

Meeting EXECUTIVE
Portfolio Area RESOURCES
Date 14 September 2022



GARAGES INVESTMENT BUSINESS CASE

KEY DECISION

1 PURPOSE

- 1.1 This business case outlines the case for investment in two areas. Firstly, to provide the delivery of a backlog of works to void garages and secondly for additional funding to undertake a programme of asbestos surveys in garages.
- 1.2 The business case for the investment in backlog works is offset by the additional revenue that will be earned by bringing these void garages into management. The investment is predicted to yield new cumulative income of £312k by year 5.
- 1.3 There is the need to implement an on-going asbestos surveying regime to meet statutory obligations.

2 RECOMMENDATIONS

- 2.1 That the Executive approve the virement of £234k of funding from the current underspend in the Garage Improvement Programme (GIP) to fund the backlog in works to the void garages.
- 2.2 That £55k of General Fund balances are used to fund the investment in asbestos management surveys, to ensure compliance.
- 2.3 That Members note that a further growth bid may be required to manage any asbestos identified and this will come back to Members at a later date once the survey work has been completed.
- 2.4 That the Executive note that officers will develop a revised garages investment strategy / asset management strategy that can be considered at a future meeting of the Executive.

3 BACKGROUND

- 3.1 The Council has an extensive garage stock comprising of 6,465 residential and commercial garages.
- 3.2 The focus of garage services has been on implementing operational improvements around lettings, tenancy start dates and terminations. Work is in progress for garage lettings to transition to being digitalised. The Garages Improvement Plan (detailed in 3.16) includes the refurbishment of void garage stock, however this report seeks to address the issue of the backlog of day to day works plus asbestos compliance.

Demand

- 3.3 Demand for garages in Stevenage continues to be high, whether for storage or parking. The current waiting list stands at 2,836 with demand outstripping supply (particularly in high demand areas).
- 3.4 The rental of the garages is one of the biggest income streams for the Council and is essential for the General Fund and supports the funding of other Council services. In 2021/22 the service generated income of £3.29m against an original budget of £3.58m.

Residual Sprayed Asbestos

- 3.5 The reduction in 2021/22 income was due to the issue of residual sprayed asbestos fibres in a number of garages.
- 3.6 The identification of the residual asbestos within those garages means the licensees with affected stock have not been able to use the garages, and therefore it has not been possible to collect rental income, which impacted on performance. (Affected licensees were offered alternative garages, and where this was arranged, rents are then payable).
- 3.7 Asbestos was identified by the Council's in-house asbestos surveyor during a routine void garage inspection in May 2019 and further affected units were identified in the areas of Bedwell, Longmeadow, Old Town and Shephall.
- 3.8 The Council have communicated with tenants at regular intervals and the Council's website is kept up to date with information and Frequently Asked Questions (FAQs).
- 3.9 Some survey data is 'cloned'. The cloned approach means that in a block of garage units, a certain number are surveyed and an assumption is made based on those findings to represent the remaining units.
- 3.10 To date, cloned survey data has identified 442 garages affected by residual asbestos contamination. Of these, 335 are let and 107 are void.
- 3.11 Surveys are ongoing, and fortunately are not currently identifying any additionally affected garages. To date, approximately 70% of the stock has been (clone) surveyed. Beacon Partnerships have been commissioned to provide a strategic options analysis of each of the affected blocks, and the findings will be presented to the Executive in Quarter 4, 2022/23.

- 3.12 The discovery of asbestos has resulted in reduced stock and a longer letting process as each garage needs to be assessed for asbestos, plus there has been an increased pressure on resources, both financial and staffing related.

Void Rate

- 3.13 As of July 2022 the garage void rate is 14.48% against a target of 14.30%. The void rate is comprised of 'avoidable' (43%) and 'unavoidable' voids (57%). An avoidable void is a garage that can be re-let following action such as a lettings inspection, clearance, general repair or an asbestos survey and asbestos remedial works. An unavoidable void is a garage that cannot easily be bought back into circulation, such as those that are disposal sites or are awaiting major work.
- 3.14 The performance of the garage stock is dependent on not only the lettings and finance elements (managed by Garage Services) but also the delivery of lettable garages from the repairs function (managed by Estates) and the asbestos surveys (currently managed by Housing and Investment).

