

**REPORT TO THE COUNCIL MEETING
OF 22nd OCTOBER 2012**

Meeting: Full Council
Date: 22 October 2012
Subject: Property Review – Business Case for Investment in Market Hall, Market Harborough
Report of: Anna Graves, Chief Executive
Portfolio Holder: Grahame Spendlove-Mason
Finance, Efficiency and Assets
Status: DECISION

1 Purpose of Report

As part of the Property Review:

- 1.1 To set out, in fulfilment of the resolution of Council on 30 April 2012, a full detailed business case for investment in the Market Hall and market management services, to develop a commercial management approach for the same.

2 Recommendations:

- 2.1 **That Council agrees that a package of market services improvement measures is required, to be implemented in the short to medium term to:**

- **address the negligible value of the Market Hall as a going concern;**
- mitigate the significant risk of the market service incurring an ongoing loss of revenue within 2 years;
- deliver and demonstrate through a minimum of 12 months trading accounts (following re-development of Market Hall), a robust financial position to provide flexibility for the Council in respect to the future ownership, management and operation of market trading.

- 2.2 **The Chief Executive, in consultation with the Head of Legal Services and the Section 151 Officer and in accordance with Council's Contract Procedure Rules, be granted authority to:**

- Procure a contract for the provision of interim market management services to oversee the delivery of recommendation 2.2.3 below;
- Procure a contract/contracts for the design, specification, tender and construction of a scheme of physical improvements to the Market Hall and facilities for outdoor market trading, at an anticipated cost of £410,000;
- Implement those operational changes to market management necessary to deliver the vision and tenant mix set out in this report.

2.3 Council to note that in accordance with the Council's Contract Procedure Rules, decisions to enter into contracts in line with recommendations 2.2.1 and 2.2.2 will be subject to approval by either Council or the Executive.

2.4 The Council authorise the Section 151 Officer to draw down or otherwise make available capital and revenue funding to support the above recommendations as set out in the accompanying Property Review Proposals – Financial Overview presented to Council.

3 Summary of Reasons for the Recommendations

- 3.1 At the meeting on the 30th April 2012, Council decided that the preferred approach in the Property Review, with respect to the Market Hall was to retain the building asset as an operational market venue, and to develop options for the site with a view to generating the necessary increased revenue income required by the Transformation business case for the Property Review.
- 3.2 Quarterbridge, a market development consultancy, were appointed following a procurement process in July 2012, to advise the Council on the best course of action in respect of the Market Hall, and the management of markets in a wider sense. Their report (see background papers and Appendix A for Executive Summary) and recommendations support the Officer recommendations in this report.
- 3.3 A valuation of the Market Hall by Quarterbridge has demonstrated that an immediate freehold disposal of the Market Hall to a third party (as an operational market, or "going concern") would represent very poor value for money compared to the open-market Capital valuations previously obtained for the asset.
- 3.4 The current operational arrangements for market trading, as managed by the District Council, both from the Market Hall and on a wider basis within Market Harborough, have been examined by Quarterbridge. This review has identified:

- that the present arrangements offer very limited financial sustainability for the Council, with net operating profits not expected to reach current year forecasts in this financial year, and the strong likelihood of an operating loss being made within the next 2 years (see paragraph 7.4 for more detail);
 - lack of experience in the District Council's strategic planning and marketing of the market;
 - local (Harborough district and beyond) population demographics which offer a viable customer base for a successful market, but an existing Market Hall building which fails to attract this group.
- 3.5 Quarterbridge has developed improvement proposals for the service which are designed to deliver a physical, operational and trading environment conducive to financial sustainability and the generation of income from the market service. These development proposals were put forward as two potential options; lower (£410k) and higher (£600k) capital investments. The detail of the physical changes proposed to the market hall and associated operations for each option are set out in Appendix B.
- 3.6 Both options deliver a financial return over the period of investment (5 years), together with an in-year revenue surplus from the second year of operation following development (2014/15) of at least £75k.
- 3.7 The lower cost investment of £410k is that recommended by officers as the preferred approach, given the total level of capital investment being considered in the property review overall. It is prudent financial management to limit expenditure on the Market element of the project, especially as this component will be solely funded from borrowing.
- 3.8 Quarterbridge have put forward a post-development valuation on the Market Hall (as a going concern) of between £1.1m and £1.3m, demonstrating that as well as being a prudent investment in revenue terms, the development project will also restore the valuation of the asset as a going concern to be more comparable with the open-market valuations for the building without a market covenant in place.
- 3.9 In the long-term, following development and allowing a period of in-house operation to "prove" the improved trading accounts, the Council can then consequently have greater flexibility with respect to the future ownership, management and operation of the markets. Quarterbridge offer these future options in their report as being:
- In-house operation;
 - Council ownership, with a range of possible outsourced operating models;
 - Freehold sale as a going concern.
- 3.10 Without investment, Quarterbridge suggest this level of long-term asset management flexibility will not be available to the Council.

