

MIDDLESBROUGH COUNCIL

EXECUTIVE SUB-COMMITTEE FOR PROPERTY

Cargo Fleet Depot Acquisition

Deputy Mayor & Executive Member for Resources

Director of Strategic Resources

28 January 2013

PURPOSE OF THE REPORT

1. To request approval for the outright purchase of the Cargo Fleet Lane Depot site.

SUMMARY OF RECOMMENDATIONS

2. The Executive Sub-Committee for Property are asked to:

Proceed with option 2, purchasing the outright interest in the Cargo Fleet Lane depot, which will allow the Council to realise additional savings of £38,780 from the consolidation of services onto the Cargo Fleet Lane depot site.

IF THIS IS A KEY DECISION WHICH KEY DECISION TEST APPLIES?

3. It is over the financial threshold (£150,000)
It has a significant impact on 2 or more wards
Non Key

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| ✓ |
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DECISION IMPLEMENTATION DEADLINE

4. For the purposes of the scrutiny call in procedure this report is

Non-urgent
Urgent report

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| ✓ |
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If urgent please give full reasons

BACKGROUND AND EXTERNAL CONSULTATION

5. The Cargo Fleet Lane Depot, is a custodian property and comprises a number of industrial sheds with a 3-storey office complex at the front of the site together with a fuel facility and on-site parking. The majority of the buildings were constructed in the 1960's and though serviceable are now dated and will require significant investment in the future.

6. Since 1996 Middlesbrough Council have had a presence on the site together with a mix of other tenants including in the past Redcar & Cleveland Council.
7. In keeping with the custodian agreement the tenants pay a market rent together with the running costs of the property proportionate to the area they occupy. The costs of any void space are shared between all four-successor authorities.
8. Middlesbrough Council have had the property independently valued by GVA Grimley firstly on the 7th of July 2010 and again on the 21st October 2011 and on both occasions the value of £500,000 was arrived at. Also they determined the total rent for the site to be in the order of £92,820 per annum.

EQUALITY IMPACT ASSESSMENT

Not applicable

OPTION APPRAISAL/RISK ASSESSMENT

Review of Council Depot Provision

9. Following a review of depot provision across the Council during 2011/2012, a decision was made to rationalise depot provision onto the depot at Cargo Fleet Lane. In October 2011 a report was taken to CMT which set out business case options under which the custodian authority depot could be occupied. The business case included two options. Firstly to continue as a custodian tenant but investing in the fabric of the building. Secondly to buy out the interest from the other custodian authorities and invest in the fabric of the building.

Option 1

10. Under the first option the Council would continue to pay a rent for the exclusive use as a depot. Savings, net of additional borrowing costs, would accrue from the economies of scale of having one depot site rather than four. This option assumed that the Council would invest approximately £500,000 from affordable borrowing to bring the facilities up to operational standard. CMT agreed to proceed with this option as a minimum but to continue to pursue option two.

Option 2

11. Option two, was the preferred option, and realises the largest saving. This option was to consolidate operations on the Cargo Fleet Lane depot site as above, but to also buy out the other custodian authorities interest in the site. This would save the rent, which is currently paid to them. This saving on the rent could then be used to finance the further additional borrowing to acquire the property and increase the net saving that could be generated under option one.

12. Option two was only possible if agreement could be reached with the three other custodian Council's to sell their interest in the Depot. The depot has been valued at £500,000.

FINANCIAL, LEGAL AND WARD IMPLICATIONS

Legal Implications

13. Negotiations to reach agreement with the other three Councils, has now been reached which allows the Council to proceed with the acquisition. The following key elements will form part of the legal transfer agreement.
- a) The transaction to be based upon a current use value of £500,000 subject to GVA confirming that the figure was still relevant. This has now been confirmed.
 - b) The transaction will be subject to an 80 year overage provision.
 - c) The overage provision will share any enhancement in value for any alternative use in the proportions set out in the custodian agreement should MBC dispose. The amount of overage being the difference between the enhanced value at the time of disposal and the then value as a depot (determined by an independent valuer, under a joint appointment).
 - d) Disposal costs will be netted off the sale proceeds but only in so far as they relate to the enhanced value.

Financial Implications

14. The Split of capital receipt under the custodian agreement will be:

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|------------------------------------|----------|
| Middlesbrough Council (25.9%) | £129,500 |
| Stockton Council (31.7%) | £158,500 |
| Redcar & Cleveland Council (25.9%) | £129,500 |
| Hartlepool Council (16.5%) | £82,500 |

The net cost to Middlesbrough of the acquisition is therefore £370,500.

15. The estimated savings in relation to the two options is set out in **Appendix A**. Option two is estimated to produce £38,780 additional net savings compared to option one.

RECOMMENDATIONS

16. Executive Sub-Committee for Property are asked to:

Proceed with option 2, purchasing the outright interest in the Cargo Fleet Lane depot, which will allow the Council to realise additional savings of £38,780 from the consolidation of services onto the Cargo Fleet Lane depot site.

REASONS

17. To maximise the savings potential from consolidating Council depot provision on the Cargo Fleet Lane site.

BACKGROUND PAPERS

The following background papers were used in the preparation of this report:

None.

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| CARGO FLEET LANE DEPOT |
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|-----------------------------|
| Annual Revenue Costs |
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| | Original Depot Provision Cost | Option 1 One-site Provision Renting from Custodian Authorities | Option 2 One-site Provision Purchase |
|---|-------------------------------|---|---|
| | £ | £ | £ |
| Cargo Fleet Lane Custodian Depot | | | |
| Rent | 81,536 | 92,820 | |
| Lost income from Custodian properties budget | | | 24,040 |
| Service Charges | 269,850 | 296,300 | |
| Running costs | | | 296,300 |
| Borrowing costs to finance investment | | 40,000 | 70,000 |
| Cargo Fleet Lane Erimus Depot | 88,745 | | |
| Lloyd Street Depot | 34,691 | | |
| Prissick Depot | 37,225 | | |
| Total Revenue Costs | 512,047 | 429,120 | 390,340 |
| | (1) | (2) | (3) |
| Estimated Saving Option 1 | (1) - (2) | 82,927 | |
| Estimated Saving Option 2 | (1) - (3) | | 121,707 |
| Additional saving Option 2 less Option 1 | | | 38,780 |

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|---------------------------------|
| Capital Investment Costs |
|---------------------------------|

| | Existing provision | Option 1 One-site Provision Renting from Custodian Authorities | Option 2 One-site Provision Purchase |
|--|--------------------|---|---|
| | £ | £ | £ |
| Cost of Acquisition (£500,000 less Middlesbrough £129,500) | | | 370,500 |
| Office Accommodation Investment | | | |
| 2nd floor | | 93,000 | 93,000 |
| 1st floor | | 33,793 | 33,793 |
| Ground Floor | | 84,000 | 84,000 |
| Assumed contribution from custodian to initial works | | (10,000) | |
| Waste Transfer / Fencing / Stores / CCTV / Other externals | | 200,000 | 200,000 |
| Recommission Fuel Tank & Pump | | 10,000 | 10,000 |
| Internal stores & fixtures | | 50,000 | 50,000 |
| Demolition of old buildings | | 50,000 | 50,000 |
| Total Capital Costs | | 510,793 | 891,293 |