

**REPORT TO:** CABINET

**DATE:** 5th Aug 2010

**SUBJECT:** Southport Indoor Market

**WARDS  
AFFECTED:** Dukes

**REPORT OF:** Bill Millburn, Strategic Director (Communities)

**CONTACT  
OFFICER:** Tony Corfield, Asst Dir, Leisure & Tourism (2315)  
Andy Dunsmore, Technical Services (2766)

**EXEMPT/  
CONFIDENTIAL:** No

**PURPOSE/SUMMARY:**

To update Cabinet on progress with the development of the refurbishment proposals for Southport Market and associated Business Plan and to seek Members direction with regard to the award of the Building Contract

**REASON WHY DECISION REQUIRED:**

Cabinet have previously resolved that the Market Hall should remain on its existing site and be refurbished to ensure its ongoing viability. On 17 December 2009 Cabinet resolved that approval be given to the further development of the Indoor Market Refurbishment Scheme to enable Officers to invite tenders for the scheme, and that the project be phased to enable traders to continue trading during the period of the refurbishment works. On 15 April Cabinet approved a list of Contractors and requested Officers to invite tenders

Cabinet is now requested to provide direction with regard to the award of the Contract to the successful tenderer.

**RECOMMENDATION(S):**

**Cabinet is recommended to:**

- a) Approve the award of the tender for the Construction Contract to the tenderer having submitted the lowest price
- b) Note the outcome of the due diligence exercise carried out on the Business Plan.
- c) Note the reduced overall scheme cost from £3.222m to £3.032m with the consequent reduction in capital financing costs.
- d) Note the improved viability of the project owing to the increased letting space to generate additional income contained within the revised Business Plan.

e) Approve the scope of the proposed Public Realm Improvements, subject to approval from Southport Area Committee to the associated Traffic Regulation Orders.

**KEY DECISION:**

Yes

**FORWARD PLAN:**

A Rule 15 Form has been submitted to the Chair of the Overview and Scrutiny Committee (Performance and Corporate Services)

**IMPLEMENTATION DATE:**

Immediately following the call in period for the Minutes of the Cabinet Meeting

**ALTERNATIVE OPTIONS:** Cabinet have previously decided that the Market should be refurbished on its existing site and subsequently chose a preferred option. The prime alternative options from this point therefore relate to the timeline and manner in which funding and operational support is incorporated into the project. However, should the delivery programme not prove acceptable, other courses of action are possible up to the point of contracts for construction being awarded.

**IMPLICATIONS:**

**Budget/Policy Framework:**

Financial resources were provided in the Medium Term Financial Plan for this proposal as part of the 2010/11 budget process.

**Financial:**

<b><u>CAPITAL EXPENDITURE</u></b>	<b>2010/ 2011 £'000</b>	<b>2011/ 2012 £'000</b>	<b>2012/ 2013 £'000</b>	<b>2013/ 2014 £'000</b>
Gross Reduction in Capital Expenditure		-190		
Funded by:				
Sefton Capital Resources		-190		
Specific Capital Resources				
<b><u>REVENUE IMPLICATIONS</u></b>				
Gross reduction in Revenue Expenditure		0	-126	-104
Funded by:				
Sefton funded Resources		0	-126	-104

Funded from External Resources				
Does the External Funding have an expiry date? Y/N	When?			
How will the service be funded post expiry?				

**Legal:** N/A

**Risk Assessment:** In June 2008 Cabinet made the decision that the Market should continue on its existing site and that options for its refurbishment should be developed. In March 2009 Cabinet chose a preferred refurbishment option and in January 2010 gave officers permission to work up the scheme to tender stage.

Any major regeneration project generates potential for substantial risk so advice on minimising this, particularly regarding the ongoing viability of the chosen option, has been sought from a specialist consultant experienced in redeveloping Markets. The Finance Department has in turn reviewed the provided study. It should be noted that the present economic conditions and the resulting volatility in the retail sector mean that there is still substantial risk retained in this project.

In addition certain of the assumptions used in the appraisal are speculative. In particular occupancy levels both in the refurbished market and outside on the newly created public realm.

A further report has been completed by Local Commercial Agents to provide independent review of the assumptions on Rental levels that are contained with the Business Case as being appropriate.

