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| Report for: | Cabinet |
| Title of report: | Garages Update |
| Date: | Tuesday 15 March |
| Report on behalf of: | Councillor Graeme Elliot, Portfolio Holder for Finance and Resources |
| Part: | I |
| If Part II, reason: | N/A |
| Appendices: | N/A |
| Background papers: | N/A |
| Glossary of acronyms and any other abbreviations used in this report: | MTFS – Medium Term Financial Strategy |

Report Author / Responsible Officer

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| Corporate Priorities | A clean, safe and enjoyable environment Ensuring economic growth and prosperity Providing good quality affordable homes, in particular for those most in need Ensuring efficient, effective and modern service delivery |
| Wards affected | ALL |
| Purpose of the report: | <ol style="list-style-type: none"> 1. To provide an update on the performance of the Garages Service. 2. To secure approval for additional costs incurred during the 2021/22 financial year. 3. To secure a mandate for a refocused Garage Service. |
| Recommendation (s) to the decision maker (s): | <ol style="list-style-type: none"> 1. To recommend to Council to approve additional 21/22 supplementary funding of £110k revenue for project costs, to be funded from the Dacorum Development reserve. 2. To approve additional 21/22 supplementary funding of £300k capital. 3. To approve the proposed Operational Plans for 2022/23 and recommend to Council the approval of a one off £550k draw down from reserves, £425k funding for 22/23 and £125k funding for 23/24, funded from the Dacorum Development Reserve. 4. To approve the transfer of the Garages Service to primary oversight by the Finance and Resources Scrutiny Committee. |

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| | <ol style="list-style-type: none"> 5. To recommend to Council to approve a supplementary capital budget for 2022/23 garage investment of £500k. The specific investment decisions to be delegated to the Strategic Director (Corporate and Commercial) in consultation with the Portfolio Holder for Finance and Resources and s.151 Officer. 6. To approve the disposal of £500k of underutilised garages to finance the additional garage investment and garage conversion proposals. To delegate specific disposal decisions to the Strategic Director (Corporate and Commercial) in consultation with the Portfolio Holder for Finance and Resources and s.151 Officer, and in line with current financial regulations. |
| <p>Period for post policy/project review:</p> | <p>The strategy and performance will be reviewed on a bi-annual basis.</p> |

1 Introduction/Background:

Dacorum's garages portfolio represents a significant capital asset, which needs to support the Council's corporate priorities. The portfolio is the Council's second highest income stream, generating around £3m of revenue each year. As the Council becomes increasingly reliant on self-financing its activities, and as it moves towards a formalised commercial strategy, it will be imperative that the role of the garages portfolio is clarified and strengthened.

Within this context, a 3 year business plan has been developed for the Garages Service. A commercial operation of this size and scale – 7,300 garages – needs to be developing and investing in its operation in the medium term. This will need to become a more usual approach for the Council's commercial activities.

This report provides an update on the improvement work completed during the 2021/22 financial year. It seeks approval for additional funding to finance expenditure incurred in delivering this improvement work.

The report then provides an update and recommendations on a number of operational constraints faced by the service, and makes recommendations on developing the service during 2022/23 and beyond.

2 Key Issues:

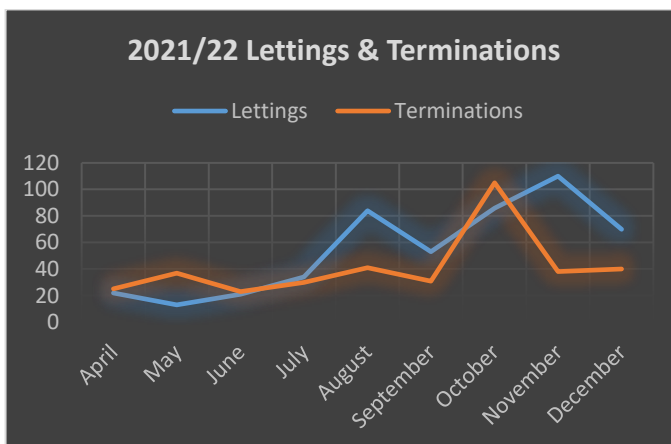
2.1. 2021/22 Improvement Work

This year has seen significant improvement work completed by the Garages Team. Figure 1 shows a steady increase in garage lettings, as this work and the additional resources have developed.

