

## ABERDEEN CITY COUNCIL

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<b>COMMITTEE</b>	Finance and Resources
<b>DATE</b>	5 July 2023
<b>EXEMPT</b>	Report - No Appendices - Yes  Schedule 7A Part 1 Paragraph 8. This report refers to the acquisition or supply of goods/services where disclosure to the public of the amount to be spent would be likely to give an advantage to a person or organisation seeking to enter a contract with the Council.
<b>CONFIDENTIAL</b>	No
<b>REPORT TITLE</b>	Craighill and Kincorth New Housing: Delivery Update
<b>REPORT NUMBER</b>	RES/23/200
<b>DIRECTOR</b>	Steve Whyte
<b>CHIEF OFFICER</b>	John Wilson
<b>REPORT AUTHOR</b>	John Wilson
<b>TERMS OF REFERENCE</b>	1.1

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### 1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to update the Committee on the options for the continued delivery of Council led housing projects at Craighill and Kincorth.

### 2. RECOMMENDATION(S)

That the Committee :-

- 2.1 Instruct the Chief Officer – Capital to arrange for the redesign of both schemes with the Value Engineering options implemented. These options should be developed to retain the Gold Standards environmental criteria;
- 2.2 Instruct the Chief Officer – Capital to arrange for the resubmission of new planning applications, for both sites, to take account of the value engineered options;
- 2.3 Following approval of 2.2, instruct the Chief Officer – Capital to arrange for the retender of both sites;
- 2.4 Note that the preferred approach will be to progress both sites simultaneously as single phase developments but there is an acceptance that some project phasing maybe required on one or both sites to spread the capital commitment over a number of years; and
- 2.5 Note the necessary financial commitments that will be necessary to ensure delivery of both sites. Refer to Appendix B.

### **3. CURRENT SITUATION**

#### **Background**

- 3.1 Construction works had been suspended at an appropriate stage at Craighill and Kincorth.
- 3.2 The review considered a number of factors relating to the delivery of both projects, such as but not limited to, potential options for a phased delivery, value engineering, and gold versus silver standard with an eye on each projects affordability and meeting the needs and demand for housing.
- 3.3 At that time the appointed contractor was completing the package of enabling works and costs were being sought from him to complete the outstanding work packages. The prices offered for both sites were considered not to be value for money nor financially viable.
- 3.4 Following the last committee, there has been an ongoing high level value engineering and financial appraisal exercise carried out to consider a number of options on both sites, and part of that review incorporated an assessment of the most cost-effective capital cost for each project.
- 3.5 This has been undertaken whilst recognising the importance of the projects in meeting the Council's objectives and maximising grant funding available from the Scottish Government. Refer to Section 4.

#### **Appraisal**

- 3.6 The appraisal process contemplated the following factors;
  - a. Consideration of an alternative phasing strategy for both sites, effectively extending their respective construction periods and spreading the costs over a longer period.
  - b. Review of the design criteria and reflection on the planning process with regard to specific items such as materials, design standards and finishes.
  - c. Use Value Engineering (VE), to reduce costs and timescale on site while ensuring Gold Standard and Housing for Varying Needs (HfVN) standards are maintained.
  - d. Consideration was given to moving away from some aspects of Gold Standard to Silver Standard to further reduce costs.
  - e. Take cognisance of the likely impact on the delivery of both projects in terms of programme and completion depending on the option chosen and the changes to the current design that are agreed.

## Housing Market Overview

- 3.7 In the context of the wider construction market we are starting to see a general slow down in terms of inflationary pressures with a reduction on confirmed orders starting on site for most Contractors. This current market trend means that a more competitive tender strategy can be adopted than in previous years when the market was more buoyant and should result in a more economical tender return.

### 4. FINANCIAL IMPLICATIONS

- 4.1 It is worth recapping on the current levels of spend for both projects.

#### **Craighill Spend to date**

Spend to the end of 2022/23 is as follows:

<b>Gross Budget</b>	<b>Spend to Date</b>
<b>TBC following tender</b>	<b>£5.66m</b>

#### **Kincorth Spend to date**

Spend to the end of 2022/23 is as follows:

<b>Gross Budget</b>	<b>Spend to Date</b>
<b>TBC following tender</b>	<b>£5.38m</b>

- 4.2 In addition to the above, as part of the wider consideration of the best option for both sites, it is also worth noting the current grant funding that has been received.
- 4.3 As of 30 May 23, the Council has received grant income of £2.4m for Craighill and £6.4m for Kincorth. If the projects were to be stopped permanently and not taken any further the Council would need to repay £8.8m to the Scottish Government from the revenue account. This would have a potentially adverse impact on the HRA as well as cause potential reputational damage.
- 4.4 Following collation of the information as noted in the appraisal process and a review of the options to complete the outstanding works packages, an indicative range of costs based on each scenario was tested to verify the financial viability of each project. The indicative range of costs have also been verified through soft market testing with framework contractors.
- 4.5 In addition, it is important to also note that when considering the likely outturn costs for each option that has been appraised, an allowance was made for a range of costs.

