

Item No. 15.	Classification: Open	Date: 21 September 2010	Meeting Name: Cabinet
Report title:		Review of Southwark Housing Garage Rents	
Ward(s) or groups affected:		All wards; Estate garage users	
Cabinet Member		Councillor Ian Wingfield, Deputy Leader and Cabinet Member for Housing Management	

FOREWORD - COUNCILLOR IAN WINGFIELD, DEPUTY LEADER AND CABINET MEMBER FOR HOUSING MANAGEMENT

1. The previous administration agreed a review of garage rents at the Executive in January 2010. This report suggested that we should be seeking to charge at different levels across the borough dependent on the value of the garages in order to increase income.
2. I have reviewed the situation, and make the following comments. It does make sense to charge lower rents where there is little demand for garages. It also makes sense for charges to increase so we can invest in making our garages more attractive, safe and secure. However, I feel strongly that the charging system should be clear and easily understood. What's more the rate rises should not place garages out of reach for our residents. I feel the recommended proposal balances the need to increase take up with the need to increase income for investment.

RECOMMENDATIONS

Recommendations for Cabinet

3. To introduce a differential charging policy for garages to reflect different market conditions in the borough. Thereby creating four pricing zones across the borough. The detail of the charges is set out below and in paragraphs 22 and 23.

Pricing Zone	Charge
A	16.55
B	14.70
C	12.85
D	11.00

4. To introduce a £5 supplementary charge for all non-council tenant garage users by January 2011.
5. To conduct a mid year review of garage charges in 2011-12

Recommendation for Leader of the Council

6. To delegate authority for detailed variations in the charging and marketing policy to the Cabinet Member for Housing Management.

BACKGROUND INFORMATION

7. The council housing service manages 7,000 garages. Just over 1,000 of these are either due for demolition as part of regeneration schemes (e.g. Heygate) or are part of proposed developments for affordable housing. Most of these are empty garages and are not being relet. The 4,000 garages in use are let to approximately 2,300 tenants (out of 39,000), 950 leaseholders (out of 12,000 some of whom have more than one garage), and 600 private (or non-council estate residents). This set against the 6,000 garages which are capable of being let. Over 30% of our garages are not in use.
8. The garage portfolio has been under review for a year, with a view to increasing take up, reducing void levels, and increasing the quality of the portfolio. Much work has been conducted already to let empty properties and increase income. The garage portfolio last year contributed an additional £500k income to the housing revenue account. This additional income was generated by the rent increase of 25% in 2009, which brought Southwark's garage charges from the lowest in London to those similar to low value areas in other London boroughs.
9. The level of garage income has a direct impact on our ability to invest in the portfolio and improve the level of take up. Higher rents is one way of increasing income, and as are more innovative projects for alternative usage of some of the more derelict sites. The council is also looking at how best we can bring in additional investment through private sector partnerships where we have facilities that require considerable investment to bring up to scratch.
10. Higher rents are necessary to make sure investment can continue. It is also important given current funding pressures that the Council maximise income from non residential property. The 2010/2011 budget settlement for the Housing Revenue Account included provision of £1.25 million net of additional income from the garage portfolio. This projection was based on a policy being introduced to maximize income from the portfolio, following the January 2009 Executive. Here it was agreed that further investigation would be conducted to introduce a differential charging policy within Southwark. The Executive report stated that:

"In order to do this, work is required to assess which garages will attract premium rates, which need refurbishment work to bring them up to a lettable standard and which should be disposed of, to generate funds to re-invest in the remaining garage stock".

11. In consultation for the 2010-11 rent increase the following proposal was put to Area Housing Forums and Tenant Council:

"Work on a re-engineering of the methodology for charging for non-dwelling properties is on-going, and it is the intention of officers to bring the results of this, once complete, to the Executive in Spring 2010 for consideration and approval. In the interim, it is proposed to either maintain the existing level of charge until the results of the review have been subject to consultation, or apply an increase sufficient to move the average charge to £15.00 per week; which equates to a 33% increase".

12. The response of the consultation was that residents preferred that a full review was carried out rather than apply another "flat rate" increase. This approach was

agreed at Executive on 25th January 2010.

13. The new administration reviewed the proposal in July 2010 and felt that this approach should be tempered. A purely commercial approach meant a complex and opaque system of charging, as it took into account the different conditions of garages as well as the market value depending on areas.
14. Consultation has been ongoing with residents, and the working group has also expressed concern about the potential level of rent rises. The new administration have asked that the recommended garage rent rises reflect current economic conditions as well as resident concerns.
15. This report outlines the result of this review, which takes into account the new administration's wish to reduce the complexity and level of garage charging, and the wishes of residents who have made very similar comments on the previous proposal. The recommendation sets out a template for differential charging should allow the Council to market the more difficult to let properties successfully while gaining a higher rental yield from properties in higher value locations.

