STEVENAGE BOROUGH COUNCIL

APPENDIX 1

GARAGES TEN YEAR BUSINESS PLAN

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1 EXECUTIVE SUMMARY

1.1 Background

1.1.1 In October 2015, Strategic Management Board (SMB) received a draft report concerning proposals to invest in the garages estate over a ten year period. The proposals included plans to raise capital through the disposal of poorly performing garage blocks, any shortfall in funding to be met through prudential borrowing.

1.1.2 While supporting the proposals in principle, Board were keen that the garages review fully considered the strategic significance of the estate and in particular its potential impact on the Council's financial security and the quality of the public realm across the Town. Board called for a new vision for the service backed up by a ten year Business Plan. This paper is the result of that work.

1.1.3 The Council currently owns 6,668 garages throughout the Town of which 6,623 are residential garages and the remaining 45 being classified as commercial. A breakdown of the different type of garages is shown in Table 1. A map of the Town showing the location of the garages is at Appendix A.

1.1.4 The current financial position of the Garages Service[1] is a total gross income of around £2.83 million generating a surplus (after revenue and capital expenditure) for the General Fund of £2.01 million in 2015/16.

[1] Based on 2015-16 estimated outturns and *excluding* capital recharges which are neutral throughout the data.

Table 1[2] Garage configurations and numbers

SUMMARY OF UNITS IN ANALYSIS		
Configuration	Number	Percent
Standard	4,926	73.88%
Standard Road Facing	1,588	23.82%
Wide Large Road Facing	2	0.03%
Reduced Road Facing	1	0.01%
Large	28	0.42%
Wide Large	32	0.48%
Bubble	46	0.69%
Commercial	45	0.67%
Total	**6,668**	**100.00%**
Of which:		
Rented free to VCOs	99	1.48%
Void (available to let)	577	8.65%
Void (awaiting major works)	224	3.36%

1.1.5 However given the scale of the financial challenge facing the Council, (£1.5m of savings need to be found between 2017 and 2020) services should not be satisfied with the status quo when they can still perform better and that is part of the challenge posed by Board. The proposal is for three improvements: **stock condition, pricing,** and **customer service.**

1.2 Outline of the proposal

1.2.1 **Condition**. A capital investment programme to bring unlettable garages back into service so income can be increased, and to refurbish active garages to reduce the higher future cost of reactive repairs and prevent the loss of income that would come from garages falling out of service. Alongside this, selected garage blocks will be disposed of for redevelopment and regeneration and so realise capital receipts to partially offset the costs of the investment programme[3].

1.2.2 **Pricing.** A new rents and voids strategy will make smarter use of assets to reduce voids and maximise income through a more dynamic pricing structure that better responds to demand, reducing voids and the risk of being caught out by market changes. This will introduce demand based pricing, with higher demand garages at a premium. The Garages Service would have to discretion to set initial discounted rents on void garages so that price offered matches with demand i.e. low demand

[2] These figures are a "snapshot in time" so there will be minor variations depending on when the data is captured.
[3] The investment programme is informed by the current ten year stock condition survey and the work carried out by the ARK consultancy.

void at lower rents. Those that are filled will have the rents realigned with the rest of the service after the first year. Demand will be informed by waiting list lengths against blocks.

1.2.3 **Customer service.** An improvement plan is proposed that will future-proof the service, by changing and developing customer engagement through a provision of a digital/on line service offer. This will come forward as part of the "Future Town Future Council" Equal Access to Services for All programme.

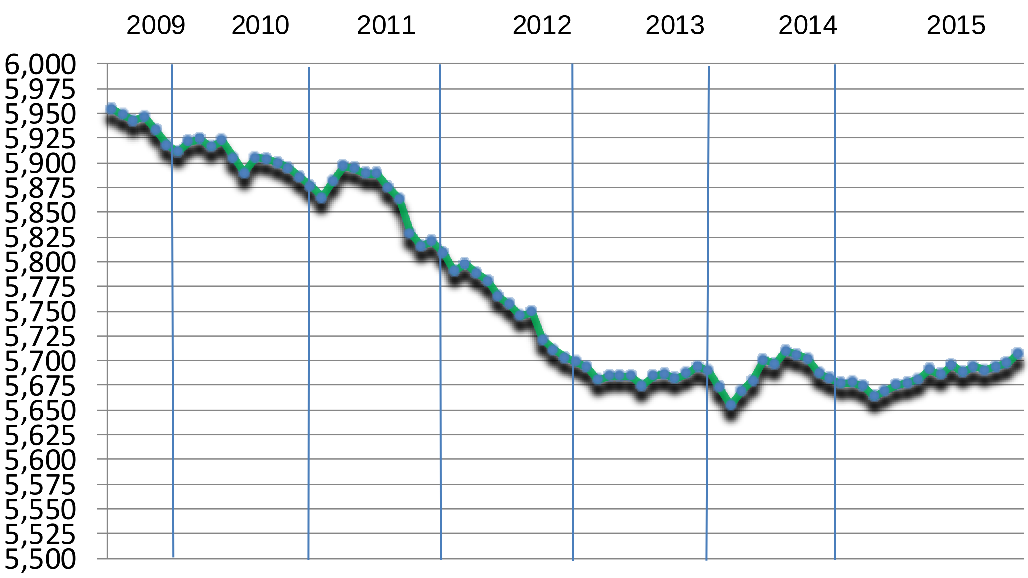
1.2.4 Projections of the financial implications for the Council over a ten year period are modelled in Section 3.

2 BUSINESS PROPOSAL

2.1 Context

2.1.1 The number of lets has been fairly consistent over the past three years. However following the recession in 2009, the letting levels fell by 5% from 5,950 to around 5,675 by the end of 2012. Since 2012, the letting levels have wavered a little but have stabilized currently at around 5,715 (86% of the stock). See Chart 2.

