
Meeting of Executive Member for Neighbourhood Services and Advisory Panel

21 March 2007

Report of the Director of Neighbourhood Services

Letting of office and storage space for building materials provider

Summary

1. This report is to inform members of the progress of the building materials procurement exercise as reported in December and to seek approval to let depot space to Jewson Ltd. (Saint Gobain Building Distribution).

Background

2. The Building Department within Neighbourhood Services spends in the region of £1.2 million p.a. on General Building materials including, plumbing goods, electrical parts and equipment, domestic and commercial heating spares and equipment, joinery products, kitchens and other general building materials such as cement, plaster and bricks.
3. In December 2006 members approved the award of a contract to Jewson Ltd to supply building materials to the building maintenance department following a procurement exercise with the OGC (Office of Government Commerce) subject to successful negotiations. Part of those negotiations include agreeing the location and cost of bespoke premises to act as a store exclusively for the use of this contract.
4. Negotiations are progressing well with an expected start date for the supply contract at the beginning of May.
5. In similar arrangements with other housing providers Jewsons have located and rented a premise local to the contract and passed on this cost in overhead to the provider.
6. Having looked at premises near to the operation and in consultation with end users it has been established that space within the new depot would provide the most advantageous solution for both logistical and financial reasons.
7. To accommodate the arrangement the City of York Council Property Services have provided a draft "Heads of Terms" agreement. This agreement is used by Property Services to rent out other City of York Council assets to the private sector.

Subject to members approval this draft “Heads of Terms” agreement will be completed between our property services team and Jewsons.

- 8 Any rental costs charged to Jewsons would be passed back to Building Maintenance in the form of additional overhead with added administration costs.
- 9 It is proposed therefore, to let the space to Jewsons for a “peppercorn” rent for an initial five year period in line with the materials supply agreement. The agreement will be linked to the supply agreement, in that failure of the supply agreement will automatically cease the rental agreement.
10. The rental agreement will make Jewsons responsible for any damage caused by their operations, minor repairs, replacement of lights and cleaning. The City of York Council will remain responsible for major repairs and fabric of the building issues arising from normal wear and tear.
- 11 At the cessation of the agreement any making good (returning to original condition and removal of own fixtures and fittings) will be the responsibility of Jewsons. However most of the proposed alterations will be a requirement of any store operation and as such will remain at the end of the agreement.

Consultation

- 12 All users of the service were consulted on the decision to locate within the ECO depot. Consultation on the proposals have taken place with City of York Council Property Services who are helping to draw up the contract. Legal Services have commented in the implications section

Options

13. Options available are:
 - a) Instruct Jewsons to locate at alternative premises.
 - b) Charge a commercial rent to Jewsons for the property within the ECO depot.
 - c) Rent the ECO depot space at a peppercorn rent

Analysis

14. Option a) The cost of the rent would be passed on to Building Maintenance in the form of additional overhead. This would add significant costs to the agreement. The location of the alternative premises could also lead to reduced efficiency in terms of time spent travelling to the new store.
15. Option b) Charging a commercial rent for the space at the ECO depot would add an oncost onto the materials purchased through the agreement. This cost would be recovered through the rent, although Jewsons would also charge an administration fee as a percentage of the rental charged. In this case a 10%

administrative charge on the rent would result in an additional cost to the service.

16. Option c) In this case the administrative cost of 10% would be significantly reduced as a proportion of the rent charged.

Corporate Priorities

- 17 This procurement exercise sets out to improve service delivery to customers and offer better value for money. This ties in with two corporate priorities to:

- Improve the way the Council and its partners work together to deliver better services for the people who live in York
- Improve efficiency and reduce waste to free-up more resources. The negotiations will look at issues such as sustainability, and product whole life costing. For example, timber from sustainable sources, eliminate use of rain forest hardwoods, electrical components that minimise energy use, lifespan of the product and are the products recyclable when they are eventually replaced.

18. **Implications**

- **Financial** Comment from Head of Finance. The financial implications are covered in the main body of the report. In summary, the alternative options in paragraph 13 would result in increased costs to the council in the form of additional overhead. Therefore the recommended option to let the depot space to Jewsons at a “peppercorn” rent is the preferred financial option.
- **Human Resources (HR)** There are no HR issues
- **Equalities** There are no equalities issues
- **Legal.** Comment from CYC Principal Commercial Lawyer. It is common practise for premises to be let in this way where the operation is connected to the service provided. Legal will await instructions on the heads of terms from Asset Property Management.
- **Crime and Disorder** Non applicable
- **Information Technology (IT)** There are no IT issues arising from this rental agreement
- **Property.** Property Services have provided the contract for the rental agreement. They estimate a commercial rent for the space at £30,000 p.a.

Risk Management

19. A risk analysis of the recommended approach shows no significant risk to the authority. The major risk analysed is the failure of the agreement over the 5 year period. This risk is minimised by the inclusion of a break clause in the agreement. Either party can terminate the agreement with good cause with a 13 week notice period.

Recommendations

20. That the Advisory Panel advise the Executive Member to approve option c) to rent the ECO depot space at a peppercorn rent.

Reason: This is considered the most efficient and cost effective method of managing the rental agreement between the City of York Council and Jewsons Ltd. (Saint Gobain Building Distribution).

Contact Details

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Report Approved

Date 7 March 2007

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Wards Affected:

All

For further information please contact the author of the report

Background Papers: None