- 4.6 The cost exercise also encapsulated the indicative costs to make the existing sites safe and secure such as boundary fencing and monitoring of both sites going forward.
- 4.7 What is clear from this cost exercise is that cost inflation has significantly impacted affordability.
- 4.8 A range of financial scenario testing has been carried out for both projects which demonstrates a positive cash flow but a low negative Internal Rate of Return (IRR). This is an expected outcome for social housing in the current market and has been primarily driven by the level of rent compared with the investment required.
- 4.9 It is evident looking ahead there is still a risk of cost uncertainty and it's against this background that the decision of whether to continue with both projects must be taken.
- 4.10 The financial appraisal outcome has indicated that there is a cost range for the completion of the works that would be affordable, but only if rental income is increased and maintained over future years. Refer to Appendix B.

## 5. LEGAL IMPLICATIONS

- 5.1 There are no direct legal implications arising from the recommendations of this report. However, there may be implications as part of the wider regular Capital Programme review as noted in section 4. Any legal implications, should they apply, will be considered as part of that review.

## 6. ENVIRONMENTAL IMPLICATIONS

- 6.1 There are no direct environmental implications arising from the recommendations of this report. However, there may be implications as part of the wider regular Capital Programme review as noted in section 4. Any environmental implications, should they apply, will be considered as part of that review.

## 7. RISK

Category	Risks	Primary Controls/Control Actions to achieve Target Risk Level	*Target Risk Level (L, M or H)  *taking into account controls/control actions	*Does Target Risk Level Match Appetite Set?
<b>Strategic Risk</b>	Failure to manage Council finance and resources could lead	Regular financial reporting and monitoring activities, to incorporate		

	to failure to achieve strategic objectives.	financial resilience to address financial pressures arising in year is maintained and monitored.	M	Yes
<b>Compliance</b>	Failure to be able to comply with project requirements	Increase site visits and monitoring of the construction works. If required, review alternative options as soon as possible.	L	Yes
<b>Operational</b>	Balancing the pressures of finite resources both internal and external to the Council	Regular engagement between relevant Clusters within the Council along with ongoing engagement with Framework hosts, Suppliers, Procurement & Services re alternative products or delivery methods.	M	Yes
<b>Financial</b>	Escalation of costs  Differing market conditions depending on commodity/service	Development of suitable price mechanisms.  Use of Business Intelligence to predict market changes/trends.  Price Increase Request Process.  Market engagement/use of business intelligence to assist in predicting market changes and trends.	M  M	Yes
<b>Reputational</b>	Programmes/projects being delayed or stopped	As above.	M	Yes
<b>Environment / Climate</b>	Failure to consider sustainable options due to costs.	Ensure all contracts consider environmental considerations, and early market engagement is conducted to seek market intelligence.	M	Yes

## 8. OUTCOMES

<u><b>COUNCIL DELIVERY PLAN 2022-2023</b></u>	
	<b>Impact of Report</b>
<b>Aberdeen City Council Policy Statement</b>  <u><a href="#">Working in Partnership for Aberdeen</a></u>	Reviewing the approved Capital Programme in light of the cost pressures resulting from external drivers, will enable the Council best to meet and prioritise the delivery of its capital funded programmes /projects.
<u><a href="#">Aberdeen City Local Outcome Improvement Plan 2016-26</a></u>	
Prosperous Economy Stretch Outcomes	The recommendations outlined within this report have included consideration of the current stage of programme/project delivery.
Prosperous People Stretch Outcomes	The recommendations outlined within this report have included consideration of the current stage of programme/project delivery.
Prosperous Place Stretch Outcomes	The recommendations outlined within this report have included consideration of the current stage of programme/project delivery.
<b>Regional and City Strategies</b>	Reviewing the approved Capital Programme in light of the cost pressures resulting from external drivers, will enable the Council best to meet and prioritise the delivery of its capital funded programmes /projects to align with its regional and city strategies.

## 9. IMPACT ASSESSMENTS

<b>Assessment</b>	<b>Outcome</b>
<b>Integrated Impact Assessment</b>	Not required
<b>Data Protection Impact Assessment</b>	Not required
<b>Other</b>	Not required

## 10. BACKGROUND PAPERS

- 10.1 Finance and Resources Committee 1 February 2023: Capital Programme Delivery : Projects Update : report no RES/23/043.

## 11. APPENDICES

- 11.1 Appendix A – Craighill and Kincorth Options Paper (**EXEMPT**)
- 11.2 Appendix B – Summary of Financial Position Craighill and Kincorth (**EXEMPT**)

## 12. REPORT AUTHOR CONTACT DETAILS

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**Appendix A – Craighill and Kincorth Options Paper**

**Appendix B – Summary of Financial Position Craighill and Kincorth (May 2023)**