

**REVIEW OF MANAGEMENT OF HOUSING REVENUE ACCOUNT
GARAGE PORTFOLIO.**

1. SUMMARY.

1.1 Following an audit recommendation to review the current performance of the Council's garage stock, this report explores the options that might best deliver the aims of improving the condition of the stock to ensure they are fit for purpose and to improve the occupancy rate and maximise potential rental income.

2. RECOMMENDATIONS.

2.1 That, for the reasons outlined in the body of the report, the outsourcing of the management service for the Council's garage stock, be endorsed in principle.

2.2 That a further report will be presented following the tender process, seeking approval for the outsourcing to be in place, from 1 April 2021.

3. Background and Discussion.

3.1 In August 2020, the internal audit team presented a comprehensive audit report of the Council's garage management service. Whilst the outcome of the audit was positive, it was recommended that the housing team "review the utilisation of assets and develop a strategy to improve the current garage occupancy rate. This should include consideration of alternatives where there is limited prospect of letting the garage".

3.2 The Council owns a stock of 1258 garages, which are managed within the Housing Revenue Account (HRA). Whilst the provision and management of garages is not a statutory service, garages represent a significant asset and how they are managed can have a direct impact on the long-term business plan for the service. This is particularly relevant in respect to the collection of rental income, vacancy rent loss and the expenditure relating to repair, maintenance and improvement of the various sites. These factors could affect the financial viability of the Housing Revenue Account, if not managed effectively.

3.3 The 1258 Council owned garages are located at 70 separate sites throughout the Borough, with the size of garages sites varying from a single garage to the largest block, containing more than 50 garages.

3.4 Historically, garages were provided as part of the development of Council housing estates for use by Council tenants, however, over time, the changing profile of tenure on Council housing estates through the operation of the right to buy scheme, together with a general lack of demand, has led to a marked change in the tenant base of garages, with the majority of the Council garages now being let to private residents.

3.5 The letting of garage units is independent from the allocation of Council housing and garage units are no longer sold, due to the ongoing management difficulties encountered on mixed tenure garage sites. In the past, and in response to increasing vacancy levels and difficulty in re-letting garages, a decision was taken to directly link vacant garages to new lettings on the large flatted estates where appropriate. However, due to the management difficulties posed, and complaints from tenants, this practice has ceased.

3.6 Cabinet has previously been presented with reports detailing garage sites that could have potential for redevelopment and some sites have been redeveloped for housing. However, the remaining sites have various constraints that would make redevelopment difficult to achieve.

3.7 The rental policy for garages has developed over many years. The current charge is £15.00 per week for Council tenants and £17.80 per week for non-Council tenants. The difference relates to the fact that VAT is only payable by non-Council tenants and these charges are applicable across the whole garage stock with no variation dependent on the garage site location and typically increase annually

4. Current Position.

4.1 Of the 1258 Council garages available, there was a vacancy rate of 20% on the 1 April 2015 and this void increased to 26% as at the 1 October 2020. Of the 75% of garages that are let, 65% are let to non-Council tenants.

4.2 As the Housing team offer a reactive service, complaints regarding the condition of the garages, lack of security and lighting, the need for CCTV & fly tipping in and around the garages are numerous. Health and safety issues, in relation to the condition of the garages, are also of increasing concern.

4.3 Current modelling show the HRA is expected to receive £664k in income for 2020/21.

4.4 The Housing team currently delivers approximately £75k worth of day-to-day reactive repairs to the garages but there is no current allocation in the HRA capital budget for planned improvements. Garage and site conditions are deteriorating posing a health and safety risk.

4.5 The specific management functions for the Council's garages are split between officers in the Customer Services, Housing Finance & Housing Repairs teams with the Head of Housing having overall responsibility for the service.

5. The Challenge.

5.1 Despite receiving a high level of income annually, officers feel that the Council's garage stock portfolio is now at a crossroads with increasing complaints from garage users, increasing voids rates (officers estimate that the void rate is increasing by around 1% per year) and a significant deterioration in relation to the condition of the garages and their immediate environment. When this is then viewed in the context of no future budget being allocated to reverse that trend it is essential that the future of the garages is analysed and future options proposed that would ensure the garage stock is fit for purpose and meets its primary function whilst mitigating any negative impact on rental income.