**Asset Management:** The Southport Market Hall is a key asset, however in order to underpin its long-term viability significant redevelopment is required. Alternative options including wider development of the site have been previously considered and discounted by Cabinet.

**CONSULTATION UNDERTAKEN/VIEWS**

Initial consultation was undertaken with existing market stallholders and Southport Area Committee also received presentations. A consultation plan was tabled at the meeting of the Sefton Public Engagement and Consultation Standards Panel in May 2009 and consultation events held in June 2009 and in June 2010. Finance (FD473), Legal and PERD colleagues have been consulted in the process and their comments have been included in the report.

**CORPORATE OBJECTIVE MONITORING:**

<b><u>Corporate Objective</u></b>		<b><u>Positive Impact</u></b>	<b><u>Neutral Impact</u></b>	<b><u>Negative Impact</u></b>
1	Creating a Learning Community		✓	
2	Creating Safe Communities		✓	
3	Jobs and Prosperity	✓		
4	Improving Health and Well-Being		✓	
5	Environmental Sustainability	✓		
6	Creating Inclusive Communities		✓	
7	Improving the Quality of Council Services and Strengthening local Democracy		✓	
8	Children and Young People		✓	

**LIST OF BACKGROUND PAPERS RELIED UPON IN THE PREPARATION OF THIS REPORT**

Report to Cabinet dated 10<sup>th</sup> July 2008  
Report to Cabinet dated 30<sup>th</sup> October 2008  
Southport Investment Strategy  
Capita Symonds Feasibility Study – Southport Indoor Market  
Report to Cabinet dated 19<sup>th</sup> March 2009  
Report to Cabinet dated 16<sup>th</sup> April 2009  
Report to Cabinet dated 17<sup>th</sup> December 2009  
Report to Cabinet dated 15<sup>th</sup> April 2010

## 1.0 Background

- 1.1 Members may recall that approval was granted in March 2009 to the development a particular chosen option for the refurbishment of the existing Market building together with associated Public Realm improvements. Officers were asked to establish a delivery programme, consult on the preferred option and to explore options for external funding.
- 1.2 In April 2009, Cabinet accepted a draft delivery programme and noted the content of a supporting appraisal. Officers were then asked to develop detailed design drawings, commence negotiations with all relevant parties and to examine all procurement issues related to the project.
- 1.3 In December 2009, Cabinet approved the progression of the project to tender stage and determined that the project be phased to enable traders to continue trading during the period of the refurbishment works.
- 1.4 In April 2010, Cabinet approved the list of prospective contractors and instructed Officers to seek tenders for the Building Refurbishment Contract incorporating the Public Realm Improvements.

## 2.0 Award of Tenders and Scheme Budget.

- 2.1 Tenders were subsequently invited from the following five companies:

Allenbuild	Wigan
Bovis Lend Lease	Preston
Lockwoods	Bootle
Mansell Construction Services Ltd	Frodsham
ROK	Liverpool

- 2.2 All the companies submitted a tender and these have subsequently been appraised by Capita's Design Team. All agreed that they would complete the Works within the stipulated 52 weeks.
- 2.3 The tenders were received on the 8<sup>th</sup> June for the following value  

Tender 1	£ 2,236,039
Tender 2	£ 2,260,467
Tender 3	£ 2,595,960
Tender 4	£ 2,608,591
Tender 5	£ 2,789,913
- 2.4 These compare with Capita's Pre Tender estimate of the cost of works at £ 2,351,111. By accepting the lowest tender, and with adjustments in fees and contingencies, the Budget for the scheme can reduce

therefore from £3.222m to £3.032m; the costs of stallholder and trader equipment will be treated separately (see paragraph 4 below).

