1 RECOMMENDATIONS
It is recommended that the Committee:

(i.) approve the estimated total cost of £6,400,000 (at out turn prices);

(ii.) approve the procurement authority, as contained in this report, in accordance with the process stated in section 16.8 of the Financial Regulations;

(iii.) approve funding in the amount of £300,000 for this project from the Housing division’s Affordable Housing Account;

(iv.) note that the funding for this project amounting to £6,400,000 will comprise £840,000 from the Scottish Government Affordable Housing Grant, £425,000 from a new bid for Scottish Government Affordable Housing Grant, £300,000 from the Housing division’s Affordable Housing Account, £240,000 from the Renewal Heat Initiative scheme and £4,595,000 from the HRA Capital budget. The HRA Financial Plan will be amended at its next review to accommodate the estimated total cost for this project and will be the subject of a separate report;

(v.) note the financial implications included in Section 6 of this report.

2 BACKGROUND
Report Nr 542/10 approved by the Neighbourhood Services Committee on the 19 August 2010 noted the successful bid for a grant from Scottish Government’s Incentivising New Council House Building Fund. Part of that bid included the proposal to build 28 two-storey main stream houses in Montrose between 2011/13 which formed Phase 5 of the Angus Council’s new build programme. The site in Montrose that had been identified as part of the bid was Dungman’s Tack which is owned by Angus Council’s Housing division. The report also agreed that further reports would be produced providing additional information on the Affordable Housing projects.

This report details the funding arrangements and procurement options for Dungman’s Tack, Montrose that fall within the procurement authority requirements contained in Financial Regulations (FR) 6.8 and approval of this report would mean that, subject to the overall project costs following receipt of the tenders being within the approved budget then, the contract can
be accepted without approval by the relevant Committees. This procurement is considered to be a “major procurement” in accordance with the new arrangements therefore tender evaluation and award information reports will be provided to the Head of Finance as required by FR 16.8.6.

3 LATEST POSITION

The original successful bid for Scottish Government funding allowed for 28 houses on the Dungman’s Tack site. After the submission of the original bid Wirren House, which is adjacent to the site, was declared surplus. The Head of Housing declared an interest in acquiring the Wirren House site for an expansion to the Dungman’s Tack site. A revised scheme was prepared and following adjustments to the plots the original Dungman’s Tack site (Section 1) can accommodate 29 houses with the Wirren House site (Section 2) containing 16 houses providing a total of 45 houses on both sites. The Wirren House site will be appropriated to the Housing Revenue Account at open market value for a social housing development once the decant accommodation is no longer required following completion of the swimming pool at Montrose Sports Centre. This was approved at the Corporate Services Committee on the 27th January 2011, report number 60/11 refers.

Bids for funding from further rounds of Scottish Government grants are to be made by the Housing division. These bids will include the 17 houses not included in the original funding bid. Reports will be brought to the Neighbourhood Services committee informing members of the outcome of further bids.

4 DESCRIPTION OF WORKS

The works comprise the construction of 45 houses in Montrose and is split into two Sections:

Section 1 totalling twenty nine houses includes ten 4 bedroom houses, eighteen 3 bedroom houses and one 2 bedroom house on the Dungman’s Tack site and includes all associated access roads, external works and services.

Section 2 totalling sixteen 2 bedroom house on the Wirren House site and includes demolition of Wirren House, all associated access roads, external works and services.

A boilerhouse will also be constructed on the Section 1 site which will form part of the provision of a district heating system to all 45 houses. The district heating will be supplied by a biomass boiler with an appropriate back-up.

These houses form part of the new Council house building programme which is guided both by the Local Housing Strategy (the primary strategic document on housing need) and the Angus Strategic Housing Investment Plan.

5 PROCUREMENT AUTHORITY

Objectives

As part of the Scottish Government’s affordable housing programme Angus Council has made a number of successful bids for grant funding. This funding will allow Angus Council to provide urgently needed new affordable rented housing to meet current and increasing future demands. The forty five new affordable houses proposed for Montrose are an integral part of the programme with twenty eight of the houses forming the original fifth phase of the new affordable housing programme and the remaining seventeen houses being included as part of the Housing divisions ongoing commitment to provide affordable houses.

Angus Council has developed a model design which is being replicated, in part or in whole, at other locations within Angus as the planned programme of developments is taken forward. An integral aspect of this design is the adoption of the latest best practice regarding the provision of
affordable housing. This includes the utilisation of sustainable materials and techniques which protect and enhance the built and surrounding environment and delivers high performance standards for new buildings in terms of flexibility, adaptability, low carbon emissions, standards of comfort and low operating and maintenance costs.