Chart 2 Trend in the number of garage lettings



2.1.2 The figures for the current year (15/16) are showing a small increase in the number of current rentals. The average for the 15/16 2nd quarter is the highest quarterly average since the end of 2013/14. This is in spite of a cumulative increase of 5% in the rents over the last two years and suggests that letting levels are remaining stable in the face of rent increases that are more or less in line with inflation. The 2016/17 budget includes a further 3% increase in rent levels for the year.

2.1.3 However, the number of voids has remained persistent over the same period. Currently this is made up of 577 (8.65%) that are void and available to let and 224 (3.36%) that are awaiting major works and so not available to let.

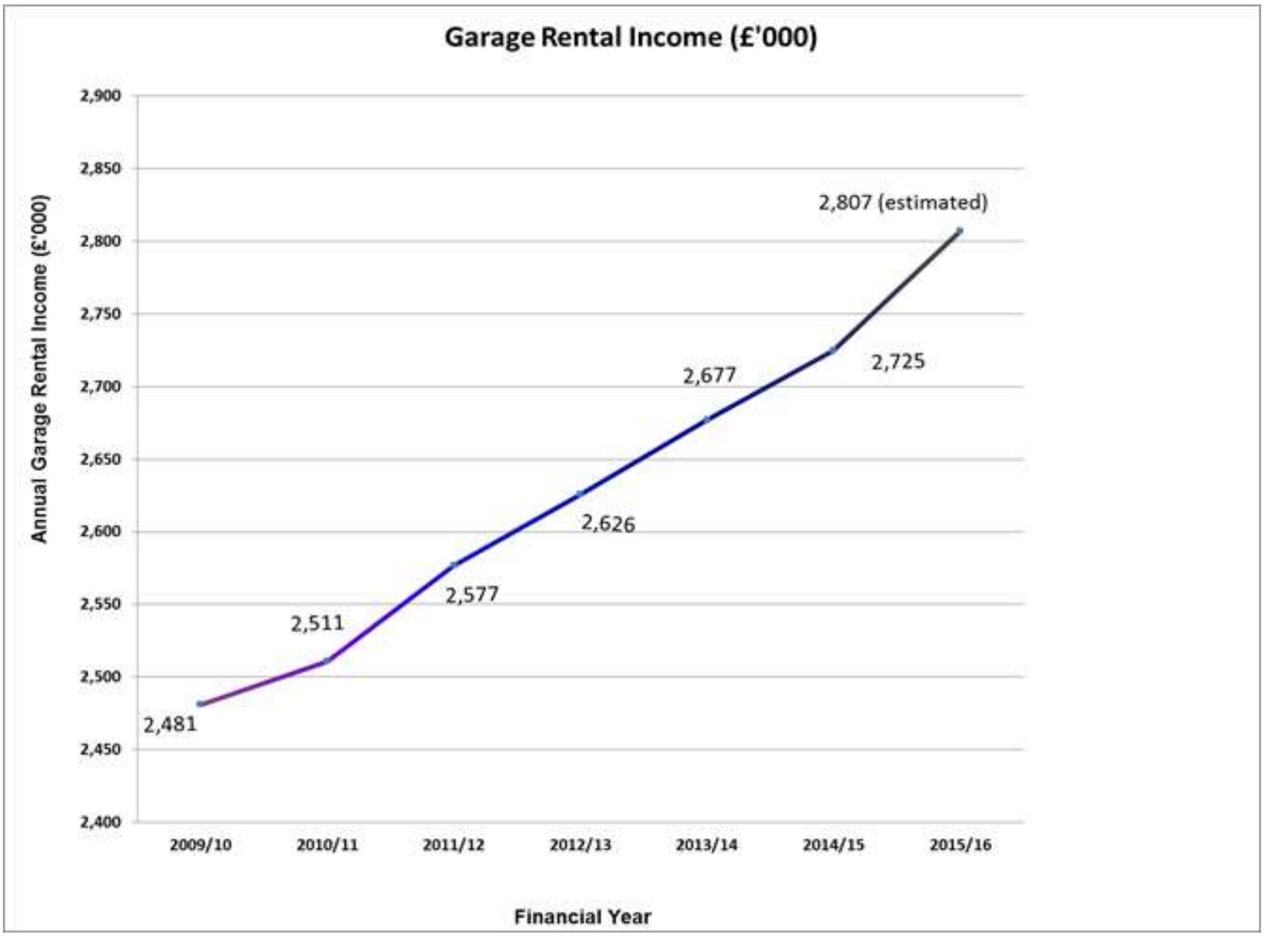
2.1.4 Table 3 shows that the larger garage sites within Bedwell, Shephall and Broadwater have the highest void numbers. Conversely the smaller garage sites within Pin Green, St. Nicholas and Symonds Green feature some over-demand and under-supply and are closer to being fully let. There are also up to 100 garages currently used, rent free, by voluntary and community organisations.

Table 3 Voids profile by ward

WARD	VOIDS
Bedwell	167
Shephall	309
Broadwater	168
Chells	73
Old Town	16
Pin Green	43
St Nicholas	14
Symonds Green	11

2.1.5 Moving forward, if we were to achieve the desired income levels in 2016/17 (i.e. 3% higher than the 15/16 budget), then income levels would be around £2.9m. This would compare to levels achieved in 2013/14 of £2.677m. So, over three years, this would be an increase in income of approximately £212,000 (or 7.9%). Chart 4 (overleaf) shows this trend of rental income matching the budgeted rental increases.

Chart 4 Trend in the garages rental Income (£'000)



2.1.6 £250,000 has been available annually in the capital strategy for estate investment. Since 2010/11, actual spend ranged between £98,000 and £278,000 per annum due to stretched surveying resources and so does not reflect a planned approach to investment. However, priority based budgeting means that even this level of investment cannot be relied upon in the future.

2.1.7 Historically, revenue maintenance expenditure has been split between the Repairs Service and other contractors' spend. The combined budget for 2015/16 is £126k which has been the typical annual allocation in the current medium term financial strategy. Since 2010/11 the actual spend has ranged between £90,000 and £110,000, again reflecting stretched resources.

