
- **Additional funding support** of £4M over the first 5 years is also required.
- **Net cash from operations** of £0.421M over the next 10 years

Based on this profile the plan delivers as follows – over the first 10 years – the **initial investing phase**:

- Leverage of 1:4 so for every £1 invested by the SRF a further £4 is invested in Orkney.
- An investment return of 5.2% for the SRF or around £0.450M on average annually. Again, investment from the Strategic Reserve Fund would be expected in advance of the debt finance and there is scope to increase the level of investment by the SRF relative to the debt if this is of interest to OIC.

Investment assets – as in option 2 - which will be worth circa £35M - £45M by the end of the initial 10-year investment phase.

Over the longer term (years 11 to 30) – the **operating phase**:

- the plan is debt free from year 27 with closing cash of £3.563M estimated at bank.

This option is also a **strategic approach to investment**. Clearly there is significant financial risk attached to any major programme, more so at the current time and all aspects of the plan will need kept under review as the programme is designed and implemented. In this option the development risk sits with the SPV.

A breakdown of the expenditure estimates and cashflows for Option 3 is provided in Appendix 3, together with a summary of the assumptions and estimates applied.

Financial assessment, risk and sensitivity testing

Table 3 sets out the overall performance of the investment property cashflows, the debt profile, the asset values created and the overall NPV. It also sets out a summary of sensitivity analysis also undertaken.

Table 4: Summary Appraisal - Option 3 – Special Purpose Vehicle

Funder	Performance of Cashflows					
	NPV £000s	Peak Debt £000s	Peak Debt YR	Debt Free YR	Cash YR30 £000s	Debt YR30
Base plan (No change to upfront support)	-£1,252	£28,386	10	N/A	£250	£1,401
Base plan (Additional upfront support)	£163	£25,973	10	27	£3,653	Nil
Sensitivity Analysis (discrete)						
No Sales	-£5,397	£29,458	28	N/A	£250	£29,412
Real Rent Growth + 0.5% to YR5	£369	£25,780	10	25	£4,717	Nil
Real Rent Growth + 0.5% from YR6	£501	£25,875	10	25	£5,890	Nil
Interest rate exposure +0.5%	£163	£26,556	10	30	£332	Nil
Inflationary pressure CPI at 4% to YR5	£163	£27,621	10	27	£3,562	Nil
No Grant (Scot. Gvt.)	-£3,610	£32,391	10	N/A	£250	£12,361

Table 4 demonstrates:

- An initial NPV of negative £1,252M indicating further upfront early investment required from a public sector partner to make this option viable. This is based on discount rate of 6% which is the rate applied typically in social housing.
- With upfront of £4M the NPV is a positive £0.163M. This is based on discount rate of 6% which is the rate applied typically in social housing. At 3.5% (which is the Treasury Green Book appraisal rate) the NPV is £2.917M
- A peak debt financing requirement of £25,973M occurring in year 10 as the development programme completes with debt repaid in year 27.
- An estimated £3.653M cash at bank at the end of the 30-year assessment term.

The funding aspects of this option are similar, to some extent, option 2 in that an initial injection of cash is required from the Council and the Council may also have to arrange the borrowing and on-lend to the SPV.

As with most interventions of scale, delivery is reliant on debt funding and there is a requirement to ensure that the levels of debt can be serviced and is affordable to the end users (mainly key workers in this case) and are sustainable to the business plan which includes demonstration that they can reasonably be repaid within the term of the existing business plan. The small residual debt in the cashflows currently can be addressed through further structuring at the appropriate time. However, it is worth noting that although borrowing may be arranged via the Council, some additional security for any private finance may also be required. This has included the Council as guarantor in some cases.

The sensitivity analysis for Option 3 also demonstrates that the plan is not viable on the basis of retaining all 170 units over the life of the plan and that the plan is negatively valued without circa £4M upfront support in the early years.

That said, it also demonstrates some further capacity in the plan as rent growth assumptions in the base plan include real rent increases in the first 5 years only.

Again, there may also be scope for market rent but state aid rules apply/ Subsidy Control legislation.

Other things to note:

- Specialist Legal, VAT and Tax Structuring advice will be required to support the design and implementation of the SPV. For the avoidance of doubt, the analysis assumes the SPV is a tax efficient vehicle and all analysis is shown pre any tax liability which may or may not arise.

Financial Conclusion on Option 3

Option 3 is also a strategic approach to investment which is appropriate in the Orkney context. Relative to Option 2 it is more expensive. That said, however, risks can be ringfenced within the SPV.

5. Conclusions and Recommendations

Our analysis has examined three funding options to deliver the Essential Workers Strategy. It is clear that:

- Delivery of the PSL and Empty Homes Grants requires new expenditure approvals of £0.695M over the next 3 years. This includes £0.147M next year in 24-25, £0.268M in 25-26 and ££0.280M in 26-27. This covers both the direct costs of the PSL Scheme and the Empty Homes Grants. It also covers the co-ordination and administration required to oversee delivery of the Essential Workers strategy.
- Over the 10 years of the plan, the total expected expenditure on delivery of the PSL and Empty Homes Grants Schemes is £2.083M. This expenditure requires to be met from the General Fund and is **required in all options**.
- Delivery of the acquisition and new build programmes can be delivered through direct investment from the Strategic Reserve Fund or through establishing an SPV for the purpose.
- There are additional costs involved in delivery via an SPV and so the upfront investment from both OIC and Scottish Government will be higher and the long term return lower (but is still strong through the return on investment and asset creation).
- Capacity for delivery of development and management of the properties can be supported through working in partnership with an RSL partner (or other MMR provider).

Appendix 1 – Option 1 – Expenditure Estimates – General Fund

Appendix 2 – Option 2 – Expenditure Estimates and Cashflows – Strategic Reserve Fund

Appendix 3 – Option 3 – Expenditure Estimates and Cashflows - SPV