6. Options.

6.1 Continue with existing management arrangements

The Council can continue to manage its garage stock as it currently does, but the letting patterns suggest that the high income levels and occupancy rates are not sustainable in the long term due to the split management approach and the lack of capital investment. As mentioned earlier in this report, there is no allocated budget to deal with the estimated £4.2m worth of backlog repairs required across the entire garage portfolio as the decision has been made that the finite capital budget available is best spent on improving the quality of tenant's accommodation across the housing stock. Whilst the lack of improvement budget can be addressed with a Capital budget allocation, the skills and resources to professionally market and manage the garages, that are required to at the very least maintain the current level of rent income, would also need to be correctly resourced and would be problematic within the existing structure across more than one team.

- 6.1.1 On that basis, and whilst it is the simplest option, it is felt by Officers that this approach does not solve the long term problems facing the Council in relation to optimising the value of the garage stock moving forward
- 6.2 Set up in house garage management team.
An option available to the Council is to create an in house team with its sole focus on improving the condition of the HRA garage stock and ensuring they are fit for purpose, improve the occupancy rate and maximising potential rental income. To do this, it is estimated that it would take at least two full time officers to deliver all management responsibilities from advertising, repairs, cleaning of the sites, lock changes, sign ups, tenancy issues, rent collection & debt collection. This would clearly have an additional cost in terms of salaries and a vehicle but would also require additional budget allocation for repairs etc. It is estimated that to set up and budgetary fund such a team would cost in excess of £125k with no guarantee that void garages will reduce and income increase.
- 6.2.1 Whilst this would be relatively straightforward to implement, it is an expensive option and will not add any expertise to the delivery of this non-essential service. It will also not deliver any vacancy saving elsewhere as the service is currently absorbed into the existing duties of officers in three different teams. On that basis, it is felt by Officers that this is not the best approach to solve the long term problems facing the Council in relation to optimising the value of the garage stock moving forward.
- 6.3 Sell the garages on the open market.
The Council could potentially sell the garages on the open market and achieve a capital receipt. This however would not do anything to immediately improve the condition of the garage stock, which lies at the centre of our estates. Whilst this will instantly have a negative impact in terms of revenue income it is also felt that the likely receipt for the sites would be relatively low, due to likely planning constraints etc., as clearly any private buyer could also make any number of choices as to what they wanted to do with “their” garage site but this may not include any parking or garage provision for our tenants or local residents who currently rent the garages. Any capital receipt would also been ring fenced and stay within the Housing Revenue Account which is already in a healthy position long term.
- 6.3.1 On the basis that sale of the garages is not a financial imperative, and the fact that the loss of the garage sites could be detrimental to the tenants and residents that reside on the housing estates in terms of overall loss of parking, it is not felt that this is a good option to pursue at this time.
- 6.4 New management arrangements.
As part of the research undertaken by the Housing team in preparation for this report, Officers have found that other Councils, facing the same issues with their garages have chosen an outsourced management approach that both protects, and increases, the their garage rental income and provides a positive management framework by which the condition of the garage stock can be improved and the vacancy rate reduced. The model allows for the control of rent rises, prioritises tenants for letting, and initiates a full review of every garage site to ensure optimum use and performance, including differential rent rates across sites.
- 6.4.1 Based on the current situation, and the options available, Officers feel that this is the best option to pursue at this time as it achieves the aims of both protecting the Council’s rental income and provides a basis to improve the quality and desirability of the Council’s garage stock.

6.4.2 It will also allow key members of staff in Customers Service and the Housing team to concentrate on key service delivery areas that better serve the needs of the Council's tenants and residents.

7.0 Proposal.

7.1 The proposed model would operate as follows:

- A tender will be let for the outsourcing of the management of the Council's garage stock and a long term contract signed with the successful contractor.
- The Council would pay a garage management fee to the successful contractor.
- The management agreement fee would include the obligation on the contractor to undertake any minor repairs to the garages within the set management fee.
- The successful contractor would assume all management responsibilities from advertising, repairs, cleaning of the sites, lock changes, sign ups, tenancy issues, rent collection & debt collection.
- The Council would not see a significant change in the level rental income in year one and as the contract progresses rental income would increase when compared to the 2019/20 baseline as voids levels decrease & income increases.
- All sites will be subjected to a viability assessment with various options considered. This could result in a straightforward garage refurbishment, garages could be demolished and replaced with larger garages providing more space to park larger modern vehicles, sites could be converted to open and secure parking areas or sites could be used for container type storage units for rent. Sites will be assessed in terms of their own location, individual merits and assessed for viability for development for Housing if alternative parking/garage arrangements cannot be delivered.
- Council tenants renting garages benefit from a reduced rental rate and receive priority when new garages become available to let.
- The Housing team will retain oversight of the operation to ensure it is delivered correctly & achieves the Council's aims and the needs of tenants and residents.