2.2 Outlook

2.2.1 Although the service appears sustainable at current levels of occupancy, voids and inflation linked annual rent increases, it is irresponsible to assume that this will continue if we fail to invest in the estate. The 5% reduction in lets since the last recession tends to track the real economy in Stevenage which has barely recovered. If the service cannot respond to the economy it will always be at the mercy of it.

2.3 A vision for the service

2.3.1 The Business Plan is underpinned by a proposed new vision for the garages estate:

"A garages estate that, over the next ten years maximises income in support of the Council's financial security and, improves the quality of the public realm in Stevenage's neighbourhoods. These outcomes will be supported by excellent, efficient and accessible customer service, evidenced by good levels of customer satisfaction and low levels of voids."

2.3.2 To realise this vision and future-proof the service both in terms of its assets and the offer, the Business Plan features a fresh approach to improving the *condition* of the stock by linking it to estate rationalisation and a new pricing strategy. It also proposes changes to the way the service is delivered to its customers. This new approach and changes will be underpinned by a new comprehensive business plan.

2.3.3 The proposed Plan requires the service to undertake a capital investment programme and make service changes in these key areas (condition, pricing, and customer service). The following sections show what the changes will look like and the section on Business Plan Option Modelling sets out the financial implications depending on the manner of implementation.

2.4 Condition and Estate Rationalisation Plan

2.4.1 The estate stock condition survey shows that a minimum investment of around £9.2 million is required over the next ten years including 10% to cover the estimated cost of fees. However, it does not include the cost of managing asbestos in the estate as the asbestos survey and action plan is not yet complete. For the purpose of the Business Plan, 5% has been allowed to anticipate these and other "unknown" costs that may arise during the works. A percentage has also been added for decanting tenants and loss of income during the works (1%). The total estimated investment required is therefore in the region of £9.9 million over the next ten years.

2.4.2 Notwithstanding, this investment in the estate will do nothing more than prolong the life of this strategic asset for another twenty to thirty years. It will not "improve" the stock in so far as providing any additional features, for example lighting and security. It is proposed that such improvements are demand led and will be funded through refining the differential approach to rent setting on an "invest to save" basis.

2.4.3 However it is important that expectations with regard to the impact and appearance of the garages “post investment” are carefully managed**. To this end the Plan includes for some pilot garage blocks to be completed during Year 1** so that officers and members can be fully appreciative of the impact of the investment on the neighbourhood public realm.

2.4.4 The work carried out by the ARK consultancy shows that the estate falls into three broad categories:

- Category A. Broadly good occupancy levels with low void turnover. Comparatively low repair expenditure for these sites, so overall good profitability. **Approximately 3705 in number**
- Category B. Broadly fair occupancy levels with good demand for specific blocks. Comparatively low to medium repairs expenditure for these sites so overall reasonable profitability. **Approximately 2176 in number**
- Category C. Broadly fair to poor occupancy levels in lower demand areas. Comparatively high repair expenditure for these sites so overall poor profitability. **Approximately 787 in number**

2.4.5 All of the categories include garages that are “awaiting major works” (AMW). That is, their condition is such that they require investment on a scale that is not currently available. In effect, they are mothballed and losing money.

2.4.6 Using these categories, and in particular “C”, it is possible to identify the blocks where the substantial investment required and the low likelihood of reducing the voids and increasing revenue as a result, is outweighed by the potential to dispose of blocks for a capital receipt. Thus far, 12 sites have been reviewed for potential disposal[4] representing 1.78% of the stock. A key part of the Business Plan, therefore, is to realise these receipts though a targeted disposal programme and invest them back into the estate.

2.4.7 **Note however** that there is an implicit assumption that these sites will not be made available to the HRA for Housing Development. The financial impact of some or all of the sites going to the HRA is currently outside the scope of this Business Plan.

2.4.8 The gross aggregate value of these receipts is around £860k but reduces to £650k net of disposal and buy-back costs and so is a relatively small contribution to the overall investment demand over the next ten years, leaving an investment gap still in excess of £8m. The service will therefore need to raise the balance of funding

[4] These sites are in addition to those previously identified and already accounted for in the Council’s disposal programme. Their receipt value is estimated at £611k, but will not be available to this programme.

through a combination of prudential borrowing and a "smarter" pricing structure better informed by use and demand.

2.5 Service Delivery Plan – The "Digital Garage Service"

2.5.1 The Future Town Future Council programme's "Equal Access to Services for All (EQASA)" means that services need to explore ways to be more digitally inclusive.

2.5.2 A number of functions involved in the garage service's business process that involve the public could be shifted to online only, with a mediated service offered to those who cannot utilise the website. This would involve channel shifting to improve customer engagement.

2.5.3 The paper application would cease and applications would take place online only. If a customer were to arrive at the Customer Service Centre (CSC) to apply for a garage, they would apply using computers to access the SBC website at the CSC with CSC staff on hand to assist if they have issues using the system.

2.5.4 The Garages service will be a good pilot for adopting digitalisation in the early stages of the Equal Access to Services for All (EQASA) digital development. Major investment in the garage stock coupled with investment in improving customer engagement will result in a visible improvement to service, and further reduce risks to the Garage Business Plan.

2.6 Service Delivery Plan – The Garage Management Service

2.6.1 As part of the planning process, the Corporate Property Manager has evaluated the resources required to ensure that it can support implementation of the Garage Business Plan.

2.6.2 As a result some changes to the existing staff structure are proposed to ensure that the plan can be delivered successfully.

2.6.3 There are currently six members of staff within the Garages and Markets Team. The separation of market and garages roles across the service is a key part of this restructure, together with strengthening programme management to deliver change. This proposal is subject to staff consultation and job evaluation. The benefit will be the creation of a new single focus garage team with effect from 1st April 2017.

2.6.4 Whilst it is anticipated that these proposals will not result in redundancies, a thorough assessment can only be made once the job descriptions have been written and evaluated.