### **3.0 Development of the Public Realm improvements**

- 3.1 The tenders submitted included a Provisional Sum for the proposed Public Realm improvements, other than the proposed Gateway Features, that form a significant element of the refurbishment proposals. The proposed Gateway Features element of the scheme will be procured separately.
- 3.2 The Gateway Features are intended to highlight the presence of the Market to the wider public and are intended to help increase footfall. The remaining improvements were focussed on the desire to increase footway width to improve circulation and to enable the proposed restaurant to incorporate outdoor seating thus increasing its viability.
- 3.3 An initial option to increase footway width on King Street and Market Street was considered from a Highway safety and Parking perspective. The associated change to the Traffic Regulation Orders that the improvements would necessitate was considered by Area Committee on 26 May 2010 and by the Traders and Shop Owners as part of a further consultation event held on 15 June 2010. Southport Area Committee proposed that the scope of the footway widening be reconsidered due to the concerns over the net loss of Pay and Display spaces, and subsequent loss of revenue.
- 3.4 The overwhelming opinion of the Traders and Shop owners present at the June consultation was that a 'reduced' scheme, limiting widening to Market Street only, would be the preferred option.
- 3.5 On the basis of the Consultation and consideration of parking issues, it is proposed that the Option of limiting the widening to Market Street be adopted for the scheme. The plan of the Preferred Option is shown in Appendix 1. It is proposed that the associated TRO's be submitted to Area Committee for approval in September 2010.

### **4.0 Trader Equipment**

- 4.1 Cabinet have previously agreed to the procurement by the Council of the relevant trader equipment funded by additional prudential borrowing with the costs being recovered by additional recharges to stallholders. The recharges have been factored into the revised business plan (see paragraph 5 below).

## **5.0 Business Case and Financial Implications**

- 5.1 Members may recall, from previous Cabinet reports that the Council have retained Quarterbridge, as specialist Market Consultants and compilers of the original appraisal, to assist Officers in the further development of the Business Plan for the Market. The previous Cabinet Report confirmed that Quarterbridge had recommended the level of rent, the scale of the likely increases in rent over the first 3 years after opening and the likely incentive package for existing Traders.
- 5.2 In order to complete a due diligence test on the assumptions regarding occupancy levels and rental income, an independent review has been completed by local commercial agents with specialist knowledge of rental levels and trading conditions in Southport.
- 5.3 The due diligence report, completed in June 2010, compared the proposed rent levels for the Market following completion of the works with recent transactions on appropriate local small shop units, i.e. the most comparable units within Southport.
- 5.4 The agents' conclusion was that space within the Market Hall was likely to be more expensive than small units close to the Market, but that this cost difference could be 'reconciled by the local audience against the numerous positives of a new and invigorated Market'.
- 5.5 The report did make mention of the effect of VAT on the small number of unregistered traders expected to trade in the new market. It is worth noting the recent budget's increase in VAT to 20% from January 2011 is not helpful in this regard. However, this is a national issue, therefore, small traders in the new Southport Market would be disadvantaged to the same extent as anywhere else.
- 5.6 The report also expresses concern over the apparent rate of increase in stall rents in the second year. However, Members should note that the negotiations with existing traders have made the rent proposals transparent; the first year rents are based upon a discounted introductory level to provide an economic impetus to the newly refurbished market.
- 5.7 In the light of the above, and taking into account advice within the agents' report, Quarterbridge have made some minor modifications to the Business Plan. The plan has been reviewed by the Finance Department and a summary, analysed for ease of understanding by financial years from 1 October 2011, the assumed date of commencement of the refurbished market, is presented at Appendix 2.
- 5.8 The increase in lettable floor area to 10,613 sq. ft. from the 9,100 sq. ft. in the original Business Plan improves the projected rental income for

the market by c16% p.a. This, coupled with the reduction in the projected cost of the scheme, has the capability of generating additional net income (including capital financing charges) to the Council in the order of £126,000 in the first full year of operation and then £104,000 p.a. ongoing, over and above the assumptions in the Medium Term Financial Plan.

## **6.0 Marketing of stall space within the new market**

- 6.1 In recognition of the need to invest in initial marketing of the new Market hall to attract new tenants during the Construction Phase an allocation has been made within the capital budget for lettings activity.

Quarterbridge, have been engaged to deliver marketing material, establishment of a lettings web site and deliver lettings in line with the business case. As part of this they have also produced supporting artist's impressions.

- 6.2 The above activity is distinct from the ongoing promotional marketing which is required to establish visibility of the new market and drive footfall to it. The revenue budget for that is contained within the service charge.