4 Impact on Communities

- 4.1 The recommended approach should have a generally positive impact upon the community, generating greater visitor numbers to the town through providing an additional 7-day per week retail destination as part of Market Harborough's unique independent trading offer.
- 4.2 At a strategic level, and as part of the Property review as a whole, the investment will deliver a positive contribution to Council funds on an ongoing basis from 2014/15, which will support the delivery of value for money services for all residents of Harborough District.
- 4.3 There was a strong groundswell of public support to retain and develop the existing Market Hall in the consultation completed in April 2012, which suggests an appetite for changes to be made by users.
- 4.4 Proposals set out in the recommendations of this report aim to attract a diverse range of shoppers. The proposed tenant mix and trader recruitment approach set out in Appendix D will consider the range of demographics within both the existing and proposed customer base for the Market Hall.
- 4.5 The market trader community will be the most immediately affected group impacted by the proposals set out in this report. Noting the feedback from traders in section 13 of this report, the opportunity for this group to trade within a much-improved Market Hall facility should be regarded as an improvement. All incumbent traders should be offered a new tenancy agreement during the process of transition and all should be invited to play a role in the long term success of the market. It will be up to individual traders to decide whether the new trading times (six days a week rather than three), new tenancy arrangements and new retail mix will be an appropriate fit with their own future visions for their businesses.
- 4.6 Quarterbridge indicate that there will be some existing traders who choose not to trade in the future and there will also be some trader disquiet with the implementation of new management arrangements. In particular, the proposed introduction of more flexible tenancy agreements may cause concern from their experience of the sector. This will be a short-term consequence of greater professionalism in the management approach taken by the Council. It should also be noted that traders have requested greater professionalism and discipline in the management methods applied.
- 4.7 Officers consider it prudent to emphasize the importance, given the issues identified in paragraphs 4.1 to 4.7, of ensuring the public are kept informed of how the redevelopment of the Market Hall might be achieved, and to ensure groups affected by this work are specifically engaged in this process.

5 Key Facts

- 5.1 The chronology of the decisions made in respect to the Property review, together with key historical information relating to the Market Hall can be found

in the officer report to the Transformation Board on 20 April 2012 (see background papers).

- 5.2 On the 20 April 2012, the Transformation Board considered officer recommendations for the delivery of the Property Workstream of the Transformation programme. Seven recommendations were adopted and subsequently supported by the Council at the meeting held on the 30 April 2012.
- 5.3 Key recommendations in respect to the Market Hall (and market services) supported by Council were:
- To select an approved scheme, “Plan C”, to generate sustainable income from office and retail rents within the Headquarters building, and an increased commercial return from the Market Hall, Market Harborough, for the property review.
 - To include “Plan A2” as the approved alternative scheme; that is to relocate the market and commercially lease the Market Hall. If “Plan C” above proves, through the next stage of work, to be undeliverable, then the matter should be referred back to the Transformation Board.
 - To approve Officers to undertake negotiations with potential suppliers of market management services, to include the incumbent market traders, to secure a best value return from the facility.
- 5.4 At this stage, the Council decision removed the dependency upon the disposal (freehold or leasehold) of the Market Hall as an asset as part of the funding arrangements for the Council Headquarters redevelopment project, and set out the requirement for a business case for the Market Hall in its own right.
- 5.5 On the 11 June 2012, the Executive considered a report in which officers recommended that external advice was sought to progress the Market Hall/market management element of the Property review. On the basis of exploratory conversations with potential suppliers, it was concluded that expert advice was necessary to determine:
- what capital investment should be made in the market hall to facilitate greater commercial return;
 - what form of contract/legal agreement and approach should be taken to outsourcing management of market services;
 - what level of financial return can be expected, and what the most sustainable approach is to deliver long-term income generation, as well as short to medium term benefits.
- Officers were required by the Executive to prepare a business case setting out the investment proposals and anticipated return from the Market Hall.
- 5.6 At the same meeting, the Executive gave approval for the Assistant Director for Community Services to appoint in accordance with the Council’s Contract Procedure Rules a contract for the provision of Market Management Consultancy services to develop the business case described in 5.5 above.

- 5.7 A tender process was completed and Quarterbridge were appointed by the Assistant Director for Community Services, in consultation with the portfolio holder for Finance, Efficiency and Assets on the 9th July 2012, to prepare the business case described in paragraph 5.5 above.