Investment in Garage Repairs

- 3.15 Garages have an approximate lifespan of 30 years before capital investment is required.
- 3.16 The void stock is managed in line with the Garage Improvement Programme (GIP). The priority of the GIP is to assess sites according to the level of voids they have; a viability model then captures information on demand in terms of the current waiting list for a garage in that road. The number of voids that may remain after refurbishment is then financially modelled to forecast the future void and income calculations. If the site does not pass the viability assessment, it is not included for refurbishment, and instead the individual void garages needing repair are passed to the repairs team in Estates to complete works in order to get them let.
- 3.17 As of July 2022, 642 garages have been refurbished through the GIP. The void rate on these garages was 31% prior to refurbishment. Having been refurbished, the void rate has fallen to 10%.
- 3.18 Orders have been raised for 346 garages to be refurbished before the end December 2022. Another 208 garages have been approved with a hold on orders being placed as the current contract delivery arrangements are at their financial limit.
- 3.19 The GIP is ending in August 2023 and a holistic approach is required moving forwards. It is anticipated that the new approach may take the form of three elements; repairs, planned preventative maintenance and refurbishments / rebuilds.
- 3.20 There are currently 281 avoidable void garages. Approximately 100 of the garages have been identified as requiring general works. A further 25 require simple door repairs; and these have been procured. Some garages are still awaiting inspection to ascertain the scope of any works. The remainder of the avoidable voids are made up of lettings inspections, asbestos surveys, clearances and asbestos remedial works. The backlog of voids has built up over some years. Part of the reason for the backlog of voids have been

recruitment challenges in Estates and Garages respectively for building surveyor roles and lettings officer roles and a lack of budget to address the works backlog.

- 3.21 In order to formulate a strategy for the delivery of works to the backlog of void garages it has been important to understand the condition of the garages and the type and volume of works required. A number of garages had an inspection when they were returned to the Council however as some have been void for significant period, they needed to be re-inspected. This work has been progressed over recent months by the Lettings Officer and a Building Surveyor has then carried out a detailed survey to diagnose the defect and consider the appropriate cost effective solution.
- 3.22 There are also 48 garages requiring asbestos remedial work. Orders for these are placed with the specialist asbestos framework contractor and have been programmed in. Some of these garages will require general works to be carried out when the asbestos work is completed. (These 48 garages are not to be confused with the 442 garages referred to in paragraph 3.10).
- 3.23 A new system for addressing new voids that have simple non-technical works identified at the termination inspection stage e.g. lock changes and door overhauls has also been implemented. This means that an order for these works can be placed immediately by the Garages team.
- 3.24 Adequate resourcing is essential to ensure that the backlog of works can be progressed and let accordingly. A new short term temporary Building Surveyor post has been created to deliver the backlog of voids, and Garage Services are currently recruiting for an additional Garage Lettings Officer on a one year fixed term contract.
- 3.25 The current process for dealing with void works is to procure on a job-by-job basis.
- 3.26 However, there is a very limited list of preferred contractors currently available to undertake works. This often leads to increased timescales particularly when obtaining quotations and starting work on site. The works team are reviewing ways of introducing target timescales for this work so performance can be monitored and managed.
- 3.27 The Estates team have continued to try to source additional contractors interested in undertaking this type of ad-hoc work, however this is proving to be challenging.

Additional Funding for Asbestos Surveys

- 3.28 Since its discovery, no additional budget has been allocated to asbestos management in garages. Asbestos surveys to date have been funded by stretching Garage Services budgets, some GIP funding (£17.5k) and absorbed as additional workloads by the compliance team in Housing and Investment. These costs cannot continue to be absorbed and a sustainable plan is required to ensure asbestos compliance and financial stability moving forwards.
- 3.29 Asbestos surveys are cyclical and ongoing and garages need to be assessed for deterioration, so some additional funding required will be required year on year.