2.6.5 The new single focussed garage team will comprise of seven posts, subject to consultation. The proposed structure includes a new Programme Manager post engaged through a two year fixed term contract and reporting to the Corporate

Property Manager. This new post will support the Garages Manager to deliver change linked to the Business Plan. This will include implementation of the proposed staff re-structure, managing effective co-ordination of the programme delivery including inter-dependencies with the Building surveying team and contract procurement, setting up new policies (void management including new rental strategy and differential pricing), overseeing key performance management measures, and the management of risk and associated issues. This role is crucial for maintaining focus and momentum.

2.6.6 The new proposed Programme Manager role will be funded from capital budgets in the first two years. An estimated cost of £60k has been included in the financial model for the first two years of the Garage Business Plan.

2.6.7 The business financial model assumes that the additional three posts will be funded from revenue (indicative salary costs of £28k per annum ongoing). The new posts are:-

(i) New Assistant Market Officer post to support the existing Market Officer (part-time). This will help the new structure with separation of duties.
(ii) New Voids Inspection officer role (part-time).
(iii) New Garage Project Officer role who will focus on delivery of garage refurbishment and redevelopment projects.

2.6.7 The Business Plan model also assumes a one off additional cost of £35k to fund a temporary Disposal Surveyor for one year to bring forward the garage sites for disposal. The cost of this post will be funded through a combination of capital and revenue.

2.6.8 The business model also assumes £768,000 over a 5 year period to cover the costs of Building Surveyors who will support the existing Property and Design team to deliver the entire investment programme on time and within budget, including preparing specifications and costings and working closely with the new Programme Manager.

2.6.9 Should this Plan be adopted, detailed proposals for a reconfigured Garage Management Service will be brought forward for consultation under cover of the Council's Managing Organisational Change policy.

2.7 <u>Financial Plan (Overview)</u>

2.7.8 The essential "financial security" objective of the Plan is to maintain a sustainable surplus for the General Fund while reducing costs.

2.7.9 The estate condition and typology shows that maintaining the entire estate at the current number of units is not sustainable and that some kind of rationalisation is essential. The typology also helps us to understand where to target the investment and where the demand suggests that there is scope for differential pricing, not just across the unit configurations (Table 1), but also within the unit types. It is notable that when a premium was introduced for road facing garages, the demand for these garages was not affected.

2.7.10 Using this information and insight, a fresh and more strategic approach to pricing can be devised. The options modelled show how this new approach, including the managed differentiation of the unit rents can be broadly aligned with the pace of investment, disposals and borrowing. For example, bringing "high demand" garages "awaiting major works" back into use at the start of the programme provides a revenue stream that helps off-set the loss of income through disposing of blocks elsewhere.

2.7.11 Although not included in the current Garage Business Plan, the Council may wish to bring forward further targeted investment in the future on a business case need (e.g. lighting, security, public realm improvements) to tackle areas of persistently high void levels.

2.8 Financial Plan (Desired outcomes)

2.8.1 The Plan shows income increasing in the following ways:

- Bringing the more profitable garages awaiting major works back into service.
- Management information informed by better customer insight.
- A new pricing structure
- A pricing structure that reduces voids as customers are incentivised to apply for cheaper low demand garages.
- Marketing hard to let garages for storage to coincide with demand
- One-off capital receipts for sites that are given over to development.
- Fewer garages going out of service over the period of the Plan so total lets will be higher compared to doing nothing.

2.8.2 The Plan shows costs reducing in the following ways:

- Lower repair and maintenance costs over the lifespan of the garages due to a planned approach to refurbishment. (Planned and preventative refurbishment and maintenance is cheaper than reactive repair).
- Lower maintenance costs for the service as a whole due to low demand, unprofitable sites being sold for development.
- Service reducing demand on the Customer Service Centre, although this is dependent on the wider roll-out of digital services as part of the Equal Access to Services for All and, Future Town Future Council strand.

2.8.3 However the Council will not generate the full potential increase in income in the first years of the programme because some garage blocks will be lost through targeted disposals before garages that are currently in poor repair have been brought back into use and refurbished.

3 BUSINESS PLAN OPTION MODELLING

3.1 Variables reflected in the Options:

3.1.1 The following options are modelled around a number of variables over a ten year period. They are all referenced to "Year 1". Year 1 being 2016-17 which includes the charges (Table 5 overleaf) and all of the other income and expenditure parameters (both revenue and capital) that are already in the budget.

3.1.2 The modelling is based on a number of assumptions which are contained within the Financial Plan; more particularly, sections 2.8.7, 2.8.8, 3.1.1. and 3.1.3.

3.1.3 With Year 1 (2016-17) as the reference year, the principle variables that have been introduced and used in the options over the subsequent years are:

a) Rent levels linked to demand, stock improvements and our treatment of VCOs in rent free garages.
b) The number of garages held (linked to disposal and alternative uses)
c) Void levels (linked to bringing voids "awaiting major works" back into use and considering use and price sensitivity on the other longstanding voids)
d) Revenue expenditure (linked to changes in the service)
e) Capital expenditure (linked to profiled spend and prudential borrowing parameters)

3.1.4 By varying these in the different options, we can show the net effect on the surplus delivered back to the General Fund.

3.1.5 The modelling assumes that the level of capital available within the Capital Strategy reduces in years 6-10 by £175,000 per year to reflect the lower capital cost requirements of the assumed newly refurbished garage estate. The Business Plan assumes there will be a compensating reduction in the General Fund contribution to the capital reserves for those years.

