

HOUSING EMERGENCY - COLONSAY AFFORDABLE HOUSING UPDATE

1.0 EXECUTIVE SUMMARY

- 1.1 The main purpose of this report is to provide an update on the housing project being delivered by Colonsay Community Development Company (CCDC) at Scalasaig, Colonsay.
- 1.2 The report will confirm the continuing high level of housing need and demand on Colonsay and the requirement for a multi-tenure approach to address the need and demand on the island.

RECOMMENDATIONS

It is recommended that Council:-

- Authorise a grant to Colonsay Community Development Company of £100,000 to enable the successful delivery of the multi tenure housing development at Scalasaig, Colonsay subject to match funding approval from Highland and Islands Enterprise and Scottish Government.
- Delegate to the Executive Director with responsibility for Development and Economic Growth, in consultation with the Executive Director with responsibility for Legal and Regulatory Support, the terms and conditions to be attached to any grant required as a consequence of this report.

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2.0 INTRODUCTION

- 2.1 Argyll and Bute Council has identified a high level of housing need and demand on Colonsay. As a result the Council has supported an affordable housing development at Scalasaig. The housing development is being delivered by Colonsay Community Development Company in partnership with Communities Housing Scotland. The Council has provided financial support through the Strategic Housing Fund. £28,500 was approved by Council in May 2020 to enable the purchase of land for the housing. A further £108,000 has been awarded to the project through the Strategic Housing Fund which is the officer mandate of £12,000 per unit for the nine affordable homes being delivered at Scalasaig. A loan of £440,000 to Colonsay Community Development Company was approved in June 2023.
- 2.2 Since the inception of the development and business plan production for the Scalasaig affordable housing some years ago the financial climate has changed and funding package which was originally agreed is not sufficient to cover the cost of the housing project on Colonsay. The Council in partnership with Highlands and Islands Enterprise and the Scottish Government have worked with the Colonsay Community Development Company to minimise the additional costs required to complete the housing. A proposal to offer an additional grant of £300,000 to Colonsay Community Development Company has been put forward made up of a £100,000 contribution each from the Council, HIE and the Scottish Government.

3.0 RECOMMENDATIONS

- 3.1 It is recommended that Council:-
- Authorise a grant to Colonsay Community Development Company of £100,000 to enable the successful delivery of the multi tenure housing development at Scalasaig, Colonsay subject to match

funding approval from Highland and Islands Enterprise and Scottish Government.

- Delegate to the Executive Director with responsibility for Development and Economic Growth, in consultation with the Executive Director with responsibility for Legal and Regulatory Support, the terms and conditions to be attached to any grant required as a consequence of this report.

4.0 DETAIL

4.1 Background: Housing Need and Demand on Colonsay

As the strategic housing authority for Argyll and Bute, the Council has a statutory duty to assess the need and demand for housing in the area and to ensure that any unmet need for housing is addressed through the Local Housing Strategy (LHS) and the Strategic Housing Investment Plan (SHIP). The Island of Colonsay has been identified as a priority in the LHS and SHIP and continues to exhibit relatively high levels of need and demand, and significant imbalances in the local housing system. An affordable housing need and demand has been identified on the Island of Colonsay and has had representation in the Council's Strategic Housing Investment Plan (SHIP) since 2014.

- 4.2 There are around 105 homes on the island, of which 30% are deemed ineffective in terms of meeting local needs, i.e. 32 are second/holiday/empty homes. In addition there are a number of short term holiday lets. ACHA and West Highland Housing Association currently provide 9 properties for social rent; which amounts to only 9% of the total occupied stock. This is well below national levels and indicates a potentially imbalanced housing system with scope for further growth in the Registered Social Landlord (RSL) sector.
- 4.3 Affordability on the open market remains a significant issue for local residents. The average house price achieved on Colonsay is £324,500 which would require a household income of £92,714 to be considered affordable. 93% of residents on the island cannot afford to purchase on the open market; and therefore require alternative affordable options such as social rent and shared equity.
- 4.4 Expressed demand for RSL housing is registered via the HOMEArgyll waiting list, and currently there are 16 active applicants with Colonsay as first or second area of preference. 11 of the 16 applicants have been awarded housing need points (HOMEArgyll Waiting List, January, 2024). There was no turnover of social rented properties on the island in 2022/23 resulting in a pressure ratio of 11:0. Out of the 11 applicants with points, 6 required a 1 bedroom property; 3 required 2 bedrooms and 2 required 3 bedrooms.
- 4.5 Highlands and Islands Enterprise (HIE) has recognised Colonsay as a fragile area. Fragile areas are characterised by declining population, under-representation of young people within the population, lack of economic opportunities, below average income levels, problems with transport and other issues reflecting their geographic location.

4.6 **Current Progress**

Colonsay Community Development Company have been working with the Communities Housing Trust to deliver a range of affordable housing options at Scalasaig, Colonsay. 9 affordable homes plus 3 self-build plots will be delivered on the site. The aim is for the affordable homes to be completed in 2024 subject to a suitable funding arrangement being agreed. The 9 affordable homes consist of 4 affordable rented properties, 2 Low Cost Home Ownership properties and 3 rented properties for exclusive use of MOWI, the fish farm company. MOWI have contributed to the capital costs of the projects to enable the company to have exclusive allocations rights to the 3 properties identified for their staff use.