- 3.30 Under Regulation 16 of The Control of Asbestos Regulations 2012, employers have a duty to prevent or reduce the spread of asbestos anywhere work is being carried out under their control.
- 3.31 Every employer must prevent or, where this is not reasonably practicable, reduce to the lowest level reasonably practicable, the spread of asbestos from any place where work under the employer's control is carried out. The Council have contractors/operatives carrying out repairs on both occupied and void garages and have a duty in that respect to advise them what asbestos is present in the garage to ensure it does not get damaged whilst works are being carried out.
- 3.32 In addition, in garages due to the activity/frequency of use there is a higher risk of damage occurring and it is important to mitigate any risk to licensees.
- 3.33 In order to do this it is important to maintain an asbestos register for each garage, which can be done by carrying out annual surveys.
- 3.34 At present there are 800 garage voids a year that will need management surveys for asbestos. Based on there already being a number of surveys in place, it is estimated that there will be the requirement to survey 560 per annum.
- 3.35 There are currently 730 asbestos management surveys for garage blocks. To complete the register an additional 651 surveys are required.
- 3.36 In addition, it will be necessary to undertake a programme of 1,356 annual block re-inspections.
- 3.37 In relation to the 442 garages affected by residual sprayed asbestos, where data for sprayed coatings is currently cloned, it will be necessary to undertake internal surveys on 300 garages. The cloned survey approach was reasonable and sensible in order to understand the potential scope and is generally reliable, however as the project advances it is now necessary to have certainty on the exact number of units affected by sprayed asbestos in order to more accurately calculate the impact of the remedial works required e.g. demolish and rebuild etc.
- 3.38 To undertake surveys on occupied garages in advance of them becoming void, an additional 4,222 garage surveys would be needed.

4 REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

Investment in Garage Works

- 4.1 It is proposed that the backlog of void garages is progressed, at pace, to enable them to be let and to provide additional parking and storage solutions for residents. Crucially, the additional income will be used to offset some of the financial loss of rent in 442 garages affected by the residual sprayed asbestos, which amounts to a £205k per year.
- 4.2 The breakdown of the 67 garage voids with known repairs is as follows:
- 26 high demand

- 19 medium demand
- 22 low demand

- 4.3 Therefore it is reasonable to assume that these garages will be quickly let once they are back online. Data from the Garage Improvement Programme shows that low demand garages are let quickly once refurbished to the minimum lettable standards.
- 4.4 Inspections to identify the scope of the backlog works are still being undertaken; but Estates have estimated that the cost to clear the backlog will be circa £234k.

Figure 1. Estimated breakdown of works costs

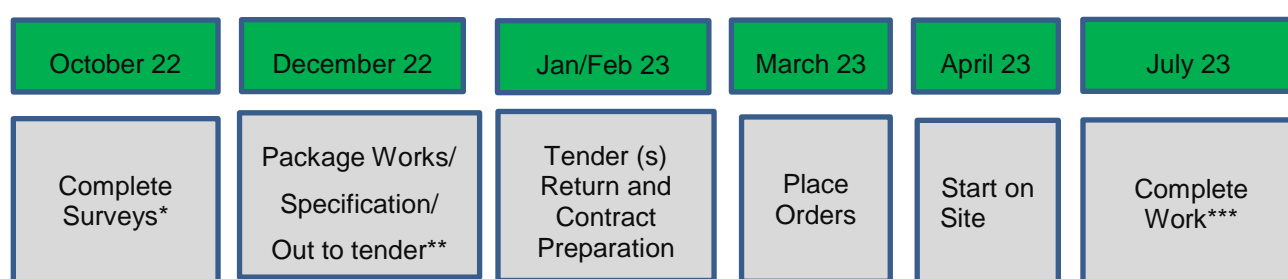
Works Activity	Estimated expenditure to clear voids backlog
	Year 1
Works – 31 garages with identified works following surveyors inspections	£84k
Works – 36 garages with known works but requiring surveyors inspection to confirm	£73k
Estimated 50% of the 33 garages following lettings inspections will require works	£23k
Estimated 20% of 47 garages with asbestos works will require works	£18k
Estimated 20% of 31 garages currently on list for asbestos surveys will require works	£12k
Estimated costs of works to asbestos remedials	£24k
Total	£234k