Table 5 Year 1 (2016/17) rents for garage type and configuration:

	Standard	Standard Road Facing	Wide Large Road Facing	Reduced Road Facing	Large	High Large	Wide Large	Bubble	Commercial	VCO concession
	Rents excluding VAT									
WEEKLY RENT GARAGE TYPE A	**£10.01**	**£10.61**	**£10.85**	**£9.99**	**£10.16**	**£10.28**	**£10.28**	**£9.30**	**£15.79**	**£0.00**
WEEKLY RENT GARAGE TYPE B	**£10.01**	**£10.61**	**£10.85**	**£9.99**	**£10.16**	**£10.28**	**£10.28**	**£9.30**	**£15.79**	**£0.00**
WEEKLY RENT GARAGE TYPE C	**£10.01**	**£10.61**	**£10.85**	**£9.99**	**£10.16**	**£10.28**	**£10.28**	**£9.30**	**£15.79**	**£0.00**
	Rents including VAT									
WEEKLY RENT GARAGE TYPE A	**£12.01**	**£12.73**	**£13.02**	**£11.99**	**£12.19**	**£12.34**	**£12.34**	**£11.16**	**£18.95**	**£0.00**
WEEKLY RENT GARAGE TYPE B	**£12.01**	**£12.73**	**£13.02**	**£11.99**	**£12.19**	**£12.34**	**£12.34**	**£11.16**	**£18.95**	**£0.00**
WEEKLY RENT GARAGE TYPE C	**£12.01**	**£12.73**	**£13.02**	**£11.99**	**£12.19**	**£12.34**	**£12.34**	**£11.16**	**£18.95**	**£0.00**

Note: VAT rules on garages dictate that HRA tenants can rent a council garage within a reasonable distance of their house and be exempt from VAT. Other garage tenants (non-HRA tenants) are required to pay VAT and therefore their weekly rent would be the higher figure shown in the table above. Latest data shows around 70% of garage tenants do pay VAT. If VCO charging were to commence, they would also be required to pay the Vatable rate.

3.2 Option 1 DO NOTHING

3.2.1 This is the hypothetical "Do nothing" option. Although the current projections show voids remaining stable and income meeting the annual targets, this is not a tenable position. The pressure on revenue (including maintenance) budgets will only increase as the Council manages competing priorities and strives for financial security across all its services. The stock will continue to deteriorate with fewer garages available to let and income will fall. Management focus will continue to drift from effectively managing the estate to reactively managing it.

3.2.2 The assumption, therefore, is that the £250k capital per annum that is currently available is not sufficient to sustain the Plan. With no guarantee of appropriate future capital, the cost of repairs and maintenance will fall on revenue budgets. The current combined spend (capital and revenue) is around £300k per annum for "fix-on-fail". In the absence of planned and sustained capital investment, the revenue element is bound to increase.

3.2.3 It is also reasonable to postulate upon a position where the stock reaches a "tipping point". For example, using the "life of asset" hypothesis. Currently we are working on a 25 year average life of asset across the estate once the investment has been made. Therefore we can predict the current "fix on fail" model becoming unsustainable in large measure over the next ten years because:

- Almost 950 garages require at least £200 spending on them over the next ten years which suggests that one or more of the three key components (roof/door/hardstanding) will fail within that period. They will add to the group of "awaiting major repairs"
- Current revenue spend would only be sufficient to keep the "less than £200" garages "fixed-upon-failure".
- Current capital spend would mitigate the effect of this and would allow some poor condition void garages to be brought back into service, but it is likely that there would still be around 650 garages that would fall into long term disrepair
- 650 garages represent 10% of the estate. Therefore potential loss of income from the estate over the next ten years is around £250,000 per annum by year ten. To this we would need to add an estimated income loss due to it being more difficult to let garages of any type in severely dilapidated blocks, plus the added management burden associated with customer complaints.
- So by year ten, a loss of over £360,000 per annum is estimated over and above the 2016-17 budgeted position. This would obviously increase beyond the ten years. The cumulative loss over that period would be nearly £2 million.

3.2.4 It follows that the cost of carrying such a dilapidated estate needs to be compared with the cost of the prudential borrowing required to put it right.

3.2.5 **Financial Implications of Option 1 (Do Nothing)**:

The table for Option 1 summarises the cumulative cost to the Council over the ten year business plan, showing increased costs as a result of as assumed worsening state of the garage estate, together with decreased income as void levels increase. With no investment plan in place, this effect is expected to be seen most clearly in the last five years of the ten year period.

Option 1 (Do nothing)				
Summary Table:	YEARS 1-2	YEARS 3-5	YEARS 6-10	10 YR TOTAL
Capital Spending Requirements of Option 1:	***£500,000***	***£750,000***	***£1,250,000***	***£2,500,000***
Sources of Capital Funding				
Current Capital Budget available for Garages	*£500,000*	*£750,000*	*£1,250,000*	**£2,500,000**
Ringfenced Garage block Disposal Receipts (estimated amts/timing)	*£0*	*£0*	*£0*	**£0**
Prudential borrowing	*£0*	*£0*	*£0*	**£0**
TOTAL CAPITAL FUNDING:	**£500,000**	**£750,000**	**£1,250,000**	**£2,500,000**
Capital Expenditure vs. Capital Funding Available	**£0**	**£0**	**£0**	**£0**
Revenue Required:	YEARS 1-2	YEARS 3-5	YEARS 6-10	10 YR TOTAL
Existing Revenue Costs within budget	*£1,131,060*	*£1,696,590*	*£2,827,650*	**£5,655,300**
Garage Management staff implications	*£0*	*£0*	*£150,000*	**£150,000**
Total Revenue Spending:	**£1,131,060**	**£1,696,590**	**£2,977,650**	**£5,805,300**
Additional Revenue expenditure compared to 15/16 budget	**£0**	**£0**	**£0**	**£150,000**
Income currently generated by service (based on 15/16)	(£5,879,217)	(£8,818,825)	(£14,698,042)	**(£29,396,084)**
(Additional)/Reduced Income generated by Option 1	£44,320	£389,714	£1,411,630	**£1,845,664**
Total Annual income from Option 1	(£5,834,896)	(£8,429,111)	(£13,286,412)	**(£27,550,420)**
Increased Cost/ (Surplus) from Option 1	**£44,320**	**£389,714**	**£1,561,630**	**£1,995,664**

3.3 Option 2 (Limited Investment)

3.3.1 As Option 1 (Do Nothing) but increasing capital investment sufficient to bring back Type A and B garages “awaiting major repairs”. Introducing disposal/rationalisation of selected garages.

3.3.2 This option is the most basic pro-active one. It will utilise the capital receipts from disposals to bring high demand garages back into use by increasing capital spend, but it will not deal with the rest of the retained stock or improve efficiency. The retained stock will continue to deteriorate so we can’t expect our customers to pay more for this service. Income will fall over time as voids increase, much as in Option 1.