6 Legal Issues

- 6.1 The alterations proposed to the tenancy agreements for market traders under recommendation 2.2 will require approval from the executive in accordance with the Council's constitution.
- 6.2 Other legal and constitutional matters are addressed in the body of this report.

7 Resource Issues

- 7.1 On the 16th January 2012 Council agreed that expressions of interest for leasehold disposal of the Market Hall, in respect to seeking a sustainable income source to fund the redevelopment of the Council Headquarters building, should be sought.
- 7.2 On 20 April 2012, Council was presented with the recommendations of the Transformation Board in respect to the Property review, which including the findings of an informal market testing exercise to examine the open-market value of the Market Hall, which revealed a potential freehold commercial sale value of in excess of £1.5m. However, no purchaser for the leasehold disposal of Market Hall was found in line with the previous Council's decision.
- 7.3 Quarterbridge have prepared a valuation of the Market Hall as a going concern (with a covenant that it must remain a market) which has indicated a negligible value as a Capital receipt, probably of between £100k and £200k. It is Quarterbridge's view that it is very unlikely that a buyer with an interest in maintaining a quality market service offer could be found.
- 7.4 Quarterbridge consider a "do-nothing" scenario, and in discussing the current trading accounts for the market service notes:

"The operating performance appears to be engineered to return a positive financial result, income is low and costs have been controlled accordingly.

The positive outturn fails to take any property costs into consideration such as rent, which...would drop the market service operating account into a loss making position.

The Council is competently managing the market in a caretaker role in the absence of a strategic market plan, however year to date trading figures as at the end of August 2012 indicate performance is falling short of budget expectations.

Although perhaps too early to identify a trend, the projected 2012/13 operating profit will be 33% lower than

2011/12, despite income being similar. Warning: Efforts should be made to address the 2012/13 falling income and increasing costs, failing which the market will start to deliver operational losses within the next 2 years."

- 7.5 The capital costs of the two proposed investment options are £410k for option 1 and £600k for option 2. (The measures delivered in each are set out and discussed in Appendix D.)
- 7.6 In both proposed options, the revenue costs to implement these options are the same, and are set out in the following table.

Revenue costs for delivery	Year 1	Year 2
	2013/14	2014/15
Leasing agency and social media establishment costs	£5,000	
Leasing commission	£38,115	
Rental inducement budget	£40,000	
Provisional sum for compensation and legal work	£30,000	
Interim market management costs	£35,000	£36,050
Total	£148,115	£36,050

- 7.7 A 5 year operating forecast has been prepared by Quarterbridge to assess the relative merits of the two investment proposals in the market service. The following tables show the 5 year models for option 1 and 2.

Option 1 – £410k investment	Year 1	Year 2	Year 3	Year 4	Year 5
	2013/14	2014/15	2015/16	2016/17	2017/18
Post Development Income	£286,300	£313,600	£342,300	£372,500	£383,700
Post-Development Operating Costs	£182,700	£188,200	£193,800	£199,600	£205,600
Interest payments (nb1)	£14,100	£13,600	£13,100	£12,500	£12,000
Other revenue costs (nb2)	£148,100	£36,100			
NET revenue position	£58,600	£75,700	£135,400	£160,400	£166,100

Option 2 – £600k investment	Year 1	Year 2	Year 3	Year 4	Year 5
	2013/14	2014/15	2015/16	2016/17	2017/18
Post Development Income	£345,500	£398,100	£418,700	£431,300	£444,200
Operating Costs	£182,700	£188,200	£193,800	£199,600	£205,600
Interest payments	£20,600	£19,900	£19,100	£18,300	£17,500
Other costs	£148,100	£36,100			
NET revenue position	£5,900	£153,900	£205,800	£213,400	£221,100

Nb.1 The models above assume that the capital investment is made by virtue an annuity loan, which requires interest to be paid on the sum of borrowing over the life of the loan.

Nb.2 The revenue costs are broken down under the earlier table in paragraph 8.3.

