

Report to: EXECUTIVE CABINET

Date: 26 July 2023

Executive Member: Councillor Jacqueline North, First Deputy (Finance Resources & Transformation).
Councillor Vimal Choksi MBE, Executive Member for Towns & Communities

Reporting Officer: Chris Fairbrother – Head of Estates

Subject: TAMESIDE MARKETS –RENT & SERVICE CHARGES

Report Summary: In light of the budget challenges and need to achieve fairness in the cost of living crisis, the purpose of this report is to review the subsidy provided to the markets and to review the annual rent increase set out contractually in all market holder leases. The rent increase set out in lease holders contracts is due from the 1 April annually and will be backdated to this. The delay in seeking this increase as been caused by trying to find a fair balance between the market traders and taxpayers who subsidise the market operation.

Recommendations: That Executive Cabinet:

- (a) APPROVES a global increase to the service charge of £0.067m in total which will be prorated to individual tenants subject to the size of the stall and location of Ashton or Hyde and that this is backdated to 1 April 2023.
- (b) DETERMINES the rent increase payable, which under the leasehold agreement should contractually increase by the RPI set as at December 2022 namely 13.44%, and this RPI uplift was assumed in the 2023/24 budget proposals backdated to 1 April 2023.
- (c) NOTES that:
 - (i) the budget set at Full Council in February 2023 included an uplift to the market rents at the Retail Price Index (RPI) in December 2022.
 - (ii) the budget set at Full Council in February 2023 included a savings proposal to reduce the global service charge subsidy to zero, totalling £0.067m at that point in time.
 - (iii) the revised global service charge subsidy to the markets, driven by the year-end position on utilities and staffing costs, is £0.179m before the decision to increase service charges by £0.067m.
 - (iv) the Council is still subsidising the markets through its service charges by a total of £0.112m per annum using latest available information.
 - (v) the options presented on increases at RPI and Consumer Price Index (CPI) inflation to market rents.
 - (vi) the intention to eliminate the global subsidy for markets' service charges in 2024/25 onwards.

Corporate Plan:

The proposals support the Corporate Plan by seeking to preserve the commercial viability of the markets to contribute towards delivering the aim of great place and inclusive growth whilst seeking to achieve a fair balance with the subsidy meet by taxpayers generally.

Policy Implications:

Setting the contractual rents at less than that agreed in the budget will require an equivalent budget reduction or income recovery elsewhere in the Place budget in order to deliver a legal balanced budget.

**Financial Implications:
(Authorised by the
statutory Section 151
Officer & Chief Finance
Officer)**

There are existing revenue budgets for Markets relating to running costs, service charge income and market stall rents. The 2022/23 outturn position, and 2023/24 budget and latest forecasts are summarised below:

Markets	22/23 Budget	22/23 Actual	22/23 Variance
Expenditure	1.436	1.541	0.105
Service Charge Income	(0.389)	(0.346)	0.043
Rental Income	(0.490)	(0.367)	0.123
Other Income	(0.526)	(0.469)	0.057
Total Net Budget	0.031	0.359	0.328
Markets	23/24 Budget	23/24 Forecast	23/24 Variance
Expenditure	1.323	1.351	0.028
Service Charge Income	(0.456)	(0.379)	0.077
Rental Income	(0.572)	(0.478)	0.094
Other Income	(0.314)	(0.249)	0.065
Total Net Budget	(0.019)	0.245	0.264

Expenditure includes staffing for management of the markets and running costs such as business rates, cleaning, utilities, repairs and maintenance. Income is generated from stall rentals (charged on price per square metre) and service charges (to recover eligible expenditure on running costs, charged on a price per square metre). Income from stall rentals and service charges is variable and linked to market occupancy levels.

The 2023/24 general fund revenue budget approved by Full Council in February 2023 included a savings target to reduce the level of Council subsidy on market service charges by £0.067m, and an RPI increase in the rents to be charged on market stalls of 13.4% (December RPI). Whilst an increase in the service charge (to reduce the Council's subsidy) is still proposed, this report is proposing not to apply the RPI uplift on market stall rents (recommendation 2).