7.2 Impact on HRA budget.

The Council would set aside a capital budget, of up to £500k per annum, to support the scheme and ensure that the money is available to improve the garages that will in turn create additional rental income. This is achievable due to the current financial position of the HRA due to decreasing scheduled debt and interest repayments and would be proposed as part of the 2020/21 budget.

In terms of the potential impact on the rental (revenue) income the new arrangement will add up to £150k in expenditure but this is immediately offset by the £75k saved by the Council as the successful contractor will undertake all minor repairs within the management fee paid by the Council. The remainder of the additional expenditure will be recovered in time by the increase in rental income by reducing the garage void rate as detailed elsewhere in this report.

7.3 Benefits of the proposal.

It is felt that the proposal provides clear benefits for both the Council and the tenants and residents who rent the Council's garages in terms of;

- Providing a specialised & customer focussed garage management service.
- Improving the condition of the garage stock and the estate environment.
- Protects rental income for the Council.
- Increases rental income.
- Protects tenants from high rental rises and give them priority on new lettings.
- Fewer complaints from tenants and residents & eliminates H&S risks.
- Deals with the estimated £4.2m backlog in repairs in a programmed manner.
- Retains Council ownership of the garage stock.

7.3.1 A further benefit to the Council is that the tender would be procured as a Framework, after a fully OJEU compliant tender process. Other local authorities or Housing Associations could then use the Council's certified OJEU procurement process to appoint their own garage management contractors. The Council would receive a payment from each body that signs up to use the Framework, creating a revenue stream for the Housing Revenue Account.

8 Relationship to the Corporate Plan.

8.1 This report relates to the Corporate Plan strategic aim 'to facilitate quality, choice and diversity in the housing market, to create strong and self-reliant Communities and deliver high quality services to service users.

9 Financial, legal, staffing, administrative implications & risk assessments:

<p>Financial Implications</p>	<p>Appendix A details the projected financial model that the Council estimates can be delivered if approval to tender is achieved. The model indicates that following a minimal loss in year from year one (£2954), but from year two of the new management arrangement will achieved an significant increased level on income that increases, per year, for the duration of the contract.</p> <p>Whilst the projected model, is in places, based on estimates, those estimates are backed up by extensive research as to how the model has worked elsewhere and fully underpinned by Dartford's Council's own data.</p> <p>If the tender returns do match the Council's cost model projection then Cabinet approval will be needed prior to the award of the proposed contract, as its value will exceed the thresholds for significant contracts and affect more than one ward. A further report will be therefore be presented to Cabinet, following the tender process, seeking approval to proceed with the new arrangement to be in place from the 1.4.2021</p> <p>All costs will be met from the ring-fenced Housing Revenue Account and capital allocation. The estimated net costs of delivering the contract will be built into the 2021/2022 budget setting process.</p> <p>The Housing Revenue Account business plan will be updated to take into account planned expenditure for the life of the contract.</p> <p>The financial standing of the recommended company will be verified by Financial Services as being acceptable in relation to this value of contract.</p>
<p>Legal Implications</p>	<p>Subject to Cabinet approval to proceed the contract will be procured and will be let in accordance with the Public Contracts Regulations 2015.</p> <p>The terms of the contract will be agreed in consultation with the Head of Legal Services and will include termination clauses to cover events such as financial insolvency, poor performance etc. with break clauses will be included in the contract that allow either party to terminate the contract at any time.</p>

Staffing Implications	None as detailed in the report.
Administrative Implications	None.
Risk Assessment	The risk of doing nothing, and continuing the current arrangements, are both reputational and financial and are effectively the opposite to the benefits of the proposals as set out in paragraph 7.3 of this report.

10 Appendix

- Appendix A – Garage Management Arrangement Cost Model.

BACKGROUND PAPERS

<u>Documents consulted</u>	<u>Date / File Ref</u>	<u>Report Author</u>	<u>Section and Directorate</u>	<u>Exempt Information Category</u>
None	N/A	Peter Dosad	Housing Strategic (Ext Services)	N/A