- 7.8 Based on the above projections, the cumulative revenue position at the end of the five year period for Option 1 is a surplus of £479,000 which represents a 117% return on the capital investment of £410k over the period of 5 years.
- 7.9 For Option 2 cumulative revenue position is a surplus of £775,000 which represents a 129% return on investment over the 5 year period.
- 7.10 Modelling completed by officers considers indicators of financial performance over 25 years, which can be used to assess the redevelopment in its own right, but also in comparison to the projections made in April 2012. The indicators used are:
- Net Present Value (NPV),
 - General Fund Revenue Account Impact.
- 7.11 Of these, the NPV is the best commercial indicator for long-term project, because it allows comparison of cash spent or received in different time periods to establish whether you have gained value or lost it. A discount rate is applied which reflects the rate of return an organisation can expect in any given year on an investment made now. For instance at a 3.5% rate,(which is the prudential code recommended rate) £100 received in one years time is worth £97 today, if received in 2 years, it would be worth about £93. This is especially relevant when considering longer periods. £100 received in 25 years time is only worth £43 today.
- 7.12 The outcome of the long-term financial modelling for the Market Hall project is discussed fully in the Financial Overview report of the Section 151 Officer which accompanies this report to this meeting.
- 7.13 The modelling work completed demonstrates that the current scheme is financially sound, providing an NPV on investment of £2,372m, and an in-year revenue return in 2014/15.
- 7.14 Quarterbridge assess that the asset value of the Market Hall (again retaining the covenant for market use only) following development will be between £1.1m and £1.3m.

8 Equality Implications

- 8.1 If Council approves the recommendations contained in this report an Equality Impact Assessment will be prepared once the detailed scheme of improvements to the Market Hall and market management has been finalised.

9 Impact on the Organisation

- 9.1 A detailed Equality Impact Assessment is being prepared, which will be discussed with members upon completion of tendering for the construction contract.

10 Community Safety Implications

10.1 There are no community safety implications arising from this report.

11 Carbon Management Implications

11.1 The operation of the Market Hall on a seven day basis will slightly increase the consumption of energy at the site, although the building is heated continuously during the winter months in any respect.

11.2 As part of the physical alterations made to the Market Hall, there may be some limited scope for energy management measures to be introduced; notably in the specification of lighting and lighting controls.

11.3 As part of the Council's requirements with respect to greenhouse gas emission targets, the performance of the Market Hall, together with all of the Council's assets will be tracked.

12 Risk Management Implications

12.1 A Risk Assessment, prepared in consultation with the Council's internal audit service is attached as Appendix E to this report.

13 Consultation

13.1 A number of consultation meetings with market traders have taken place throughout the development of the Property workstream of the Transformation Programme.

13.2 In March 2012 incumbent market traders acknowledged that using the Market Hall on a part time basis was not an efficient use of the building and the market could open for more days. It was also suggested that the Council did not have the necessary expertise and commercial acumen to run the market. Traders stated that previous suggestions to reduce costs and have a more commercial approach have not been taken up by the Council.

13.3 Through the various meetings a range of views have been expressed by weekday traders. A summary of those most frequently expressed views appears below:

- The Market Hall is tired, it has poor décor; poor maintenance levels; poor air circulation;
- It is either too hot or too cold and is not a pleasant shopping area;
- They no longer get coach parties since the closure of the toilets;
- Market Management by the Council has weaknesses, specific issues cited include need for consistency between booking system for Sunday Antiques Market and weekday and Saturday markets, problems with responsiveness, criticism of marketing or promotion;
- There are problems with recruiting new traders, and those who do start often don't stay more than two sessions; many don't have the "staying power" needed.

13.4 A separate paper was also submitted by the Antiques Traders group. Two emerging themes from this paper are:

- Any changes proposed by the review should protect and develop the Antiques Fair's nature as distinctive, reliable, hospitable and good quality – contributing to a prestige offer by Market Harborough;
- The Antiques Fair should be seen as part of broader opportunity to promote business in Market Harborough on a Sunday.

14 Options Considered

14.1 This report considers the consequences of taking no action in respect to market management by the Council, together with two potential investment options, at £410k and £600k, for specific physical measures to market hall and outdoor market trading facilities.

15 Background Papers

- Report to Transformation Board, 20 April 2012: Property Review, Assessment of Options
- Report to the Executive, 11 June 2012: Property Review, Project Governance, Preconstruction Resources and Fee Costs.
- Report, Quarterbridge (final draft), 1 October 2012 (EXEMPT): Strategic Market Service Review and Recommendations; "Putting the Market back into Harborough", V12.

Previous report(s): *text*

Information Issued Under Sensitive Issue Procedure: *N*

Ward Members Notified:

Appendices:

**A. Executive Summary, “Putting the Market Back into Harborough” –,
Quarterbridge. 2012**

**B. Market Development Options, “Putting the Market Back into Harborough” –,
Quarterbridge. 2012 EXEMPT**

**C. Interim Vision for Market Services, “Putting the Market Back into
Harborough” –, Quarterbridge. 2012**

**D. Tenant mix and recruitment strategy, “Putting the Market Back into
Harborough” –, Quarterbridge. 2012**

E. Market Hall Risk Assessment