KEY ISSUES FOR CONSIDERATION

16. The review of local market charges started in October 2009 and was completed in June 2010. The sources have been local estate agents, classified ads, and the increasing volume of garages marketed on the web.
17. The results show, as expected, a significant variation across the borough, mostly in line with the housing market but also driven by:
 - ✓ Closeness to the City
 - ✓ Closeness to major transport hubs
 - ✓ Locations just before the congestion charge zone.
18. Direct comparison with the local authority sector is subject to some caveats, notably that market rates will be for good condition garages, often in controlled access environments. What's more, private sector providers are more likely to negotiate lower rates from initial asking prices. Taking these points into account and recognising that most estate garages have few of the features offered on the open market we can extrapolate the likely open market rate for estate garages as:

Area	£pw
Bermondsey	24.09
Borough & Bankside	21.60
Camberwell	19.94
Dulwich	18.28
Nunhead & PR	18.28
Peckham	16.00
Rotherhithe	20.94
Walworth	27.42
Weighted average	19.50

19. These rates are very high set against the current average Council rate across the borough of £12.24pw.

20. A number of options have been considered throughout the review. The first and simplest is to impose a flat rate charge across the borough at a low market rate. The problem with this approach is that it is unlikely that take up would increase in low demand, high supply areas, particularly in the centre of the borough. This would reduce rent overall, and be counter productive in that usage would actually drop. The second is at the opposite end of the spectrum. This involved charging the absolute highest rent possible for each garage. This highly complex system would involve a rental level being agreed at the time of letting, on the basis of the garage location, condition, and the nature of the occupant. Although it was likely to raise the most income, it was highly likely to confuse residents, and just possibly the Officers administering the system. This option would also be difficult for a public body as the possibility of negotiation at the point of letting could open the door for a level of corruption. Both these options were rejected without detailed examination.
21. Two further options were pursued. One was a relatively sensitive method of calculating garage rents taking into account the location and condition. It involved having 12 banded rents, ranging from around £12 to £26 in the most expensive locations. This option was considered a real possibility in terms of implementation, but both residents and the new administration were concerned about the complexity of the system and the relatively high rents. A full outline of this option is contained in Appendix A.

The recommended option – Creating four pricing Zones across the borough

22. This option was developed to recognise the difference in value of garages across the borough, but to limit rent rises to an acceptable level. The Zones have been designed to minimise the effect of a flat-rate charge within Zones leading to some groups of garages being harder to let. Broadly speaking this new proposal sets the Zone flat rate at a lower than market level. The highest level of increase will be at around 30% - but will still be significantly lower than market rents in this area, and lower than the London average for local authority garages.
23. The proposed charges are set out below. These are

Zone	Charge
A	16.55
B	14.70
C	12.85
D	11.00

24. This compares to a current average rate charge of £12.24. At this level of charge we believe an occupancy rate of 80% is achievable. The proposed zones are shown on the map in Appendix B. In the broadest possible terms charges are more expensive in the north of the borough, where demand is greatest and there is limited availability. Charges actually reduce in the centre of the borough where condition is worse, the largest numbers of garages are empty and where a concerted marketing effort will be needed to bring garages into use. This amounts to an average charge of £13.27, just under 8.4% higher than the current rental level. This rate also compares favourably with other London Boroughs. A full comparison of Southwark’s rental charges with other London boroughs is attached as Appendix C

25. In addition, it is proposed that an additional charge of £5 per week is applied to all non-housing tenant garage users. This is recommended for implementation in January 2011 subject to a full review of the operational and financial systems needed to support implementation.
26. Some variations on this Option D could be incorporated into this proposal, and it is suggested that the resident's working party continue to engage on the details of the charging policy. Some possible variations are set out below.
- ✓ **Poor condition garages** - These could be offered with an initial rent free period in compensation.
 - ✓ **Garages that are much larger than our normal good size (ie more than 2.5m x 5.0m)** - There are not many of these but they definitely command a higher market rate. We will prepare a list of these and we could charge the "next Zone up" for these i.e. £5 pw more.
 - ✓ **Garages with internal electricity supplied from the Landlord's communal meter** - We estimate are that about 300 garages are consuming about £15k per annum. This is over and above the communal lighting external to many garages. The suggestion is that we keep the Zone charge for the garage the same but add a service charge of, say, £1pw.
 - ✓ **Garages with allocated parking bays in front** - These cannot be used by anyone other than the garage user but should be treated as an additional benefit. We can add the current "allocated bay" charge of £2.50pw to the garage charge.
27. These options are being discussed with the Residents Garages Working party. It is recommended that the decision to introduce any of these variations is delegated to the Cabinet Member for Housing.