It was determined that these objectives would be best achieved by utilising the experience gained by the Property division from recent high quality projects to undertake a feasibility study and initial design which would establish the best layout to meet the combined objectives and subsequently develop and finalise the project brief with the client department.

A very tight timescale has dictated the delivery of this project, this is due to the requirement to take advantage of grant funding opportunities from the Scottish Government relating to the provision of affordable housing on a brownfield site in Montrose.

Programme

It is anticipated that the procurement process will begin in April 2011 with the placing of an advert for the proposed supply on the Public Contracts Scotland web portal. The subsequent tenderer selection process will be carried out in accordance with the Financial Regulations and appropriate EU Regulations as the estimated contract value is in excess of the EU Procurement threshold for construction works.

Following the finalisation of the list of tenderers, it is anticipated that tender documents will be issued in July 2011 and returned by August 2011. Once the tenders have been assessed an acceptance will be issued to the lowest acceptable tenderer by late September 2011. The contract is anticipated to start on site in November 2011 following a four week Construction Design and Management planning lead-in period.

It is proposed that the Section 2 of the works will proceed once the requirement to have Wirren House available as decant accommodation for Montrose Sports Centre is concluded. The works will be arranged to allow for the release of the Section 1 scheme for tenants at it's completion since an alternative contractor's access can be provided for the Section 2 scheme. The contract period is approximately 66 weeks for Section 1 which would allow for a completion in January 2013 with Section 2 completion following on 25 weeks later in July 2013.

Procurement Options

The Property division has had extensive and recent experience of the merits of the three normal procurement processes employed for projects of this type and detailed in Table 1.

Collaborative procurement opportunities were investigated but none of the neighbouring authorities were undertaking projects of a similar type and timing to permit collaborative working to develop common designs, specifications and deliver procurement economies.

Table 1 Normal Procurement Options

<table>
<thead>
<tr>
<th>Traditional construction</th>
<th>In-house design and traditional procurement through open competition. Design fully considered and agreed with client, provides enhanced degree of cost certainty.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Design and Build</td>
<td>A short list of contractors is invited to offer competing designs and following analysis, the successful contractor is appointed to deliver the project. May result in shorter design and construction period, however specification and design is mainly left with the tenderers and increased design risk on the tenderers may lead to increased costs.</td>
</tr>
</tbody>
</table>
Strategic partnering

This would require a long term programme of works to be agreed and budgeted for. Partnering is not a specific procurement method but can be incorporated into other contractual arrangements and involves and element of negotiation to reach an agreed price. In this case as a long term programme hasn’t been fully identified it wasn’t considered to provide a significant advantage to conventional procurement options.

Whilst each procurement method has its advantages, and disadvantages, and is suited for differing circumstances it is the recommendation of the Head of Property that the most appropriate procurement option for delivering this project in the established timescales and to deliver the stated objectives is to utilise the traditional construction ‘with Quantities’ approach encompassing open market competition on a two-stage restricted procedural basis with appointment on the basis of lowest acceptable tender.

This will ensure that Angus Council has complete control of the design and procurement process thereby obviating any delays; ensure that the project is designed to exactly fulfill client requirements and establish an experienced resource within the Property division which will be able to guide, support and deliver further phases of the new affordable housing programme if funding is identified. It will also promote efficiencies through the use of standardised house designs based upon those developed for earlier phases.

This procurement method has been very successfully applied to the projects for delivering Affordable Housing at Monifieth and Carnoustie and at Arbroath. In both cases Angus Council is achieving unit rates which meet the benchmark best practice costs set by the Housing division and are delivering excellent value for money for Angus Council. They are also ensuring that the adopted design standards are subject to continuous improvement in the drive to deliver low carbon/zero carbon performance.

The scale of the project and the tight timescales combined with the requirement to undertake the procurement in accordance with the current procurement rules have dictated that quick, but well balanced decisions were needed to ensure that the procurement strategy was the most appropriate and would deliver Value for Money for the Council.

The Head of Finance is satisfied that the chosen procurement strategy will deliver these objectives and that this procurement is considered to be a ‘major procurement’ within the meaning of FR 16.8.4.

Whole Life Costing

In accordance with standard practice the Property Division has integrated whole life costing within its best practice design approach to this project to fulfil the range of objectives detailed earlier. The feasibility study and development of the project brief identified that a new-build scheme was the only option available to fulfil the project requirements.

This project will be designed to incorporate sufficient materials with a high recycled content that the target of 10% by value of recycled content in property related construction projects valued over £1 million will be achieved. The design will also incorporate the Sustainable Timber Policy approved by the Corporate Services Committee on the 23 October 2008 (report 1040/08 refers) ensuring that all timber or timber materials required for this contract will be from sustainable sources.