- 4.5 The ability to progress the backlog of works, and at pace is resource dependent.
- 4.6 It is proposed that the backlog of void works is dealt with in a more cost effective and efficient way. The works will be packaged into similar work types and where possible tendered under work categories, for example: door works, roofing works, general works, structural and major works. Performance standards will be agreed with the contractors, inclusive of turnaround times, in order that Garage Services are able to advertise garages in advance of being able to let.
- 4.7 This should improve the resolution times by reducing the procurement process which is currently on a job by job basis. This will also provide the contractor continuity of work and the ability to plan the works, introduce economies of scale, and reduce the surveyor time required when managing a small number of larger contracts rather than high volume of multiple small value orders.
- 4.8 Initial discussions have taken place with Procurement colleagues. Using existing contracts and frameworks is being considered but due to the possible value and type of works a bespoke works contract(s) may be the

most suitable option. The detail of this will depend on the value and extent of the works required when known.

- 4.9 It is also proposed to concurrently procure a new term contract(s) to deliver the future void works and reactive works to occupied garages. Estates estimate this this will take 6 months to complete.
- 4.10 In the longer term, opportunities to insource works through the Housing Repairs team will also be further explored.
- 4.11 Figure 2 outlines the approximate timelines for the delivery of works to the void stock. Timescales will be reviewed as the project progresses. If there are any actions that can be taken to reduce the timeframes for delivery (i.e. the use of frameworks) these will be implemented. The period allocated for the works on site may also be reduced but this will depend on the confirmed scope of work.

Figure 2. Timeline for the delivery of works to the void stock



*Completion of surveys is dependent on garages requiring lock changes and those requiring asbestos surveys and remedial works being handed back for works

** If some garages are still due an inspection, there is the option to cover these in the contract

*** Garages handed back for re-let as and when completed. This can be programmed based on garage category e.g. high to low demand

Asbestos Management Options

- 4.12 There are two options available for asbestos management, depending on whether the work is contracted out or carried out in house, and the approach that is taken.

Figure 3. Estimated 5 year costs for asbestos management (contracted out)

Activity	Quantity	Costs (£)				
		Year 1	Year 2	Year 3	Year 4	Year 5
Asbestos Void Surveys	560	52,000	52,000	52,000	52,000	52,000
Asbestos - Survey Blocks	651	48,825	-	-	-	-
Asbestos – Re-inspect Blocks	1356	44,915	88,140	88,140	88,140	88,140
Asbestos - Occupied Surveys	4422	71,857	71,857	71,857	71,857	-
Total		217,957	211,997	211,997	211,997	140,140

- 4.13 The Council has a duty to make licensees aware of the presence of asbestos in the assets they use, and should this become damaged they need to report it so that it can be addressed. Licensees are currently advised of any asbestos present via letter and copies of asbestos reports, and information is also provided on the Council's website and in end of year communications.
- 4.14 It should be noted that many of the asbestos costs are not just for the voids backlog but for the asbestos management of the garage stock as a whole.
- 4.15 The size of the programme is similar to the contract that is managed within Housing and Investment (H&I) and staff, therefore putting a burden on existing H&I performance and resources.
- 4.16 It is recommended that rather than pursuing the external option, a Temporary Asbestos Surveyor is brought on board for a one year fixed term contract in order to carry out the surveys on the blocks and understand the scale of the issue. Their findings will influence how the asbestos is managed moving forwards.

