

**Burnley Market**

**Report to Scrutiny Committee**



<b>DATE</b>	<b>16th September 2014</b>
<b>PORTFOLIO</b>	<b>Regeneration and Economic Development</b>
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**PURPOSE**

1. To consider action needed following the Independent Market Review Consultant's report.

**RECOMMENDATION**

2. That Scrutiny support and endorse the recommendations being made to the Executive in the report dated 23<sup>rd</sup> September 2014 as follows:-
3. That the Council puts in place a revised rental strategy for the Market, which reflects the principles set out in the Consultant's report.
4. That the Council's revenue budget reflects an estimated subsidy for operating the market of £57k for 2014/2015 and a subsidy of £200k for 2015/2016, subject to confirmation during the budget setting process for 2015/2016.
5. That the Head of Facilities Management be authorised, in consultation with the Executive Member for Regeneration and Economic Development, to establish new rental structures and a level of additional advertising and promotion, both within the subsidy level proposed.
6. That the Head of Streetscene be authorised to negotiate and accept the most economically advantageous tender for the services of Structural Engineers to carry out intrusive testing of the market building structure in order to assess potential future investment requirements/opportunities.

**REASONS FOR RECOMMENDATION**

7. The consultant's report recommended a lower pricing strategy to bring the rental structure more into line with charges elsewhere and thus improve the competitiveness of the Market Hall providing the opportunity for growth in the trading offer. In addition, advertising and promotion of the Market was flagged up as an area for attention.
8. To enable the authority to put in place new rental structures, and increase the level of advertising and promotion spend for the Market.
9. To enable the authority to tender for specialist services in order to aid future decision

making. The Market structure is unique and it is important to be clear about the building's condition and any technical structural issues which may constrain future investment/use decisions. The current estimate of medium-term repair cost is circa £1.5m but this requires validation.

**SUMMARY OF KEY POINTS**

10. The table below summarises the latest forecast budget/financial position for the market for 2014/15, excluding the current recommendations being considered

	Surplus/deficit generated	Year-end occupancy units
Actual 2013/2014	£78,600 surplus	71%
Forecast 2014/2015	£27,000 deficit	58%

11. We are starting to see the signs of an accelerated decline which, based on current levels of new trader interest, is likely to result in the following five year forecast of continuing reductions in occupancy rates which, without any intervention, are likely to fall below 50% over the period.

	2014/2015	2015/2016	2016/2017	2017/2018	2018/2019	5 yr est loss
Net trading deficit	£27,000	£151,000	£199,000	£232,000	£255,000	£864,000

12. The consultant's view is that reducing Tenants' Total Occupancy Costs will play a significant part in both retaining existing tenants as well as attracting new ones.

13. The consultant's four key recommendations have been considered as follows:-

- a) **Reinvestment to remodel the existing premises** is forecast to require capital investment of circa £3m plus circa £1.2m towards existing building liabilities that would be triggered if such a proposal was actioned. Reinvestment would require Tenants' agreement to location changes within the existing premises. This would more than likely lead to disruption to existing trading which could have an additional financial impact in terms of compensation for Tenants during such proposed moves. Apart from these financial obstacles, reinvestment in the existing site does not address the fundamental issue of first floor location and its barrier to footfall, which is identified as a major constraint by the consultants. This option would also require further revenue financial support in terms of resetting rental structures. This substantial investment, coupled with rent reduction, would lead to an unacceptable level of financial burden placed on the Council in both revenue and capital repayment/interest terms.
- b) **Relocating to premises on the ground floor** underneath the Market and to remodel a smaller operation on the ground floor would require capital of circa £3.5m. plus circa £1.2m towards existing building liabilities that would be triggered if such a proposal was actioned. This would also require a substantial amount of rental to be paid to the owners of Charter Walk, which would further worsen viability on top of meeting capital and interest repayments. Charter Walk do not see this option as adding value to their

current offer.

- c) **New Build Market Hall** to incorporate a more food based offer is forecast to cost circa £6m in capital investment terms plus circa £1.2m towards existing building liabilities that would be triggered if such a proposal was actioned. Whilst rental income is forecast to increase on the basis of a new offer and overhead expenditure will be less with a new purpose built market, nevertheless, the estimated trading surplus is still insufficient to meet both the capital and interest repayments that will be necessary through borrowing these funds on a Prudential Code of Borrowing basis. The Council does not have sufficient forecast capital receipts or revenue reserves to be able to reduce the extent of borrowing that would be needed in order to reduce the risk of simply replacing one financial loss making operation with another for the future.

Options (b) and (c) above would require negotiations about relocation with the existing traders, which would have a potentially significant cost associated with it, producing a further cost pressure.

