

**Scotland Excel - New Build Housing Framework – Investment opportunity**

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**1.0 EXECUTIVE SUMMARY**

**Purpose**

- 1.1 This report advises on an opportunity to invest in the new Scotland Excel new build housing framework. Although the investment is linked to housing it has no impact on the Strategic Housing Investment Plan or Registered Social Landlords, this is purely an investment opportunity for the Council.

**Summary**

- 1.2.1 The Scottish Government has set a target to deliver at least 50,000 homes by 2021, backed by over £3 billion in funding. It is anticipated that to meet future demand for affordable housing across Scotland, there will be an ongoing need for a national framework solution.
- 1.2.2 Scotland Excel requires a one-off amount of £500k to fund the initial start-up of the new build housing project. The funding will enable Scotland Excel to recruit a team of suitable qualified individuals and commission specialist support as required.
- 1.2.3 The total funding requirement is expected to be split amongst 12 partners, including Scotland Excel with Council partners contributing £40,000 and Scotland Excel £60,000 over a two year period. The expected return on investment is noted in the table in paragraph and amounts to £148,726 over the period to 2023.

**Recommendation**

- 1.3 That members approve the investment set out at paragraph 4.4 and approve the change to the treasury strategy to allow this as a permitted investment as set out at paragraph 4.6.

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**2.0 INTRODUCTION**

2.1 This report advises on an opportunity to invest in the new Scotland Excel new build housing framework. Although the investment is linked to housing it has no impact on the Strategic Housing Investment Plan or Registered Social Landlords, this is purely an investment opportunity for the Council.

**3.0 RECOMMENDATION**

3.1 That members approve the investment set out at paragraph 4.4 and approve the change to the treasury strategy to allow this as a permitted investment as set out at paragraph 4.6.

**4.0 DETAIL**

4.1 The Scottish Government has set a target to deliver at least 50,000 homes by 2021, backed by over £3 billion in funding. It is anticipated that to meet future demand for affordable housing across Scotland, there will be an ongoing need for a national framework solution.

4.2 Local government and the affordable housing sector will be required to undertake considerable procurement activity to meet this ambitious house building programme. A national procurement approach will generate significant operational efficiencies, particularly around developing technical specifications, as well as mitigating potential bottlenecks within the procurement process. A national approach would also facilitate monitoring and reporting of additional benefits delivered through the new build programme, including social value.

4.3 Scotland Excel will co-produce with local authority partners a compliant procurement solution tailored for local requirements around Scotland ensuring social and economic benefits are accrued in Scotland.

4.4 Scotland Excel requires a one-off amount of £500k to fund the initial start-up of the new build housing project. The funding will enable Scotland Excel to recruit a team of suitable qualified individuals and commission specialist support as required.

The funding requirement for the Council is £20K for each of 2 years – 2018/19 and 2019/20, totalling £40K and this will be paid from the Asset Management Investment Fund. The total funding is expected to be split amongst the following 12 partners, including Scotland Excel:

<b>Organisation</b>	<b>Total Contribution</b>	<b>Share Ownership %</b>
<b>Aberdeen City</b>	£40,000	8%
<b>Aberdeenshire</b>	£40,000	8%
<b>Angus</b>	£40,000	8%
<b>Argyll and Bute</b>	£40,000	8%
<b>Falkirk</b>	£40,000	8%
<b>Fife</b>	£40,000	8%
<b>North Ayrshire</b>	£40,000	8%
<b>North Lanarkshire</b>	£40,000	8%
<b>Renfrewshire</b>	£40,000	8%
<b>South Lanarkshire</b>	£40,000	8%
<b>West Dunbartonshire</b>	£40,000	8%
<b>Scotland Excel</b>	£60,000	12%
<b>Total</b>	<b>£500,000</b>	<b>100%</b>

- 4.5 The agreed arrangements will include a rebate, requiring suppliers to pay 0.5% of the overall business they receive back to Scotland Excel at pre-determined intervals. The rebate amount, minus the small proportion to be retained by Scotland Excel is expected to enable the project to be self-funding, and will be re-distributed back to all funding partners in line with the share ownership percentages shown in the table. This way forward means that both the contract management costs and costs associated with developing and tendering future generations of the arrangements are met without further contributions from funding partners.