The annual service charge uplift of £0.067m is, on average, an uplift of 9.73% - this is lower than prevailing CPI at the time the Council set its Fees and Charges for the 2023/24 financial year. The table below outlines the impact per stall at both Ashton and Hyde Markets.

Market	Service Charge 2022/23 £	9.73% Increase £	Service Charge 2023/24 £
Ashton	194.08	18.88	212.96

Hyde	182.67	17.77	200.44
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The draft market statement for 2022/23 outlines a global subsidy on the service charge of £0.179m. The planned uplift by £0.067m means the Council will still be providing a subsidy to market traders of £0.112m in 2023/24.

This is contrary to the 2023/24 revenue budget approved by Full Council and will have an adverse impact on the Place Directorate revenue budget of £0.022m. If the proposal to not apply the RPI uplift is approved, the Directorate must identify alternative mitigating savings or income to support the delivery of a balanced budget in 2023/24. These should be recurrent mitigations as the lost differential between RPI and CPI is lost forever.

The tables below show the forecasted budget position for the rental income from the indoor markets using both the current and increased rent charges. This is based on current occupancy levels.

Market	Current Annual Rent Income £m	Rent increase at 8.7% (April CPI) £m	Increased Rent 13.4% as per contractual Lease (December RPI) £m
Ashton	(0.328)	(0.357)	(0.372)
Hyde	(0.086)	(0.093)	(0.098)
Kiosks	(0.064)	(0.070)	(0.073)
Total	(0.478)	(0.520)	(0.542)
Added Income	0.000	(0.042)	(0.064)

Applying the agreed RPI increase would increase the income by £0.064m, in line with the budget set out in Full Council in February 2023. Applying the CPI based increase would increase the income by £0.042m, representing a pressure of £0.022m on the budget approved at Full Council.

The report identifies a potential risk that increasing rents will put an additional pressure on the small businesses within the market hall which could result in some businesses deciding to leave the market. This would result in a loss of rental income and also a reduction service charge income, if these traders were not replaced. Appendix 3 provides analysis of the reductions in occupancy that would need to occur to result in income being reduced back down to 2022/23 levels.

The risk that rent increases could lead to reductions in market stall occupation has to be weighed against the Council's duty under Section 3 of the Local Government Finance Act 1999 to achieve Best Value. There is no duty to provide a market, so as such any provision should be to full cost recovery with no subsidy across rents or service charges.

The service should seek to move to full cost recovery, and eliminate subsidies, as soon as practicably possible to support the Council's Medium Term Financial Strategy (MTFS). Maximisation of income streams is a key plank of the MTFS to deliver a balanced and sustainable budget position and reduces the need to consider expenditure reductions that result in changes to service provision

**Legal Implications:
(Authorised by the
Borough Solicitor)**

The terms and operation of the market leases are detailed in the main body of the report. There is a statutory duty to deliver a balanced budget. In agreeing that market traders do not have to pay their contractual increase creates an additional pressure on the Directorate to recover that loss elsewhere. It should be noted that the markets continue to be subsidised by £0.112million even if the full increases are made set out in the report.

Risk Management:

Application of the inflationary increase to the rents market for the 2023/24 financial year, is considered to represent a high risk in terms of increased void levels across the markets.

Access to Information:

Not Confidential

Background Information:

The background papers relating to this report can be inspected by contacting Chris Fairbrother, Head of Estates.