Concessionary charges

28. It is recommended that the council consider a concessionary charge of £5.00pw for all users who hold a Blue Badge or receive a disability or mobility allowance, and any council tenant aged over 70. This will include our AD badge issued as a copy to the Blue Badge (Blue Badges are not vehicle specific and are often stolen from vehicles). It is estimated that approximately 250 garage users would fall into this category if this discount were offered. It is estimated that this is about 100 more users, in this category, than if the concessionary amount was not offered.
29. The financial impact of this option has been included in the estimates in this paper. If this option was not chosen then the increased income from charging standard and discounted rates would be about £35,000.

Future Reviews

30. The following reviews are proposed to take place:
- Options on changes to the current garages model, in particular the success of the policy to increase take ups and reduction of voids
 - Options on how to further increase charges to bring them further in line with commercial rents
 - Options on an alternative usage policy
31. Updates to the garages policy and charging structure is planned for

September 2011 however this does not preclude a possible increase in April 2010. The above reviews will feed into this process.

Implementation timetable

32. The proposed timetable for implementation is 1 November, following a Cabinet decision in September.
33. The increases (and some decreases) in charges will take place in November 2010. Garage users will be sent an information sheet showing the reasons for change, the Zones proposed, and the arrangements for concessions, along with 4 week's notice giving the date of increase and the new charge and the change in charge.

Policy implications

34. The main policy implication of this proposal is to maximise the assets of the council to increase income for council housing services.

Community impact statement

35. The community impact of this proposal is mixed.
36. On the one hand a number of garage users will pay a higher charge (but still below market rates) for storing their vehicle.
37. On the other hand the majority of those living on our estates will benefit from the increased ability of the council housing service to fund repairs and improvement, particularly to the estate environment and security. People on lowest incomes tend not to own a vehicle or to rent garages.
38. Empty garages in disrepair can be an eyesore for local residents and attract anti-social behaviour particularly under buildings or away from where they can be overlooked. A campaign to bring more garages back into use and to increase income will bring in the funds needed to make these areas safer, better lit, and provide increased secured for example by fitting fob controlled gates.
39. Many insurance companies reduce the premium for car insurance if vehicles can be stored in locked garages.
40. Those who have a disability or are older (over 70) will benefit from the concessionary charge.
41. There are no likely impacts for reasons of: faith/religion, gender, race and ethnicity and sexual orientation.

Resource implications

42. This report makes proposals which fall within the council's budgetary plan for the Housing Revenue Account.
43. It is estimated at budget setting for 2010-11 that after repair and investment costs and associated management costs that council estate garages could deliver £1.25m net to the Housing Revenue Account compared to the previous year. At

budget setting time it was anticipated that an average charge of around £19.00 could be made from August 2010. This would have delivered £1.25m of additional income to the HRA. The overall financial improvement on the garages account in 2010-11 is now substantially reduced.

44. In assessing the impact of increased charges for the majority of garages we have taken into account the likelihood that some will be returned to us because of the charge increase. Increased efforts to advertise and market the availability of garages will more than counter this effect. In any event, for the remainder of this year we expect to maintain the current level of rented garages.
45. The recommended lower pricing option will mean an in year shortfall of £1.2million against target, which will be offset from reserves in 2010-11, and additional savings in the housing management budget in future years. The full impact will be reduced by adjusting the predicted spend on investment and repairs to increase net income. It is also expected that the current pilot project looking at alternative commercial uses will reap some financial dividends which could increase the yield in future years.

Legal implications

46. Garages are let on weekly licences. The statutory requirements for changing or increasing rents (for dwellings) do not apply to garages. Garages do not usually form part of the dwelling tenancy agreement. The exception to this is the very few tenancies where the dwelling includes an integral garage (some townhouse types). The charges for these garages cannot be altered without undertaking the full rent increase procedure, and notice, which is normally undertaken before the start of the financial year.
47. Changes in terms (including charges) of the garage licence can be brought in at any time of year. It is generally accepted as good practice to give more notice than one week (the period stipulated in the licence agreement). It is proposed that 4 weeks notice be given to garage users following the completion of the council's decision making process including Cabinet.

Consultation

48. Consultation for the general principle for non-residential differential charges took place for the 2009/10 rent and service charge increase. Garage charges at the time were low even compared with low market areas in other boroughs. It was decided to apply a flat rate increase charges from c.£10.00 to £12.41 (approximately a 25% increase) and to investigate differential charges.
49. During the 2010/11 rent consultation residents were informed that a review of charge charges was underway but that this would not be completed in time for the proposed April 2010 rent changes. Residents were given a choice and after consultation Tenants Council expressed their preference to hold the current garage charges until the review was completed and that any change, if any, would take place during 2010/11.
50. In June 2010 Tenants Council and Home Owner Council were invited to nominate representatives onto a Residents Garages Working Party. Home Owner Council nominated two representatives whilst Tenants Council made its nomination in July.
51. The Residents Garages Working Party has met twice in August.