## **7.0 Operation of new Market Hall**

- 7.1 Members will need to consider options for the ongoing management of the Market Hall. In broad terms the main options can be summarised as follows:

- a) The Council continues to operate the Market as it has previously
- b) The Council continues to operate the Market but with professional support from a specialist operating company with appropriate experience.
- c) The Council subcontracts the operation of the Market to a specialist operating company with appropriate experience.
- d) The Council seeks arrangements for both the operation and ultimate disposal of the facility in return for a premium or other commercial arrangement.

- 7.2 Cabinet may wish to instruct officers to enter into discussions with potential interested partners to identify the most appropriate arrangement and report their findings to a future meeting.

## **8.0 Programme**

- 8.1 Subject to approval it is anticipated that the appointed Contractor will commence construction in early September 2010. The contractual construction period is 12 months and therefore the new facility should be fully operational by September 2011. This enables the traders to be



established within their new positions and fully operational in time for Christmas Trading in 2011. This is considered important to the Traders' viability.

As reported previously, the Council had been in negotiation with all the existing Traders with a view to securing new agreements. These agreements allow the Traders to remain within the facility during the building operation on the understanding that they will be relocated during the works process. The agreements are conditional on the existing licenses being surrendered.

- 8.2 Should any of the existing traders refuse to surrender their existing licenses, then the Council will not be able to relocate the Traders until the termination of the Notice period on 21<sup>st</sup> August, or later, if a Counter Notice is served by the Trader. However, in this instance, the Design Team are confident that progress would not be significantly affected.

## **9.0 Conclusion**

- 9.1 The project is currently at a critical stage, with detailed design and tender information having been progressed for the building refurbishment, legal notices served on the tenants, and negotiations progressing over the new licenses. Quarterbridge, as specialist Market consultants continue to be involved in critical elements of the project development, and have advised that the Business Case remains robust.
- 9.2 Member's agreement to award the tender for the refurbishment of the Market Hall is required for the project to move ahead.

## **10 Recommendations**

### 10.1

- a) Approve the award of the tender for the Construction Contract to the tenderer having submitted the lowest price
- b) Note the outcome of the due diligence exercise carried out on the Business Plan.
- c) Note the reduced overall scheme cost from £3.222m to £3.032m with the consequent reduction in capital financing costs.
- d) Note the improved viability of the project owing to the increased letting space to generate additional income contained within the revised Business Plan.
- e) Approve the scope of the proposed Public Realm Improvements, subject to approval from Southport Area Committee to the associated Traffic Regulation Orders.



## APPENDIX 2

### Southport Market - The Business Plan

	2011/12	2012/13	2013/14	2014/15
	£'000	£'000	£'000	£'000
<b>Income</b>				
Stall Rentals (net of inducements)	(177)	(432)	(537)	(553)
Equipment rentals	(13)	(27)	(28)	(28)
Other income	(5)	(13)	(15)	(15)
	<b>(195)</b>	<b>(472)</b>	<b>(580)</b>	<b>(596)</b>
<b>Expenditure</b>				
Market operating costs	112	227	235	242
Letting fees	34	41	6	0
Capital Financing	156	280	280	280
	<b>302</b>	<b>548</b>	<b>521</b>	<b>522</b>
<b>Net (Surplus)/Deficit</b>	<b>107</b>	<b>76</b>	<b>(59)</b>	<b>(74)</b>
<b>Existing provision in MTFP</b>	<b>107</b>	<b>202</b>	<b>45</b>	<b>30</b>
<b>Difference: cost/(saving) to MTFP</b>	<b>0</b>	<b>(126)</b>	<b>(104)</b>	<b>(104)</b>

#### Notes

- 1 Assumed operational date – 1 October 2011
- 2 Lettable space - 10,613 sp ft
- 3 Average rent levels wef:
  - 1 October 2011 £50.35/ sq ft
  - 1 October 2012 £55.38/ sq ft
  - 1 October 2013 onwards plus RPI (3% assumed above)
- 4 Assumed occupancy levels year commencing:
  - 1 October 2011 85%
  - 1 October 2012 92%
  - 1 October 2013 onwards 93%
- 5 Equipment rentals are based on occupancy levels