The Council will pay an 8% share of the start-up costs in years 1 and 2, as outlined in the table above. Once the framework is established the council will receive 8% of the total supplier rebate minus framework operating costs. Scotland Excel anticipate that rebate payments would flow to funders in the second year of the framework and each subsequent year. On the basis of the example model table below the Council would re-coup the initial funding amount in the first rebate year.

Scotland Excel are estimating around 18 months for the development work. This would enable a framework start date in October 2019.

## Example Model

	<b>Oct 19 - Mar 20</b>	<b>Apr 20 - Mar 21</b>	<b>Apr 21- Mar 22</b>	<b>Apr 22- Mar 23</b>	<b>Apr 23 - Sep 23</b>
Spend	£0	£205,783,500	£205,783,500	£73,724,496	£73,724,496
Total Rebate	£0	£1,028,918	£1,028,918	£368,622	£368,622
Rebate minus operating costs	£0	£794,918	£794,918	£134,622	£134,622
Individual LA rebate (assuming 8% ownership)	£0	£63,593	£63,593	£10,770	£10,770

The above example is based on Scotland Excel's assumptions in relation to unit cost and volume of units. Unit volumes for first two full years based on ALACHO (Association of Local Authority Chief Housing Officers) published build figures 2019-2021. Annual volumes based on ¼ of stated total volumes for each participating council plus an additional 20% of the overall annual volume for councils to reflect usage from other councils and housing associations. Housing Association associate membership of Scotland Excel has increased significantly in recent years and is expected to continue so these volumes are potentially quite low once these are factored in.

Unit volumes following the first two years based on ALACHO previous build rate of 1000 units across Scotland pro-rated for participating councils plus 20%. This is likely to be significantly higher but reflects that funding and targets currently do not go beyond 2021, feedback from the participating councils suggests build plans are more likely to continue at a similar rate than drop back to previous levels.

In addition, the rebate is set at a level of 0.5%. The key differences from this new framework (as opposed to other pre-existing ones) are increased ease of use (standardised house specifications; mixed tenure; use of local suppliers) as well as better prices. Also other national frameworks have a minimum rebate of at least 1%, sometimes up to 3%, and with this one set at 0.5% that immediately helps to provide better value.

- 4.6 The Treasury Strategy will require to be amended to allow this as a permitted investment. In order to take advantage of any similar investments in the future, it is recommended that a new permitted investment category is created as follows:

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits	Common Good Limits
Investment in a project run by a Local Authority or Local Authority Joint Committee	These are investments which may exhibit market risks and will only be considered for medium to longer term investments.	Each investment requires approval by the Head of Strategic Finance up to £250,000 and above this level Member approval. Each application will be supported by the service rationale behind the investment and the likelihood of loss.	£10m	N/A

## 5.0 CONCLUSION

5.1 Scotland Excel have a track record of delivering returns on procurement frameworks and it is considered that, based on the information provided by Scotland Excel, the assumptions underpinning this are prudent.

## 6.0 IMPLICATIONS

- 6.1 Policy: This accords with the transformation board approach to generate income. The Treasury Strategy will require to be updated to allow for this type of investment.
- 6.2 Financial: Potential to generate a good investment return based on the information provided by Scotland Excel with prudent risk approach. The £40,000 investment will be paid from the Asset Management Investment Fund.
- 6.3 Legal: None
- 6.4 HR: None.
- 6.5 Equalities: None
- 6.6 Risk: The assumptions underpinning this are prudent in regard to the level of investment.
- 6.7 Customer Service: None.

Douglas Hendry, Executive Director of Customer Services

Kirsty Flanagan, Head of Strategic Finance

Councillor Gary Mulvaney - Policy Lead for Strategic Finance and Capital  
Regeneration Projects

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**For further information contact:**

David Logan, Special Project and Quality Improvement Manager 01546 604322