3.3.3 Financial Implications of Option 2 (Limited Investment):

The table for Option 2 summarises the cumulative cost to the Council over the ten year business plan, showing increased costs as a result of as assumed worsening state of the garage estate, together with decreased income as void levels increase. Within the early years, there is a net capital receipt from the disposal plan, with some of these receipts being invested into the works to bring back into service garages which are awaiting major works (AMW: around 240 garages). Initially, this will increase lettings, and income levels will be stable. However, with no sustained investment plan in place, income levels are expected to fall sharply in the latter years, whilst costs of managing the estate are also expected to increase.

Option 2 (Disposal of selected garage sites, partially reinvested to bring back "garages awaiting major repairs" into service)				
Summary Table:	YEARS 1-2	YEARS 3-5	YEARS 6-10	10 YR TOTAL
Capital Spending Requirements of Option 2:	***£931,935***	***£750,000***	***£1,250,000***	***£2,931,935***
Sources of Capital Funding				
Current Capital Budget available for Garages	*£500,000*	*£750,000*	*£1,250,000*	**£2,500,000**
Ringfenced Garage block Disposal Receipts (estimated amts/timing)	*£860,000*	*£0*	*£0*	**£860,000**
TOTAL CAPITAL FUNDING:	**£1,360,000**	**£750,000**	**£1,250,000**	**£3,360,000**
Capital Expenditure vs. Capital Funding Available	**-£428,065**	**£0**	**£0**	**-£428,065**
Revenue Required:	YEARS 1-2	YEARS 3-5	YEARS 6-10	10 YR TOTAL
Existing Revenue Costs within budget	*£1,131,060*	*£1,696,590*	*£2,827,650*	**£5,655,300**
Garage Management staff implications	*£35,000*	*£0*	*£120,000*	**£155,000**
Maintenance savings (revenue)	*£0*	*£0*	*£0*	**£0**
Total Revenue Spending:	**£1,166,060**	**£1,696,590**	**£2,947,650**	**£5,810,300**
Additional Revenue expenditure compared to 15/16 budget	**£35,000**	**£0**	**£120,000**	**£155,000**
Income currently generated by service (based on 15/16)	(£5,879,217)	(£8,818,825)	(£14,698,042)	**(£29,396,084)**
(Additional)/Reduced Income generated by Option 2	£30,089	£92,536	£869,094	**£991,720**
Total Annual income from Option 2	(£5,849,128)	(£8,726,289)	(£13,828,948)	**(£28,404,364)**
Increased Cost/ (Surplus) from Option 2	**(£362,976)**	**£92,536**	**£989,094**	**£718,655**

3.4 Option 3 (Major Investment)

3.4.1 This is a demand-led service with a ten year investment programme for the retained stock (the result being a fit for purpose, functioning estate) after estate rationalisation, combined with a new differential and dynamic pricing model, and service efficiencies including sharper management information and targeted KPI's. As such, this option draws on prudential borrowing to plug the gap in the capital required. The pace of the investment is used to determine the phasing of the borrowing.

3.4.2 This is the most comprehensive option that features a targeted disposal programme and the raising of sufficient capital to bring all of the retained stock back to fit for purpose condition with targeted improvements. All this combined will provide the justification for a new rent setting strategy based on demand and use. In addition, improvements to the service could be further enhanced by improving customer interaction at the first point of contact through digitalisation (although financial outcomes are not dependent upon this).

3.4.3 The rent strategy assumes that differential rents led by demand will be implemented during Year 2 (with effect from April 2017). The rent differentials will work on the basis of “headline” rent for a particular garage configuration, which would then be discounted for garages that are more difficult to let. Currently this is informed by the “ABC” typologies, with “A” being offered at the “headline” rent with the “B’s” and “C’s” being discounted.

3.4.4 Finally, the rent increases (or decreases) in Option 3 (Major Investment and preferred option) will be above (or below) the prevailing retail or consumer price inflation indices. The assumption being that inflation increases will service the Council’s overall fees and charges strategy.

3.4.5 In this Option, a moderate approach to the rate of void reduction over the period of the Plan is taken. This option assumes that the customer insight and service improvements have not driven the voids down to more or less the rate of churn. However, depending on the effectiveness of the improved customer insight, a more aggressive reduction in the void level may be possible over the life of the Plan.

3.4.6 The table for Option 3 below summarises the cost of the Garage improvements of the preferred option and comparing them to Options 1 and 2 shown above, it can clearly be seen that over the ten year business plan, the overall cost to the Council is expected to be significantly lower. In the latter years of the plan, income levels are expected to increase as the garage estate will be returned to a fit for purpose product, which will attract customers to rent them. Maintenance costs are also expected to be reduced, as ongoing repairs are less likely to be required than in the other options explored above.