The design for the new affordable housing will include solutions which will allow the performance of the houses to surpass the requirements of Code 4 as contained in the Code for Sustainable Homes Technical Guide. Designing to this level substantially exceeds the requirements contained in the current buildings regulations for insulation values and
sustainability. This represents a reduction in CO\(_2\) that exceeds Code 4 which already delivers a 44% improvement over the current building regulations.

The proposed design solution has included for solar thermal hot water heating on the three and four bedroom houses which utilises solar energy to provide domestic hot water. Using this option on the larger houses optimises the CO\(_2\) reduction compared to the cost as this targets the tenants with a higher demand.

The inclusion of a district heating scheme will make a significant contribution towards the improvement over the Code 4 standard. This use of a district heating scheme requires the installation of a centralised biomass boiler to ensure that the reduction in CO\(_2\) is maximised. The biomass boiler will be procured as part of a larger programme which includes the design, installation, maintenance and supply of fuel to various new biomass installations within Angus. It is proposed that the biomass installation will be funded through the Renewable Heat Initiative which is currently being prepared by the Department of Energy and Climate Change. The scheme is due to be finalised in 2011 and once an announcement is made a report will be presented to relevant Committees containing details on the initiative. If the scheme is not suitable then in order to retain the district heating element of the project a gas boiler will be installed in lieu of a biomass boiler.

In comparison to existing Housing stock of a similar nature, by incorporating various design solutions including those noted above, the new affordable housing will have significantly reduced energy costs for the tenants and help the Housing division to meet carbon dioxide emission targets.

**Contract Award basis**

The completed tenders returned to the Council will be evaluated and the contract will be awarded on the basis of the lowest acceptable price to the Council, in accordance with the conditions of contract.

**Risk Management**

A risk assessment has been undertaken for this project and other than the normal risks inherent in carrying out a project of this size and complexity, no other significant risks have been identified. The Property division has extensive experience of delivering projects in a timely manner and every measure will be taken to ensure that through effective project management the project is delivered on time and on budget.

### ALLOWANCE IN ESTIMATES AND FINANCIAL IMPLICATIONS

The estimated total cost for the provision of 45 affordable houses at Dungman’s Tack Montrose is:

- Construction of forty five new affordable houses, district heating system and boilerhouse (excluding boiler plant) and associated external works together with the demolition of Wirren House: £5,240,000
- Allowance for professional fees, supervisory, travel and administrative expenses: £460,000
- Allowance only for appropriation of the Wirren House site to the Housing Revenue Account to be calculated at open market value for social housing development: £340,000

Total: £5,700,000
Allowance for the provision of a biomass boiler (to be procured separately as part of a combined contract for the capital installation, supply of fuel and maintenance) £240,000

Allowance for feasibility fees £10,000

Allowance for initial site clearance and minor preparatory works £10,000

Allowance for statutory payments and sundry expenses £100,000

Estimated total cost (at out-turn prices) £6,400,000

It is anticipated that the overall cost of £6,400,000 can therefore be funded from various sources. The funding package for the overall total cost would be as follows:

<table>
<thead>
<tr>
<th>Budget Provision</th>
<th>(based on the estimated total cost)</th>
</tr>
</thead>
<tbody>
<tr>
<td>* Scottish Government Affordable Housing Grant – Phase 5 (28 houses)</td>
<td>£840,000</td>
</tr>
<tr>
<td>** Scottish Government Affordable Housing Grant - New Bid (17 houses)</td>
<td>£425,000</td>
</tr>
<tr>
<td>*** Affordable Housing Account</td>
<td>£300,000</td>
</tr>
<tr>
<td>**** Biomass boiler funding from the Renewable Heat Initiative</td>
<td>£240,000</td>
</tr>
<tr>
<td>Capital Funding</td>
<td>£4,595,000</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>£6,400,000</td>
</tr>
</tbody>
</table>

* - Successful grant bid from Scottish Government’s Incentivising New Council House Building Fund for Phase 5 of Angus Council’s Affordable Housing programme for 28 houses at £30,000 per house.

** - The Housing division is to make a bid to further rounds of the Scottish Government’s Incentivising New Council House Building Fund and it is anticipated that, if successful, £425,000 will be made available to Angus Council for the 17 additional houses at £25,000 per house. If the bid is not or only partly successful then the HRA Capital Programme will be adjusted to accommodate the shortfall in the amount received.

*** - Affordable Housing Account – The affordable housing account budget is funded from the annual income generated by the Council Tax discount on second homes of approximately £160k per annum. Housing division will make available £300k from the current balance contained in the Affordable Housing Account.