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1. INTRODUCTION

- 1.1 In light of the budget challenges and need to achieve fairness in the cost of living crisis, the purpose of this report is to review the subsidy provided to the markets and to review the annual rent increase set out contractually in all market holder leases. The rent increase set out in lease holders contracts is due from the 1 April annually and will be backdated to this. The delay in seeking this increase as been caused by trying to find a fair balance between the market traders and taxpayers who subsidise the market operation.
- 1.2 The permanent market hall traders occupy their units by way of commercial leases with rents reviewed annually and index linked to increases in RPI based on December figures. The December 2022 RPI figure which would be the reference point for April 2023 rent uplifts was 13.44%, and this RPI uplift was assumed in the 2023/24 budget proposals. Contractually the Council can increase the market rents by December 2023 RPI figure of 13.44%.
- 1.3 In additional to stall rentals, traders pay a service charge to cover the shared areas and direct costs of running the markets. The running costs for the markets have historically been subsidised by the Council and the draft Service Charge statements for 2022-2023 show an estimated subsidy of £170,547 for Ashton Market Hall and a subsidy £8,244 for Hyde market. The 2023/24 budget proposals included a proposal to reduce the level of Council subsidy on the service charges. The subsidy has increased because the service charge has not increased for the previous four financial years.
- 1.4 This report address the rent and the subsidised service charge in order that elected members are fully cited on the implications of both and the impact on the market traders, and the budget previously set by Council.

2. SERVICE CHARGE

- 2.1 The Service Charge Costs relates to the costs incurred by the Council for operating the market. The market traders' leases detail the Council's obligations and those items of expenditure that are recoverable through the Service Charge. Recoverable expenditure includes business rates, gas, electricity, water, and insurance for common parts, market staff, auditor's fees in relation to the service charge, etc. Not all costs are recoverable under a service charge. It should be noted that each market stall has its own metered electricity supply and each stall is separately rated for business rates.
- 2.2 The draft Service Charge statements for the financial year 2022/23 below highlight that the Service Charge cost for Ashton Market Hall is £623,265 per annum with a subsidy of £170,547:

Ashton Market Hall - Service Charge 2022/23

Total Expenditure	623,265.29	
Total Square Metres of Ashton Market Hall	5,545.00	
Non chargeable areas	720.60	
Total Square Metres of Ashton Market Hall - Common Areas	3,097.81	
Let-able Area = 1726.59m ²	1,726.59	
Percentage payable per let-able area	1.79	
Price Per Square Metre 2022/23	292.86	
Discounted Service Charge Used (Frozen at prior year Rates)	194.08	
Maximum amount recoverable from stall holders (based on 100% occupancy)	335,096.59	505,644.35
Amount of Service Charge attributable to Non-chargeable areas	117,620.94	117,620.94
Total Amount Recoverable	452,717.53	623,265.29
Costs covered by the council due to discounted service charge	170,547.76	-

- 2.3 The draft Service Charge statements for the financial year 2022/23 below highlight that the Service Charge cost for Hyde Market is £207,774 per annum with a subsidy of £8,244:

Hyde Market Hall - Service Charge 2022/23

Total Expenditure		207,774.07
Total Square Metres of Hyde Market Hall		2,712.20
Non chargeable areas		826.80
Total Square Metres of Hyde Market Hall - Common Area		1,246.66
Let-able Area = 663.38m ²		638.74
Percentage payable per let-able area		1.95
Price Per Square Metre 2022/23		195.58
Discounted Service Charge Used (Frozen at Prior Year Rates)		182.67
Maximum amount recoverable from stall holders (based on 100% occupancy)	116,678.64	124,923.38
Amount of Service Charge attributable to Non-chargeable areas	82,850.69	82,850.69
Total Amount Recoverable		199,529.33 207,774.07
Costs covered by the council due to discounted service charge		8,244.74 -

- 2.4 The table illustrates the total Service Charge for both Ashton and Hyde markets and the proportion paid by the traders. It shows that the Service Charge paid by the market traders has remained static over the past four years, although the total Service Charge has varied and therefore the subsidy from the Council has also varied.