Option 3 (Full Investment Programme in Garage Estate)				
Summary Table:	YEARS 1-2	YEARS 3-5	YEARS 6-10	10 YR TOTAL
Capital Spending Requirements of Option 3:	***£2,322,266***	***£6,545,388***	***£375,000***	***£9,242,654***
Sources of Capital Funding				
Current Capital Budget available for Garages	*£500,000*	*£750,000*	*£375,000*	**£1,625,000**
Ringfenced Garage block Disposal Receipts (estimated amts/timing)	*£860,000*	*£0*	*£0*	**£860,000**
Prudential borrowing	*£962,266*	*£5,795,388*	*£0*	**£6,757,654**
TOTAL CAPITAL FUNDING:	**£2,322,266**	**£6,545,388**	**£375,000**	**£9,242,654**
Capital Expenditure vs. Capital Funding Available	**£0**	**£0**	**£0**	**£0**
Revenue Required:	YEARS 1-2	YEARS 3-5	YEARS 6-10	10 YR TOTAL
Existing Revenue Costs within budget	*£1,131,060*	*£1,696,590*	*£2,827,650*	**£5,655,300**
Additional Promotional Budget required	*£10,000*	*£15,000*	*£12,500*	**£37,500**
Garage Management staff implications	*£91,000*	*£84,000*	*£140,000*	**£315,000**
Maintenance savings (revenue)	*(£15,000)*	*(£65,000)*	*(£125,000)*	**(£205,000)**
Minimum Revenue Provision (25 year life)	*£0*	*£426,285*	*£1,327,531*	**£1,753,816**
Interest Costs related to Prudential Borrowing	*£15,900*	*£496,100*	*£1,226,000*	**£1,738,000**
Assumed PWLB Interest Rates in year of borrowing	***3.40%***	***3.80%***		
Total Revenue Spending:	**£1,232,960**	**£2,652,975**	**£5,408,681**	**£9,294,616**
Additional Revenue expenditure compared to 15/16 budget	**£101,900**	**£956,385**	**£2,581,031**	**£3,639,316**
Income currently generated by service (based on 15/16)	(£5,879,307)	(£8,818,960)	(£14,698,267)	**(£29,396,534)**
Additional Income generated by Scenario 3	(£33,446)	(£637,174)	(£2,004,339)	**(£2,674,958)**
Change in General Fund Contribution to Capital Reserve	£0	£0	(£875,000)	**(£875,000)**
Total Annual income from Option 3	(£5,912,753)	(£9,456,134)	(£16,702,605)	**(£32,071,492)**
Increased Cost/ (Surplus) from Option 3	**£68,454**	**£319,211**	**(£298,308)**	**£89,358**

4 RECOMMENDED OPTION AND PROPOSED TIMEFRAME

4.1 Option 3 (Major Investment) represents an opportunity to fulfil the vision for the service. It combines all of the key, pro-active features described thus far. The parameters used within the option are, by their nature, subject to change as the real time problems and opportunities associated with the estate come to pass over the ten years of the Plan. However, by implementing a structured and performance driven Plan, the Council will be in a much better position to manage those problems and opportunities in a pro-active, rather than reactive, manner.

4.2 Consequently the option modelling is based on broad assumptions that are considered representative but will need refining. So a key part of the Plan will be to review the management information required to gain greater customer insight. For example:

- Voids intelligence
- Real time churn.

4.3 Turning the "ABC" types into a more accurate model of supply and demand that will better inform the differential pricing going forward. For example, over time, and with the increased customer insight and refined management information, it is probable that the three typologies will reduce to two.

4.4 The following paragraphs will show that there is time built in for planning the changes required, specifically in "Year 1" where there is an opportunity to sense check and refine the data, particularly with regard to the garage types and customer insight (demand).

4.5 **The proposed pace of the model is**:

a) YEAR 1/PHASE 1(Q2 2016- Q2 2017) – Planning year, including:
   - Carrying out targeted refurbishment works as a "proof of concept" pilot scheme.
   - Fine tuning of the "ABC" typologies to make sure they accurately reflect the real profile of the estate.
   - Devising a plan for the re-location of VCOs from "high demand" to "low demand" garages
   - A review of the service management structure and commence and complete recruitment to all posts following staff consultation process.
   - Recruit and appoint the new proposed Programme Manager
   - Planning the investment programme, devising a communications plan and procuring contractors.
   - Developing an approach to disposals, including identifying sites.
   - Capital spend in this year is in line with the approved capital budget of £250,000 with the emphasis on the pilot works and "fix-on-fail".
   - No "garages awaiting major works" are brought back into service at this stage.

b) YEAR 2/PHASE 2 (Q2 2017- Q2 2018) – Implementation, including:
   - The new service management structure in place.
   - Launching the communications plan and works programme for the refurbishment and bringing back into use, of the selected "garages awaiting major works".
   - Launching the communications plan and works programme for the refurbishment of some Type A garages (first tranche-quick win blocks)

- o Planning the Phase 3 works and decanting programmes
- o Disposal programme (first tranche-quick wins)
- o Designing new KPI and management information sets.
- o The digitisation proposals (channel shift) although the actual timing of this will be dependent on the wider EQASA project.

c) YEAR 3/PHASE 3 (Q2 2018- Q2 2019) – Implementation, including:
- o Launching the communications plan and works programme for the refurbishment of the Type A garages (second tranche-more difficult blocks)
- o Launching the communications plan and works programme for the refurbishment of some Type B garages (first tranche-quick win blocks).
- o Review of the plan whereby the objectives and projections of the ongoing Business Plan will be measured against results to date
- o Planning the Phase 4 works and decanting programmes.
- o Disposal programme (second tranche-more difficult sites)
- o Consideration of other alternative business operating models and their benefits.

d) YEAR 4/PHASE 4 (Q2 2019- Q2 2020) – Implementation, including:
- o Launching the communications plan and works programme for the refurbishment of the Type B garages (second tranche-more difficult blocks)
- o Launching the communications plan and works programme for the retained Type C garages.
- o Planning the Phase 5 works and decanting programmes

e) YEAR 5/PHASE 5 (2020-21) – Implementation, including:
- o Launching the communications plan and works programme for the rationalisation of the remaining Type C garages.
- o Launching the coms plan and works programme for targeted improvements (invest to save approach)

4.6 **The rent strategy features[5] running alongside this include**:

a) YEAR 1/PHASE 1 (2016-17) – Reference year, including:
- o Rents remain as per the 2016-17 approved Council budget.
- o The A/B/C typologies will be refined to better reflect high, medium and low demand informed by a better understanding of the waiting list.