**** - It is proposed that the funding for the biomass boiler will come from the Renewable Heat Initiative (RHI) scheme currently being prepared by the Department of Energy and Climate Change. Although the scheme has not been finalised yet the indications are that the Government will provide a RHI tariff at an average of 4.5 pence per kWh for heat provided by
the biomass boiler over a twenty year period. On the basis of this tariff and the anticipated heat load (kWh per annum) the potential income to the Council would be approximately £450,000 over a twenty year period. It is anticipated that this income would cover the costs associated with the boiler installation.

The HRA Financial Plan as approved at the special rent setting meeting of the Neighbourhood Services Committee on 8 February 2011 contains a net allowance of £3,760,000 for the provision of 28 houses at Dungman’s Tack. There is currently no specific provision for the further 17 houses.

The approved financial plan does however contain an unallocated “general” new build provision of £2,600,000 over the 4 year period of the plan. The funding package detailed above assumes that £4,595,000 will be funded via provision within the HRA financial plan and this is £835,000 above the specific provision of £3,760,000 already included. It is intended that the additional net funding of £835,000 will be met from the existing unallocated “general” New Build budget allowance and if the proposal is approved the Housing Financial Plan will be amended at the next opportunity.

There are two main options that could be used to fund the biomass boiler from the RHI income.

- The first would involve Angus Council paying the capital costs of the biomass boiler which would be funded on a Prudential Borrowing basis from the income from the RHI tariff.

- The second would be for a biomass boiler to be provided by a suitable installer at no capital cost to Angus Council who would pay the installer an annual sum to cover the installation costs from the RHI tariff.

The options available to the Council and the final details on the RHI scheme will be the subject of a separate report to Committee.

On the assumption that the overall required capital funding of £4,595,000 is met from borrowing, members should note the estimated loan charges in line with the Housing Long Term Affordability exercise will be calculated over an average 25 year period. The following table shows what the loan charges will be at certain points over the borrowing write off period.

<table>
<thead>
<tr>
<th>Year</th>
<th>Year 5</th>
<th>Year10</th>
<th>Year15</th>
<th>Year 20</th>
<th>Year 25</th>
</tr>
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<tbody>
<tr>
<td>2012/13</td>
<td>2016/17</td>
<td>2021/22</td>
<td>2026/27</td>
<td>2031/32</td>
<td>2036/37</td>
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<tr>
<td>£000</td>
<td>£000</td>
<td>£000</td>
<td>£000</td>
<td>£000</td>
<td>£000</td>
</tr>
<tr>
<td>Estimated Charges</td>
<td>283</td>
<td>299</td>
<td>321</td>
<td>355</td>
<td>379</td>
</tr>
</tbody>
</table>

As noted above loan charges have been calculated in line with the assumptions within the Housing Long Term Affordability Strategy. The Strategy includes the specific £3,760,000 allowance for 28 units as well as the allowance for “general” New Build Housing of £2,600,000 (report 114/10 to members dated 8th February 2011 refers).

Accordingly as the current capital programme has been determined to be affordable, the loan charges noted above can be contained within the loan charges provision within the Housing Revenue Account.
7 **HUMAN RIGHTS ACT IMPLICATIONS**

There are no Human Rights Act implications specific to this report.

8 **EQUALITIES IMPLICATIONS**

The issues dealt with in this report fall within an approved category that has been confirmed as exempt from an equalities perspective.

9 **SINGLE OUTCOME AGREEMENT**

This report contributes to the following local outcomes contained within the single outcome agreement for Angus:

- Good quality housing is available to all in communities throughout Angus.
- Resources are used effectively.

10 **CONSULTATION**

The Chief Executive, the Head of Law and Administration, the Head of Finance and the Director of Neighbourhood Services have been consulted in the preparation of this report.

11 **CONCLUSION**

The Committee is recommended to:

(i.) approve the estimated total cost of £6,400,000 (at out turn prices);

(ii.) approve the procurement authority, as contained in this report, in accordance with the process stated in section 16.8 of the Financial Regulations and

(iii.) approve funding in the amount of £300,000 for this project from the Housing division’s Affordable Housing Account.

**REFERENCES**

<table>
<thead>
<tr>
<th>Committee</th>
<th>Date</th>
<th>Report</th>
<th>Subject</th>
</tr>
</thead>
<tbody>
<tr>
<td>Neighbourhood Services</td>
<td>19/08/10</td>
<td>542/10</td>
<td>Award of Grant Funding for Further Phases of Council House New-Build Programme</td>
</tr>
<tr>
<td>Neighbourhood Services</td>
<td>08/02/11</td>
<td>113/11</td>
<td>2011/12 Housing Revenue Account Estimates Incorporating Rents, Charges and Tayock Site Rentals</td>
</tr>
</tbody>
</table>

Colin McMahon
DIRECTOR OF CORPORATE SERVICES

**BACKGROUND PAPERS**

NOTE: No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information), were relied on to any material extent in preparing the above report.