- d) The consultant does recognise that “doing nothing” is not an option. The consultant does identify the need to make the Market Hall more competitive by reducing Total Occupation Costs to more reflect those of similar markets in the region. In addition, it is suggested that there is a need to refresh our approach to promoting the Market offer.

These recommendations are worthy of consideration as part of a recovery package, that will also need Tenants to address their own shortfalls identified in the consultant’s report, including their overall trading offer and own promotional effectiveness.

14. The table below shows that an appraisal of each option (a), (b) and (c) above does not generate sufficient forecast cash surplus to enable Prudential Code of Borrowing criteria to be met. The Council is not in a position to meet any capital shortfall that would be required from either future capital receipts or revenue reserves:

<b>Summary of financial appraisals with capital impact</b>			
<b>Option</b>	<b>A</b>	<b>B</b>	<b>C</b>
Estimated Capital requirement plus building liability	£4,182,000	£4,772,000	£6,959,000
<b>Based on Quarterbridge Projections</b>			
Trading surplus	£143,000	£214,000	£373,000
25 yr capital/int	£255,947	£292,056	£452,905
Loss based on 25 year funding	-£112,947	-£78,056	-£79,905
Trading surplus	£143,000	£214,000	£373,000
50 yr capital/int	£191,681	£218,724	£318,965
Loss based on 50 year funding	-£48,681	-£4,724	£54,035
<b>Based on Council Projections</b>			
Trading surplus	-£102,000	£48,000	£219,000

25 yr capital/int	£255,947	£292,056	£452,905
Loss based on 25 year funding	-£357,947	-£244,056	-£233,905
Trading surplus	-£102,000	£48,000	£219,000
50 yr capital/int	£191,681	£218,724	£318,965
Loss based on 50 year funding	-£293,681	-£170,724	-£99,965
<p>Quarterbridge projections assume 100% occupancy, private sector management (excluding TUPE arrangements), pool of staff to draw upon for cover, lower than expected premises costs and lower levels of service provision to tenants and customers.</p>			

15. Pricing of Market Hall Units has historically been high due to the need for higher than average service charges and, whilst we have supported Tenants with support packages of different levels over the last nine years, a trading surplus has still been generated for the Council.
16. That position has now changed. Reducing Total Occupational Costs for Tenants will reduce rental income to ourselves and will lead to initially higher losses being incurred.
17. The measure of success will be determined by existing Tenants continuing to trade whilst we seek to attract new trading interest through lower pricing. Ultimately, of course, the key is to ensure increased footfall and customer spend and to ensure that businesses in the Market are sustainable. If customers return and business becomes more viable then, in turn, new trading interest will start to generate new income and with it reduce losses.
18. It must be acknowledged, however, that after reducing Total Occupational Costs for Tenants, if they are still unable to continue trading, new trader numbers do not increase and customer support continues to fall off, then the reality is that the Council will need to be prepared to revisit all options, which would have to include an assessment of the Market's viability going forward.
19. At this stage therefore in considering future market provision, alternative uses of the existing site will be explored. To do this we need to have a more detailed understanding of the premises' structural integrity and its capability for future conversion.
20. Even if ultimately the Market were closed on its present site, we do see a future demand for some form of market and, therefore, in the project planning process for a future high street pedestrianisation upgrade for St James' Street, this will include infrastructure provision to enable a more traditional street market to be held as a complementary or alternative option in the future. As part of this process it will also provide more flexibility for future "themed" markets or events to come to Burnley's Town Centre.

## FINANCIAL IMPLICATIONS AND BUDGET PROVISION

21. Funding from reserves of £60k is required in order to determine future possibilities of use for the existing building.

22. Reducing current total occupational cost for Tenants will have an impact on revenue budgets and are estimated to lead to estimated subsidies for operating the Market of £57k for 2014/2015 and potentially £200k for 2015/2016.
23. The net revenue position of the market operation will be reviewed regularly through budget monitoring processes.

#### **POLICY IMPLICATIONS**

24. The provision of a market is not a statutory function.

#### **DETAILS OF CONSULTATION**

25. Scrutiny Committee received a first presentation on the issues facing Burnley Market on 12<sup>th</sup> August 2014.
26. Market Hall Tenants' views were sought as part of the consultant review process and will be consulted with again following approval of this report

#### **BACKGROUND PAPERS**

27. App 1 Footfall trend  
App 2 Income trend  
App 3 Occupation trend  
App 4 Quarterbridge Market Review – available on the Council's web site at [www.burnley.gov.uk/marketreport](http://www.burnley.gov.uk/marketreport)

#### **FURTHER INFORMATION**

**PLEASE CONTACT:**

**ALSO:**