Figure 4. Cost of employing an additional Temporary Surveyor Resource

Role	Activity	One off cost (including oncosts)
Temporary full time Asbestos Surveyor – 12 months only	Block Surveys	£55,000

- 4.17 This cost is far less than outsourcing the work. Depending on the findings from the surveys the £55k may be an ongoing cost and one that could be absorbed in existing teams budgets moving forwards. Appendix A outlines the potential structure of an asbestos management team, which may require additional funding in the future. It should be noted however that there are risks around resilience and contingency should the work be carried out in house.
- 4.18 Insourcing the works aligns closely with the commitment to use in-house services to deliver Council operations, as set out in the Co-operative Commercial and Insourcing Strategy.

5. IMPLICATIONS

Financial Implications

- 5.1 The projected income from letting the avoidable voids (following works) has been modelled.
- 5.2 It should be noted that the model for income projection is based on proposed garage rental prices for 2023/24, but has not factored in any expected inflationary future price increases. There will also be additional works that emerge from the termination of currently occupied garages that have not been factored into the model.
- 5.3 The model is also based on a series of assumptions on the voids:
- The type of works required and the time frame for return; surveys have only been carried out on 67 garages so far, existing data has been scaled up to cover the remaining 33 garages
 - Void works will commence in April 23 and will be completed by the end of July (taking 17 weeks). High demand garages will be actioned first followed by medium demand garages and lastly low demand garages
 - This equates to 6 garages being having works undertaken per week. The assumption is that high demand garages will be returned by week 7, let out by week 11, medium demand returned by week 12, let out by week 21, low demand returned by week 17, let out by week 45.
 - That no further sprayed asbestos will be found in the avoidable void stock
 - That the garages team have sufficient capacity to advertise 40 garages per week through Digital Lettings

Figure 5. Projected income from re-letting garage stock following works

Category of Garage	Year 1	Year 2	Year 3	Year 4	Year 5
High – Returned	39	39	39	39	39
High – Let	39	39	39	39	39
High - Cumulative Income	£24,088	£50,959	£77,830	£104,701	£131,572
Income difference*	£24,088	£26,871	£26,871	£26,871	£26,871
Medium – Returned	28	28	28	28	28
Medium – Let	28	28	28	28	28
Medium- Cumulative Income	£13,865	£32,593	£51,321	£70,049	£88,776
Income difference	£13,865	£18,727	£18,727	£18,727	£18,727
Low – Returned	33	33	33	33	33
Low – Let	33	33	33	33	33
Low - Cumulative Income	£9,544	£30,223	£50,903	£71,582	£92,262
Income difference	£9,544	£20,679	£20,679	£20,679	£20,679
Total cumulative income	£47,498	£113,776	£180,055	£246,333	£312,611
Works cost	£234,000	£0.00	£0.00	£0.00	£0.00
Overall investment position	-£186,501	-£120,223	-£53,944	£12,333	£78,611

*Income difference compared to the previous year

- 5.4 The projected income from letting all of the avoidable voids (including those that have been had works) has also been modelled, based on 2023/24 proposed pricing.
- 5.5 The model is predicated on the assumption that terminations in the remainder of the avoidable void stock can be let more quickly than the stock requiring works, that the additional Garages Lettings Officer is recruited and that Digital Lettings goes live. It is based on a breakdown of the total avoidable void stock as follows:
- 141 high demand
 - 96 medium demand
 - 44 low demand