The primary aspects of this work have been:

- Refurbishment of 359 garages, across the Borough.
- A review of operational processes, to simplify operational activity.
- Implementation of a web-based application portal for residents.
- Resourcing of an enhanced operational team (3 Lettings Officers, compared to a baseline establishment of 1).

Figure 1: 2021/22 Lettings & Terminations

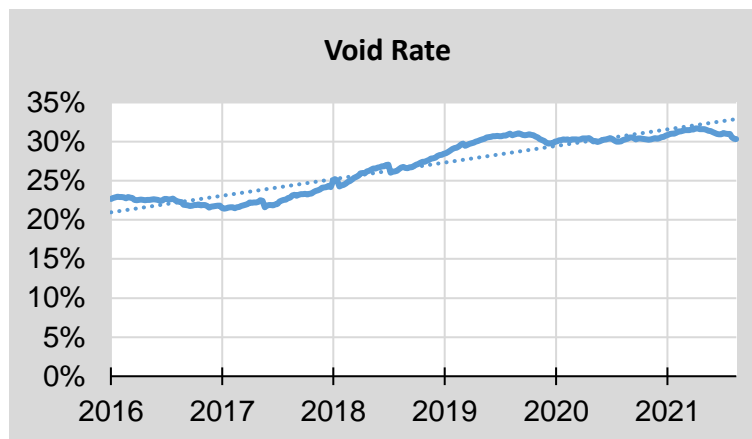


2.2. Operational Performance

Despite an increasing number of lettings throughout this year, operational performance of the service continues to be lower than anticipated. There are a number of good reasons for this, which are detailed below.

Figure 2 provides a time analysis of voids across the garages portfolio. The service is operating at voids of around 30%. In contrast, indicative comparable data from other authorities indicates that a void rate of 10-20% is more typical (which still represents a significant opportunity cost). There has been a gradual increase in the void rate over the last few years.

Figure 2: Garages Portfolio - Historical Void Rate



There are likely to be a number of drivers for the void performance, some operational and some strategic.

Operationally, data and data access is limited. This reduces the efficiency of the service and makes it difficult to make operational decisions effectively. For example, stock condition data is limited which means that a physical visit is required to many units before a letting can be made. This acts as a serious bottleneck on the service.

Operationally, there is a lack of clarity on the core focus of the service, which stems from the historic purchase of the portfolio by the General Fund. The Garages Team spend much of their time supporting tenants with a range of neighbourhood management activity – such as parking enforcement – which should be resolved by other teams across Council. These issues are, of course, important and ones which the Council should be responding to residents. However, this response needs to be led by teams with the relevant focus, skills and expertise.

Strategically, there is little systematic capture of how garages are being used and the reasons for the termination of lettings. This makes it difficult to project medium-term demand. Anecdotally, the Council receives feedback that many modern cars are not suited to the design of the garages and that storage is the primary purpose of many lettings. Much better demand data will need to be captured if the service is to make effective plans for its operation over the medium-term.

2.3. Financial Projections

The service has a budgeted income of £3.1m for the 2021/22 financial year and is currently forecast to achieve this. It is projected to achieve a Net Operating Surplus of £1.1m (net surplus of £800k, excluding additional capital investment costs) as set out in Figure 3.

Figure 3: Garage Service 21/22 Income and Expenditure Statement

| | Budget £'000's | Actuals £'000's | Variance £'000's |
|----------------------|---------------------------|----------------------------|-----------------------------|
| Gross Expenditure | 741 | 850 | 109 |
| Gross Income | -3,142 | -3,141 | 1 |
| Gross Surplus | -2,401 | -2,291 | 110 |
| Service Recharges | 443 | 443 | 0 |
| Capital Charges | 720 | 720 | 0 |
| Net Surplus | -1,238 | -1,123 | 110 |

Currently, the Medium Term Financial Strategy (MTFS) assumes a steady increase in the net income generated by the garages portfolio. Given the historic void trends and operational performance achieved this year (with the additional investment required) it appears unlikely that these assumptions will be achieved without a strategic re-focusing of the service.

Therefore it is proposed that a set of financial targets for the service is put in place – as set out in Figure 4 – which will deliver a significant improvement in the net income generated by the service by 2025. The plans set out below will provide the service with a period of investment in the core capabilities required to operate a portfolio of this scale, which should then enable income to grow over subsequent years. The analysis completed to date indicates that continuing to operate the service without this investment is likely to cause income to stagnate in the medium term.