52. The Residents Garages Working Party provides a critical sounding board during the preparation of, and after a decision on, this proposal. Residents bring important local knowledge to bear on the detailed operation of the service, give feedback on any inconsistencies, and suggest new ideas. The Working Party will monitor our performance and the Working Party will also have the opportunity to comment on improvements to the garages policy and procedures as these are developed.
53. Detailed feedback on the Working Party discussions will be presented to the next meeting of Tenant Council (6th Sept) and Home Owner Council (8th Sept).
54. In discussion with Working Party members several different views were expressed by residents' representatives about the level of charges for garages:
- Some felt that a low flat rate was appropriate for two reasons, firstly because benefit levels do not vary across the Borough, and secondly because council rent levels do not vary that much for similar dwellings in different locations. Officers emphasised that most benefit claimants were not car owners.
 - Some resident's reps felt that we should subsidise garage charges as they are a way of helping those in low income jobs remain in employment, particularly those working unsocial hours. Officers pointed out that this might not be a proper use of a Housing Revenue Account and that is unlikely that Council Tax would be used to subsidise garages.
 - Whilst residents' reps understood that additional income was needed and that some changes to the charging structure were needed they were not in agreement about any increases. Rather they felt that charges should be increased for non-resident users to subsidise council estate residents.
 - It was suggested that one way of improving some garages might be to sell some and use the capital receipts.
55. There was general agreement that bringing more garages back into use was as important as getting the charges right. There are a number of garages in use that are not paid for and these are being investigated: contractors using them as storage; Area Officers storing work files and abandoned household goods; and some by residents who do not pay. The Working Party agreed that a programme of internal inspections, forcing entry if necessary, would be supported by T&RAs, and indeed had been asked for on several occasions in the past.
56. There was also agreement on a number of points which will improve the service:
- Charges need to be lower in the "middle parts" of the borough if we are to increase occupancy and net income.
 - Under suitable conditions garages should be allowed to be used for household storage rather than just for a car. This will increase take up and net income.
 - Increased income should be used to repair more garages. And so increase income.
 - Larger garages should have a higher charge than smaller garages.
 - Some garages should be designated for projects which are targeted at gaining maximum market rates on the open market to help subsidise the service. These are likely to be in the North of the Borough or near to stations.

57. This report also asks that further decisions on the detail of the charging and marketing policy are reserved to the Cabinet Member for Housing Management.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Strategic Director of Communities, Law & Governance

58. Comments from the strategic director of communities, law & governance are:

- The legal implications are set out in the body of this report; however, the following comments should also be noted. Garage rents are not covered by the Government’s rent restructure or variation policy and as such it is for the Council to determine any variation or increase to be implemented in accordance with the garage licence agreement and existing policies and procedures.
- The Licence agreement provides that a least one weeks notice in writing will be given of any increase in the licence fee. The report recommends at paragraph 40 that 4 weeks notice be given to garage users. Although there is no statutory notice requirement in relation to garages this recommendation is consistent with other statutory notice requirements for example those pertaining to rent increases as provided for by s103 of the Housing Act 1985. This provides that a notice of variation of rent must be served at least four weeks before it is to take effect.

Finance Director (FIN0586 - DC)

59. This proposed change to garage rents will increase net income by £130,000 over a full year. Therefore, if implemented on 1 November 2010, income will increase by £50,000 from 2010-11. However, given that an increase of £1.25m was agreed as part of the budget setting process, there will be an income shortfall of £1.2m in 2010-11 and £1.1m in 2011-12. Provision has been made centrally to cover the income shortfall within year. The shortfall in 2011-12 will need to be considered as part of the HRA budget setting process.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
Sample garage licence agreement	Housing management division Hub 3, 3 rd Floor, Tooley Street	Tunde Akinyooye 0207 525 3710

APPENDICES

No.	Title
Appendix A	Complex charging options
Appendix B	Proposed map of zones
Appendix C	Comparative charges

AUDIT TRAIL

Lead Officer	Gill Davies, Strategic Director of Environment & Housing	
Report Author	Margaret O'Brien, Head of Housing Management	
Version	Final	
Dated	9 September 2010	
Key Decision?	Yes	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments included
Strategic Director of Communities, Law & Governance	Yes	Yes
Finance Director	Yes	Yes
Cabinet Member	Yes	Yes
Date final report sent to Constitutional/Community Council/Scrutiny Team		10 September 2010