- 4.7 Since the inception of the development and business plan production for the Scalasaig affordable housing some years ago the financial climate has changed. As such certain assumptions no longer hold true and it has therefore been necessary to explore alternative options to enable the delivery of the housing development. The proposal to split the agreed additional costs equally between the Council, HIE and the Scottish Government will enable this essential housing development to be completed and will sit comfortably within Argyll and Bute Council's policies and aspirations in relation to protecting fragile communities and encouraging repopulation in the region.
- 4.8 In March 2023 the contractor advised that severe cost pressures were jeopardizing their ability to continue with and complete their works on the above development. The contractor subsequently submitted a claim of £789,982 for additional costs based predominantly around the well reported and unprecedented inflationary pressures (Brexit, Cost of living, COVID) which have been experienced throughout the construction industry over the past two years. Whilst CCDC were clear the contract issued and accepted was on a fixed price design and build basis the widespread, unprecedented, and severe escalation of costs was known and acknowledged. The contractor was bearing these costs but had intimated that they may not be able to continue to do so. It was obviously in nobody's interest to see a contractor fail or withdraw from site, therefore some consideration around the claim submitted was deemed appropriate to best serve everyone's interests.
- 4.9 The Quantity Surveyor for the development (Ralph Ogg & Partners) confirmed the legitimacy of the assumptions made around the inflationary increases but given the nature of the Design and Build contract did not agree the Unforeseen / Excluded Work Adjustments nor the Adjustment for OH&P. This resulted in a reduced figure of £617,173 which could be substantiated. At this stage funders (the Council, HIE and the Scottish Government) were within their rights and not minded to agree any additional funding.
- 4.10 Works continued on site albeit slowly, however in August 2023 the contractor left site, ceasing activity, citing difficulties around labour and subcontract resources. This development seriously jeopardised the project delivery and forced the need to find a solution which would ensure works not only resumed but were concluded. The termination of the existing contract was considered

but thought to be problematic due to the.

- lack of alternative contractors willing to undertake the remaining works.
- time required to agree new terms and initiate a resumption of works.
- probability of a substantial cost increase if a new contractor was appointed.
- uncertainty around the timescale and realism of recovering any additional costs through legal avenues.
- potential liquidation of a long-established key contractor and employer in the area.

4.11 Following discussion with primary funders the Communities Housing Trust (CHT) on behalf of CCDC were tasked to negotiate with the contractor and arrive at a figure which would alleviate some of the financial pressures and ensure the continuation of works. Working with the Ralph Ogg & Partners our premise for the starting point around negotiations was to look at works required to completion which were predominantly infrastructure related and the cost increases which had been experienced around these elements. These were set out in by Ralph Ogg & Partners in November 2023 and gave a resulting base figure of £427,399. Negotiations with the contractor resulted in a cost of £266,000 being deemed as acceptable to them with a revised programme of works being issued and assurances given by the company principle that works would continue until a satisfactory conclusion was reached. In addition, to the additional contractor cost the client experienced a number of additional costs predominantly around professional fees (QS, Development Agent, Legal and Auditing) which amounted to £32,315. The total additional cost is £298,315.

4.12 Further discussions with funders took place in January 2024 to outline potential funding solutions. Given the additional costs predominantly related to infrastructure for the business units and housing developments approval is sought for the Council to contribute to one third of the additional costs to match contributions from the Scottish Government. HIE have approved their share of the funding and Scottish Government are in the process of approving their share of the additional funding.

4.13 For clarity the total existing and proposed Council contribution to the development is included in the table below:

| Grant / Loan | Value |
|--|-----------------|
| Land purchase | £28,500 |
| Standard officer mandate £12k per unit SHF contribution. | £108,000 |
| Proposed escalated costs grant contingent on this report | £100,000 |
| Potential Total Grant | £236,500 |
| Agreed Loan | £440,000 |

4.14 Officers are undertaking an assessment in regard to subsidy control issues and

this will be completed and issues addressed prior to issuing any third party grant approved by this paper.

5.0 CONCLUSION

- 5.1 The Committee is asked to approve the recommendation set out in Section 3.1 based on the evidence supplied within this document with the purpose of enabling the delivery of affordable housing on Colonsay.

6.0 IMPLICATIONS

- 6.1 Policy - The proposal is consistent with current Council policy including the SHIP which supports the Local Housing Strategy vision and outcomes which are directly aligned with the overarching objectives of the Outcome Improvement Plan, in particular Outcome 2 – we have infrastructure that supports sustainable growth. The proposal does exceed the delegated Officer approval for the use of the Strategic Housing Fund to enable the delivery of affordable housing which is £12,000 per unit.
- 6.2 Finance - There are sufficient funds in the Strategic Housing Fund to support the proposal.
- 6.3 Legal – None.
- 6.4 HR – None.
- 6.5 Equalities (Fairer Scotland Duty) – The proposals are consistent with aims and objectives set out in the local housing strategy, which is subject to an EqSEIA.
- 6.5.1 Equalities – Protected Characteristics - There are targets set within the SHIP to deliver housing which meet the needs of specialist groups.
- 6.5.2 Socio- economic Duty – The delivery of affordable housing across Argyll and Bute facilitates socio-economic opportunities for all. The SHIP links with the Child Poverty Strategy.
- 6.5.3 Islands – The Housing Needs and Demand Assessment process takes full account of housing need on the islands. This proposal will enable the delivery of affordable housing on one of the more remote, fragile island communities within the local authority area.
- 6.6 Climate Change – The houses delivered will meet current energy efficiency standards.
- 6.7 Customer Service – Risk assessment is an integral part of each affordable housing development. The risk of not approving the Strategic Housing Fund request contained in the report is that the 9 affordable houses proposed at Scalasaig will not be completed.

- 6.8 Customer Service – The proposals will deliver increased access to a range of suitable, affordable housing options.
- 6.9 The Rights of the Child (UNCRC) – The housing activity described in the report will deliver affordable housing for families with children.

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