Figure 4: Income Projections

| | 2022/23 | 2023/24 | 2024/25 |
|--------------------|---------|---------|---------|
| Income | £3.1m | £3.4m | £3.7m |
| Operating Costs | £1.3m | £1.2m | £1.2m |
| Capital Investment | £0.7m | £0.7m | £0.7m |
| Surplus | £1.1m | £1.5m | £1.8m |

2.4. 2021/22 Additional Investment

During the 21/22 financial year, the garage service has invested in additional operational staffing, external consultancy support and extra capital investment to reduce the increase in void levels, as detailed earlier in this report.

This is resulting in a pressure on both the revenue and capital budgets for 2021/22. As a result the service is showing an in year revenue pressure of £110k, as detailed in Figure 3 above and an additional capital investment pressure of £300k, resulting from the investment in c. 400 garages.

The recommendation is to provide an additional one off reserve draw down of £110k from the Dacorum Development reserve to fund the in-year revenue pressure, and to set up a supplementary capital budget of £300k for 2021/22.

2.5. Strategic Focus

The achievement of the financial targets set out above will need the Garage service to re-focus its approach alongside developing its operational arrangements.

The service needs to be equipped with a clear focus so that it is primarily a service which generates significant income to support General Fund services. It is proposed that the following four objectives are adopted for the service, which will provide clarity and focus for the service:

- To generate significant, sustainable net income streams to support General Fund activity;
- To provide a quality service to customers of the Garage Service;
- To identify surplus assets from the portfolio and support identification of ongoing uses that deliver commercial returns and the Council's strategic goals;
- To support the maximisation of capital receipts from the portfolio when ongoing Council use is discounted.

Governance structures need to be clarified to support these strategic objectives. At Officer level, an Operational Board has been established, which is tasked with overseeing the performance of the service. This reports into the new Commercial Board, chaired by the Chief Executive.

Given the need to clarify the service as primarily a commercial activity, it is recommended that the Garage Service starts to be overseen by Finance & Resources Scrutiny Committee.

Internally, to allow the service to focus on its core lettings activity current recharges with other services (principally the HRA) will need to be reviewed and internal service level agreements established to provide clear expectations of how other Council services will support the garages portfolio.

2.6. Operational Plans

During the 2022/23 financial year, the Service will need to undertake a range of operational activity to commence the process of refocusing the service.

A 3 month moratorium on new applications is urgently required to provide the Lettings Officers with the necessary time to clear a long, historic waiting list. This is currently exacerbating operational inefficiencies as there is a lack of clarity in true underlying demand for units.

A comprehensive stock condition survey should be commissioned to provide detailed and reliable data on the condition of each garage, and allow lettings decisions to be taken without recourse to physical site visits. This work should also capture data about the wider context and potential of garage sites, to inform decision making about alternative uses and disposals.

The services' data systems need to be improved further so that data about garage use and terminations is captured and can be analysed to inform medium-term demand planning.

It is recommended that alternative uses for low / no demand sites are actively progressed during the 2022/23 financial year, as the first step in enhancing the role of this significant council asset in supporting the economic growth of the Borough. A small number of sites will be identified to pilot conversion into starter industrial units (or equivalent). This work has commenced, as part of the commercial strategy, through the development of an initial business case for this offer.

2.7. Investment Requirements

This development of the service will require further investment into the service. As set out in Figure 5, it is expected that this should generate significant improvements to the net income generated by the service, rising from £1.1m to £1.8m, within 3 years.

It is recommended that provision is made for the following key investments during the 2022/23 financial year:

Short Term Revenue Growth

- Continued investment in an enhanced operational team: £125k p.a. for 2 years
- Detailed Stock condition survey: £150k
- Data system improvements: £150k

This service transformation requires a one off £550k draw down from reserves, this is broken down into £425k funding for 22/23 and £125k funding for 23/24. It is proposed that these funds will be drawn down from the Dacorum Development Reserve.

Capital Growth

Garage redevelopment/ Starter-industrial unit pilots: £500k

Financing

To finance this capital investment, it is recommended that a small number of disposals are made early in the new financial year, the additional receipts received over and above existing expectations can be used to fund this investment.