Year	Ashton Market Hall			Hyde Market Hall		
	Total Service Charge (£/psm)	Discounted Service Charge paid by the traders (£0.00/psm)	% Service Charge paid by traders	Total Service Charge (£/psm)	Discounted Service Charge paid by the traders (£/psm)	% Service Charge paid by traders
19/20	£271	194	71%	189	182	96%
20/21	£333	194	58%	262	182	70%
21/22	£292	194	66%	195	182	94%
22/23	£233	194	83%	213	182	85%

- 2.5 The Place Directorate to achieve of £67,000 for the financial year 2023/24 to deliver a legal balanced budget attributable to the annual financial subsidy provided to the markets by the Council. It is important to note that this figure represents the level of subsidy provided by the Council to the markets for the financial year 2021/22.
- 2.6 The level of annual subsidy provided by the Council over previous years has varied. For 2022/23 the level of Council subsidy is £170,547 for Ashton and £8,244 for Hyde. This is an increase in the level of subsidy compare to previous years due to increases in cost, particularly for utilities. Based on the most recent projections, it is expected that costs will increase again in 2023/24. This means that even if the £67,000 subsidy is recovered through the service charge from the stall holders, the Council will still be subsidising the Markets. The Council will move to a full cost recovery model for the Service Charge in 2024/25.

3. RENT

3.1 The permanent market hall traders occupy their units by way of commercial leases, which are for a fixed term of 3 years, with rents reviewed annually being index linked to increases in RPI as set in December, which is usually published in January to assist with the issue of invoices for rents commencing at the new rates from 1 April every year.

3.2 The table below shows the current estimated rental income for the markets if fully occupied and the actual rent received from current occupancy:

Area	Income - Full Occupancy 22/23	Income - Current Occupancy	Difference
Ashton Market Hall	£370,983	£322,230	£48,753
Hyde Market Hall Upper	£54,140	£35,688	£18,452
Hyde Market Hall Lower	£37,276	£27,190	£10,086

3.3 In recent previous years, the Council has exercised discretion and not applied the RPI increase to the rents, recognising that the market operates in a challenging environment and the importance of maintaining the commercial attractiveness of the markets. Rents were not increased in the four years from 2016 to 2020. Had rents been increased in line with RPI in those years, the current rent per square metre in Ashton would be £255 rather than the £220 currently being charged. The RPI increase due for the current financial year represents an unprecedented high increase.

3.4 Ashton Market Hall currently has 11 vacant units (out of 81) and Hyde Market Hall has 23 vacant units (out of 76). Markets Management are currently in discussion with other tenants who are suffering financial hardship and considering their future within the Markets. Footfall has decreased by an average of 20% across the markets and shoppers spend has decreased due to the cost of living crisis. Ashton Town Centre will shortly be entering a phase of disruption throughout the redevelopment of the Market Square and surrounding public realm. Whilst there will be mitigation measures to reduce the impact of the works, and the market should benefit from the regeneration scheme, there will nevertheless be a short term impact on the traders.

3.5 The table below shows the estimated total increase in rent across the markets, if the inflationary adjustment was applied in accordance with the terms of the existing agreements.

Market	Current Annual Rent Income £m	Rent increase at 4% £m	Rent increase at 8.7% (April CPI) £m	Increased Rent 13.4% as per Lease (December RPI) £m
Ashton	(0.328)	(0.341)	(0.357)	(0.372)
Hyde	(0.086)	(0.089)	(0.093)	(0.098)
Kiosks	(0.064)	(0.067)	(0.070)	(0.073)
Total	(0.478)	(0.497)	(0.520)	(0.542)
Additional Income	0.000	(0.019)	(0.042)	(0.064)

3.6 This table demonstrates that if the Council exercised discretion through not applying the full extent of the inflationary uplift, the maximum budget pressure would be £64,000 which the Place Directorate would have to find elsewhere in order to achieve a legal balanced budget.

3.7 The above table provides a high level summary of the impact of the inflationary increase across the markets. The table below, provides an indication of the actual financial impact on

individual stallholders on the rent and service charges, based on two different stall sizes at Ashton Market Hall.

