

**To:** City Executive Board

**Date:** 3 July 2014

**Report of:** Regeneration and Major Projects Service Manager

**Title of Report:** Acquisition of Intermediate Leasehold, Horspath Road Industrial Estate

## Summary and Recommendations

**Purpose of report:** To seek approval to acquire the intermediate leasehold interest of Horspath Road Industrial Estate, Oxford.

**Key Decision?** Yes

**Executive lead member:** Councillor Ed Turner, Board Member for Finance, Asset Management and Public Health

**Policy Framework:** Corporate Plan  
Efficient Effective Council

### **Recommendations:**

1. To approve the acquisition of an intermediate leasehold interest in land and buildings forming the Horspath Road depot site on the terms set out in the Not for Publication Confidential Appendix 2 of this report.

### **Appendices to report:**

Appendix 1 - Risk Register

Appendix 2 - Not for publication confidential appendix

### **Background**

1. Horspath Road Depot is currently used by Direct Services as its main 'store' operation on the ground floor, whilst upper floors are currently in use as a 'Tenant Resource' centre along with some vacant office space.
2. The property has multi-layered property interests, with the Freehold site owned by the City Council, but subject to a long lease to 2061 at £325 pa

which is now owned ELQ UK Properties Limited. The council then has a sub lease back with 6 years remaining at a rental of £116,325 rising to £131,850 in September 2015 – this sublease is held on Full Repairing and Insuring terms (FRI) and therefore the council is wholly responsible financially for the building.

3. The property comprises a reinforced concrete frame structure, with brick cladding and curtain walling to the Horspath Road frontage. The building was constructed in the mid to late 1960s and is in a reasonable state of repair considering the age and nature of the building and its current fit-out. Notwithstanding this it is still considered likely that there will be an element of dilapidations liability at the expiry of the lease should the Council wish to exit at this time in 2020.
4. The Gross Internal Area is 21,518 sq ft and the site area is circa 0.76 acres. The ground floor provides 11,921 sq ft of general warehouse accommodation with a floor to ceiling height of 4.6 metres. The first floor, accessed by 2 staircases and 1 lift provides 9,596 sq ft of medium grade office accommodation.
5. Although an enduring need for a dedicated stores facility has been debated over the years, this remains an essential part of the Direct Services business model for housing repairs and maintenance. Therefore it is assumed that the facility will be required in the medium term.
6. Negotiations have been underway with the intermediate leaseholder and its predecessors for an extensive period for the council to acquire this interest, which would effectively merge the interests and create an unencumbered freehold interest for the Council.
7. The acquisition would deliver revenue savings of £116k pa rising to £131k pa in 2015 and removal of potential dilapidations liability at expiry of the Council's sub lease in the likely order of £250k, along with the "softer" benefits of flexibility of use and occupation and potential upside of future development/ disposal prospects in the event of future exit of the property.
8. The Regeneration and Major Projects team therefore recommend a purchase of the intermediate leasehold interest in land and buildings forming the Horspath Road depot site on the terms set out on terms set out in the Not for Publication Confidential appendix 2, as this will provide attractive revenue savings, is low risk and supports the business model of Direct Services.

### **Planning Implications**

9. There are no planning implications. The site is to continue in its existing use.

### **Risk Implications**

10. A risk assessment has been undertaken and the risk register is attached as Appendix 1.

### **Sustainability and Climate Change Implications**

11. None

### **Equalities Implications**

12. No implications arising

### **Financial Implications**

13. Elimination of rental outgoing of £115k rising to £132k in 2015, as per the Not for Publication Confidential Appendix 2.

14. Capital is allocated in the council's capital programme to make this acquisition and therefore the proposed price is within the budget allocated (as contained in the Not for Publication Confidential Appendix 2).

### **Legal Implications**

15. The transaction will be structured as a surrender of the intermediate leasehold for a reverse premium payable by the council to the leaseholder. Following the completion all leasehold interests will be merged in order that the council owns the unfettered freehold interest.

#### **Name and contact details of author:-**

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**List of background papers: none**

## Appendix 1 - Report Risk Register

No.	Risk Description	Gross Risk		Cause of Risk	Mitigation	Current Risk	Further Management of Risk: Transfer/Accept/Reduce/Avoid		Monitoring Effectiveness	Residual Risk		
Risk Score	<b>Impact Score:</b> 1 = Insignificant; 2 = Minor; 3 = Moderate; 4 = Major; 5 = Catastrophic						<b>Probability Score:</b> 1 = Rare; 2 = Unlikely; 3 = Possible; 4 = Likely; 5 = Almost Certain					
		I	P			I	P			I	P	
1	The stores facility is no longer required by DS	3	2	Changes to business model and supply chain of DS meaning storage facility no longer required.	Development potential of the site with an unencumbered freehold ownership and in addition to adjacent ownership by the council. In addition this will be easier to dispose of the freehold interest rather than the current sub-lease interest.	2	1	Continual dialogue with DS and consideration of alternative development potential in accordance with any depot rationalisation strategy.		1	1	
2	The acquisition does not proceed to completion	4	2	Leaseholder decides not to proceed	Complete transaction as quickly as possible.	3	1	Target exchange and completion date set of 24.6.14 to prevent the need for the council to pay a further quarter's rent of circa £10k.		1	1	

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