This approach will make the Garage future investment strategy self-financing and reduce the need for additional council capital financing in the medium term. It will also establish an important principle that a service which is primarily focused on generating income finances service development from its own assets.

3 Options and alternatives considered

The primary alternative to these proposals would be to allow the service to return to a team of 1 lettings officer, and continue operations with limited data and effectiveness. For the reasons set out above, this would lead to sustainment of high void rates, loss of income to the Council, and significant opportunity costs.

An alternative approach which could be considered would be to transfer the garages portfolio to a management company through the letting of a contract. Whilst this has not been market tested, the lack of good quality stock condition data is likely to act as a significant constraint on this approach and the willingness of a commercial operator to assume responsibility for letting the stock.

4 Consultation

Relevant consultation will be undertaken when proposals are developed for alternative uses of specific garages sites. At the moment, the main focus of this report is strengthening the internal operation of the garage portfolio.

5 Financial and value for money implications:

The current level of voids across the garages portfolio represents significant opportunity cost, in both financial and neighbourhood development terms. The proposals set out will enable the Council to achieve better utilisation from this capital asset, whilst enabling alternative uses for vacant sites to be implemented.

The council's MTFS will be reviewed and reported back to members in the summer and the impact of this proposed strategy will be incorporated in the review of MTFS assumptions.

6 Legal Implications

There are not considered to be any significant legal implications arising from these recommendations.

7 Risk implications:

There are two main risks associated with these proposals. The lack of good quality service data makes it hard to project medium-term demand for the garage portfolio with confidence. The proposals set out here are intended to start to reduce this risk and to commence diversification of the portfolio into uses beyond lettings to residents for parking purposes.

Secondly, there is a risk that a full stock condition survey might identify significant issues with the stock and associated investment requirements. This is a latent risk which the Council already holds and, again, these proposals are intended to start to reduce this risk by enabling longer-term asset management planning to commence.

8 Equalities, Community Impact and Human Rights:

There is no anticipated community impact at this stage. The garages portfolio will continue to operate and make garages available to residents. The focus of these recommendations is around increasing the internal efficiency of this activity. At this stage, no proposals are being made for which specific sites might be disposed of. Any community impact will need to be assessed once specific sites have been identified.

There are no Human Rights Implications arising from this report.

9 Sustainability implications (including climate change, health and wellbeing, community safety)

There are no sustainability implications arising from these proposals.

10 Council infrastructure (including Health and Safety, HR/OD, assets and other resources)

There are no implications for Council infrastructure arising from these proposals.

11 Statutory Comments

Deputy Monitoring Officer:

No comments to add to the report.

Deputy S151 Officer:

Garages represent a significant income stream to the Council. The report sets out proposed one-off investment in Garages over a three- year period to support and further develop this income stream and the quality of the service provided to customers. Proposed revenue costs would be funded from the Dacorum Development reserve. Capital costs would be funded from a combination of capital receipts arising from garage sales, alongside other sources of capital financing.

12 Conclusions:

The proposals set out in this report should create the strategic framework require to develop further the Council's use of its garage portfolio, increasing the net income generated for the General Fund whilst also increasing the role that the portfolio plays in the economic and community development of the Borough.

Deadline: COP Thursday 24 February 2022

| Officer | Actions | Date & time completed |
|--------------------------------|---|----------------------------------|
| K Gioiosa/ M Rawdon | Report uploaded and stat comments advised when done | |

Deadline: COP Monday 28 February 2022

| Officer | Actions | Date & time completed |
|------------------------------|------------------------|----------------------------------|
| N Howcutt / F Jump | Stat Comments provided | 25/02/22 13.45 |
| M Brookes / F Hussain | Stat comments provided | 25/02/22 13:56 |

Deadline: Midday Wednesday 2 March 2022

| Officer | Actions | Date & time completed |
|----------------------|-------------------------------------|----------------------------------|
| Report author | Amendments made following comments. | |
| SLT Lead | Sign Off | |

Deadline: Thursday 3 March 2022

| Officer | Actions | Date & time completed |
|-------------------|---|----------------------------------|
| C Hamilton | Final sign off following SLT review – Claire to advise Kim | 1/3/22 18:27 |

Deadline: Thursday 3 / Friday 4 March

| Officer | Actions | Date & time completed |
|----------------------------|---|----------------------------------|
| K Gioiosa/ M Rawdon | Download reports from Teams and send to Member Support | |