Stall	A	B
Size (Sq metre)	67	52
Current Service per annum	£13,003	£10,092
Service Charge (assumed rate increased by 16.2%)	£15,110	£11,727
Total increase per annum	£2,107	£1,635
Current Rent Charge (220.30 per sq metre)	£14,760	£11,456
Rent with 8.7% Increase (April 2023 CPI)	£16,044	£12,452
Rent with 13.4% Increase (Dec 2022 RPI)	£16,738	£12,991

4. CONCLUSION

- 4.1 If the Council were to seek to recover the £67,000 in relation to the Council's subsidy and simultaneously apply the significant inflationary RPI linked increase to the rents, in the current market trading climate, it comes with an inherently high risk of increasing void levels in the markets, and placing traders under additional financial pressure in what is already a challenging retail economy. The consequence of this would be twofold - (i) a reduction in rental income; and (ii) an increase in irrecoverable service charge expenditure.
- 4.2 The options are detailed below (all figures based on current occupancy):
- a. to apply the contractual increase of 13.4% (RPI) which will generate an additional £0.064m of income; or
 - b. to apply an increase at CPI rate of 8.7% which will generate an additional £0.042m of income.
- 4.3 The analysis in appendix 3, shows that based on the projected inflationary increase, only a small number of traders would need to vacate before the total rental income would reduce back to the current level (without the inflationary increase applied). However, the impact on the Service in each case will mean that the savings will have to be found elsewhere.
- 4.4 Any further departures could reduce the rent below the current total rent received. Therefore, it is recommended that for the current financial year, 2023/24, the Council's subsidy be reduced by £67,000 and recovered through the service charge and, that in respect of the rents an increase of 8.7% is recommended (based on April CPI).

5. RECOMMENDATIONS

- 5.1 As set out at the front of the report.

APPENDIX 1 – TAMESIDE MARKETS: RENTS & SERVICE CHARGES

The report identifies a potential risk that increasing rents will put an additional pressure on the small businesses within the market hall which could result in some businesses deciding to leave the market. This would result in a loss of rental income and also a reduction service charge income.

Using a break-even analysis methodology, the table below shows how many square metres, and approximate numbers of stalls being vacated it would take to reduce the total income down to the 22/23 income levels based on the current rental rates and using current occupancy levels. The calculations are based on the rents being increased by RPI at 13.4%.

Current Occupied Area (Sq M)	Current Occupancy	Reduction in occupied area that would reduce income back to 22/23 level	Stall Equivalent	Occupancy level with increased rents to deliver same income as 22/23
<i>Ashton Indoor Market</i>				
1,487	87%	-171	4.5 average stalls	77%
<i>Hyde Indoor Market – Upper Level</i>				
255	70%	-31	1 medium sized stall	61%
<i>Hyde Indoor Market – Lower Level</i>				
208	69%	-20	Less than 1 small stall	62%
<i>Ashton Kiosks</i>				
342	70%	-41	1 medium kiosk	62%

To provide some context to the potential for such reductions in stall holder occupancy, the table below shows the net change in stall holders during 2022/23. For this period, the stall holders received no increase to their rental charges and service charges were also frozen. Although there was a net increase of 1 stall holder across the markets, this equated to a drop in both occupied area and rental income generated.

	Vacated	Filled	Net Change
Number of Stall Holders			
Ashton Indoor	-5	3	-2
Hyde - Upper Level	-1	3	2
Hyde - Lower Level	0	2	2
Kiosks	-4	3	-1
Total	-10	11	1
Occupied Area (Sq M)			
Ashton Indoor	-75	55	-62
Hyde - Upper Level	-9	32	23
Hyde - Lower Level	0	27	27
Kiosks	-207	135	-72
Total	-291	249	-84
Annual Rent*			
Ashton Indoor	-16,478	12,116	-4,362
Hyde - Upper Level	-1,375	4,743	3,368
Hyde - Lower Level	0	3,347	3,347
Kiosks	-52,346	34,138	-18,208
Total	-70,199	54,344	-15,855

*This figure shows the full year equivalent change in rent, rather than the specific change that occurred in 22/23 as a result of part year changes to stall holders.