Figure 6. Overall potential from avoidable void stock over 5 years

Category of Garage	Year 1	Year 2	Year 3	Year 4	Year 5
High – Returned	39	39	39	39	39
High – Let	141	141	141	141	141
High - Cumulative Income	£72,981	£170,130	£267,279	£364,428	£461,577
Income difference	£72,981	£97,149	£97,149	£97,149	£97,149
Medium – Returned	28	28	28	28	28
Medium – Let	96	96	96	96	96
Medium- Cumulative Income	£44,465	£108,675	£172,884	£237,094	£301,304
Income difference from	£44,465	£64,209	£64,209	£64,209	£64,209
Low – Returned	33	33	33	33	33
Low – Let	25	44	44	44	44
Low - Cumulative Income	£7,857	£33,369	£60,941	£88,514	£116,087
Income difference	£7,857	£25,511	£27,572	£27,572	£27,572
Total Cumulative Income	£125,303	£312,174	£501,105	£690,037	£878,968
Works costs	£234,000	£0.00	£0.00	£0.00	£0.00
Overall investment position	-£108,696	£78,174	£267,105	£456,037	£644,968

- 5.6 It should be noted that the achievement of this target is also dependent on the following factors:
- Garage repairs contractors and asbestos surveyors returning the garages in a timely fashion.
 - The current economic uncertainty and the impact of the cost of living increase
- 5.7 In terms of the potential revenue gains from fully occupied garage stock, the income budget for garage rents only in 2022/23 is £3.35m (£279k per month, £64.4k per week). In the event that there were 0% voids across the domestic and commercial stock and all garages were fully let, the annual revenue

would be £4.3m. There are clearly financial gains to be made by investing in the void stock; however it should be noted that only 281 of the garages are avoidable voids. 519 are unavoidable voids so are unlikely to be able to be re-let in the immediate future (unless they are being progressed through the GIP).

- 5.8 In summary, a £234k investment in the backlog of repairs is predicted to yield cumulative income of £312k by year 5. The breakeven point is week 199 or 3.83 years.
- 5.9 In terms of funding, the GIP is funded by £1m of garage site disposals (of which £447k has been achieved to date) and the remainder (£8.95m) through capital borrowing. £4m has been spent so far so it is reasonable to assume that £3.5m is from borrowing and the remainder from disposal sites that have been disposed of. There is likely to be an underspend at the end of the GIP programme in August 2023 of £3million. It is recommended that £234k of this underspend is used to carry out the works to the backlog of repairs.
- 5.10 The additional Temporary Asbestos Surveyor one year post will be funded through £55k from the General Fund. This role is essential to ensure compliance. Appendix B provides a summary of the costed options.

Legal Implications

- 5.11 All works/services as set out in this report will be procured in accordance with the Councils Constitution, in particular the Contract Procedure Rules and where applicable the Public Contracts Regulations 2015.
- 5.12 The duty to manage asbestos is contained in regulation 4 of the Control of Asbestos Regulations 2012. The duty holder (in this case the Council) has to:
- take reasonable steps to find out if there are materials containing asbestos in non-domestic premises, and if so, its amount, where it is and what condition it is in
 - make, and keep up-to-date, a record of the location and condition of the asbestos- containing materials - or materials which are presumed to contain asbestos
 - assess the risk of anyone being exposed to fibres from the materials identified
 - prepare a plan that sets out in detail how the risks from these materials will be managed
 - periodically review and monitor the plan and the arrangements to act on it so that the plan remains relevant and up-to-date
 - provide information on the location and condition of the materials to anyone who is liable to work on or disturb them

Therefore it is important for the Council to continue carrying out the asbestos surveys to identify such asbestos and as set out in this report deal with that accordingly.

Risk Implications

- 5.13 Failure to have a fully funded asbestos survey / management plan in place will place the Council in breach of the Control of Asbestos Regulations 2012. There is the risk to human health if asbestos risk is not being assessed in a timely manner, as it deteriorates and exposure takes place.
- 5.14 A series of simulated tests were completed at pilot sites and assessed together with historical exposure information by the asbestos specialist to calculate the exposure risk and harm to residents that have used the garages. The report concluded potential exposure to anyone using the garages as likely to be 'insignificant' to 'low risk'.
- 5.15 Whilst the issue of asbestos in 442 affected garages remains, there are risks to the growth of the Council's income stream for garages if the repairs backlog on the void garages stock is not addressed.

APPENDICES

- A Potential future structure of asbestos management team
- B Summary of costed options