[5] Assuming a default of year on year increases in line with RPI/CPI

- Review the VCO policy with a view to introducing graduated charging from Year 2.
- "Fit for purpose" review of all the current Garages Rental Management Policies.
- Planning for all the Year 2 rent changes.

b) <u>YEAR 2/PHASE 2 (Q1 2017- Q1 2018) – Rent-changes in advance of stock improvements including</u>:
   - Introduce default increase for inflation and:
     - Introduce graduated charging for VCOs. (20% of full rent).
   - Introduce new set of Garages Rental and Management Policies, periodically reviewed every five years.
   - Increase the differential rent between "Standard" and "Standard Road Facing" garages say to £0.75.
   - Planning for the Year 3 rent changes including:
     - PR around generic rent increases being linked to improvements as a result of capital investment.
     - Devising a voids policy (e.g. "low voids tolerance") facilitated by intelligence led dynamic pricing (e.g. special offers for low demand) and publicising the virtues of storage space.

c) <u>YEAR 3/PHASE 3 (Q1 2018 - Q1 2019) – Rent-changes in advance of stock improvements including</u>:
   - Introduce default increase for inflation and:
     - Continue with graduated charging for VCOs (35% of full rent).
   - Introduce the new voids policy.
   - Planning for the Year 4 rent charges and continuing the PR

d) <u>YEAR 4/PHASE 4 (Q1 2019 - Q1 2020) – Rent-changes reflecting stock improvements including</u>:
   - Introduce default increase for inflation with the exception of:
     - Align rent increases to improvements in the offer (as a result of capital investment) and make an above inflation increase for all the completed Type A garages.
   - Impose the final increase for VCO garages (50% of the full rent).
   - Planning for the Year 5 rent charges and continuing PR

e) <u>YEAR 5/PHASE 5 (Q1 2020- Q1 2021) – Rent-changes reflecting stock improvements including</u>:
   - Introduce default increase for inflation with the exception of:

- Align rent increases to improvements in the offer (as a result of capital investment) and make an above inflation increase for all the completed Type B garages.

- Planning for the Year 6 rent changes and continuing PR

f) <u>YEAR 6/PHASE 6 (Q1 2021 – Q1 2022) – Rent-changes reflecting stock improvements including</u>:

- Introduce default increase for inflation with the exception of:
  - Align rent increases to improvements in the offer (as a result of capital investment) and make an above inflation increase for the completed Type C garages.

g) <u>YEAR 7/FINAL PHASE and beyond</u>:

- From here on in the rent strategy continues the fine tuning of the garage typology to ensure that the differential charging between types remains consistent and effective

4.7 FINANCIAL IMPLICATIONS OF OPTION 3 (MAJOR INVESTMENT)

4.7.1 <u>Option 3 (Major Investment)</u>

4.7.2 The table below shows the cumulative annual effect of this option. Year 1 is 2016-17 and reflects the status quo position. Subsequent years show the projected surplus and deficit relative to the Year 1 position.

YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	YEAR 10
-£33,000	-£68,454	-£75,669	-£194,530	-£387,665	-£406,030	-£382,332	-£315,719	-£213,194	-£89,357

5 RISKS AND SENSITIVITY TESTING

5.1 <u>Sensitivity testing of Option 3 (including the following)</u>

Effect of:

5.1.1 Maintaining the voids at “year 5” levels in acknowledgement that greater customer insight may not deliver “zero voids” over years 6 to 10.

5.1.2 Higher rent increases leading to the surrendering of some garages through customer resistance (temporary upturn in the void numbers).

5.1.3 Balancing the “life of asset” with the assumption that £250k per annum will be available from the capital reserve from “year 6”.

5.1.4 Increased bad debt provision

5.1.5 Alternative borrowing rates – If interest rates increase, for example by X%, the cost of the rates increase by Y.

Risk from adopting Option 1 (Do Nothing) and Option 2 (Limited Investment)	**Initial Likelihood/ Impact**	
Garage rents fall due to more and more garages falling out of service. These assets cannot be left with refurbishment forever. The reduced income to the general fund means cuts have to be made to other services.	High	High
Garages service incurs higher capital costs from having to perform reactive maintenance to sites rather than a proactive programme of investment. The reduced income to the general fund means cuts have to be made to other services.	High	Medium
Not having a demand based pricing model means that the council does not achieve maximum potential income from its assets. The reduced income to the general fund means cuts have to be made to other services.	High	Medium
Service is in a weak position to weather the next recession.	High	Very High

Risk with exploring digital offer	**Initial Likelihood/ Impact**	
Customers will not tolerate a telephone and paper based application process. In 10 years' time the customer profile and customer service expectations will be very different. Not having a digital service will act as a major deterrent to future customers. The reduced income to the general fund means cuts have to be made to other services.	Very High	High

Risk from Option 3 (Major Investment)	Initial Likelihood/ Impact		Mitigating Actions	Residual Likelihood/ Impact	
There are financial risks associated with these proposals. It involves borrowing to support spend on a capital investment programme, the cost of which may not yield enough return.	Low	High	Capital is being invested when it is clear there is a need, be it to bring garages back into service or prevent future costs.	Low	High
Demand will fall for garage lets due to wider economic factors. The garage service is depends on customer demand which in turn is determined by economic circumstances.	Low	High	There is nothing the service can do to prevent a recession or similar however with a more dynamic pricing structure the service will be better placed to adapt to maximise income. Wider regeneration work should further insulate the town from impact.	Low	Medium
Customers react poorly to dynamic pricing.	Medium	Low	Premium prices are on high demand garages. If they leave they would be replaced by people willing to pay. If no one is willing to pay then the price would be reduced. Some reaction is expected but it would encourage customers to move to low demand areas and reduce the void rate.	Medium	Low
A recession hits reducing demand, spiking voids, and renders part or all of the capital investment moot.	High	High	The garages and estate team are determining a formula to pause invest in the case of a spike in the void rate during a recession. E.g. If the void rate (of let able garages) increases to/by X% than investment is paused.	High	Low
Customers will not understand how to use the digital garages service	High	High	As part of the Digital Garages service a customer transition plan will be developed to help customers move to the new system. Customers can still contact the CSC and helped with applications and inquiries.	High	Low

6 EQUALITY AND OTHER IMPLICATIONS

6.1 Some equality issues were noted with regard to the proposed customer service changes. These have been addressed in the Equality Impact Assessment.

7 APPENDICES and BACKGROUND PAPERS

7.1 APPENDICES:

Appendix A	Garages Map
Appendix B	Option 3
Appendix C	Indicative 10 year Rent Model

7.2 Background Papers

ARK Consultancy report
Stock Condition Survey