

<b>Report to:</b>	Overview and Scrutiny Committee (Regeneration and Skills)	<b>Date of Meeting:</b>	Tuesday 16th January 2024
<b>Subject:</b>	Southport Market - 2 Year Review		
<b>Report of:</b>	Executive Director (Place)	<b>Wards Affected:</b>	Dukes;
<b>Portfolio:</b>	Cabinet Member – Regeneration & Skills		
<b>Is this a Key Decision:</b>	No	<b>Included in Forward Plan:</b>	Yes
<b>Exempt / Confidential Report:</b>	No		

**Summary:**

Southport Market was repurposed into a Food and Drink Market and opened in July 2021; the paper outlines its year 2 performance, particularly in the context of economic conditions affecting the sector and venues including, but not limited to, Southport Market.

**Recommendation(s):**

(1) That Committee note the report

**Reasons for the Recommendation(s):**

To ensure Committee visibility of the performance of the Market, and the internal and external factors affecting the operation.

**Alternative Options Considered and Rejected:** (including any Risk Implications)

N/A

**What will it cost and how will it be financed?**

**(A) Revenue Costs**

There are no direct revenue costs associated with the recommendations in this report.

**(B) Capital Costs**

There are no direct capital costs associated with the recommendations in this report.

**Implications of the Proposals:**

<b>Resource Implications (Financial, IT, Staffing and Assets):</b>
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There are no resource implications with the review. All other resource implications are contained in the agreed business case.

**Legal Implications:**

There are no legal implications with the review. All other resource implications are contained in the agreed business case.

**Equality Implications:**

There are no equality implications. As with all areas of the Economic Growth and Housing service, the Council's strategy and action plan for Equalities, Diversity and Inclusion are considered and implemented where applicable.

**Climate Emergency Implications:**

The recommendations within this report will

Have a positive impact	N
Have a neutral impact	Y
Have a negative impact	N
The Author has undertaken the Climate Emergency training for report authors	Y

**Contribution to the Council's Core Purpose:**

Protect the most vulnerable: N/A

Facilitate confident and resilient communities: The new market offer provides a high-quality experience and provides a destination for local communities to use and enjoy

Commission, broker and provide core services: N/A

Place – leadership and influencer: The Council directly contributes to an improved visitor destination as part of The Southport Development Framework creating further confidence in Southport that could lead to further private sector investment. The Market project has key strategic linkages to the Southport Town Deal.

Drivers of change and reform: Providing a long-term sustainable future for Southport Market creating a new diverse use meeting the expectations of residents and visitors.

Facilitate sustainable economic prosperity: This allows for a number of new small business start-ups creating additional employment and sustainable business growth.

Greater income for social investment: N/A

Cleaner Greener: The operation contributes to Sefton's aims to becoming Carbon Neutral.

**What consultations have taken place on the proposals and when?**

**(A) Internal Consultations**

The Executive Director of Corporate Resources and Customer Services (FD7485) and the Chief Legal and Democratic Officer (LD5585) have been consulted and any comments have been incorporated into the report.

**(B) External Consultations**

Early consultation was conducted with existing Market traders along with a wider consultation exercise, results of this was included in the full business case.

**Implementation Date for the Decision**

Following the expiry of the "call-in" period for the Minutes of the Meeting.

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**Appendices:**

There are no appendices to this report.

**Background Papers:**

There are no background papers available for inspection.

## 1. Background

- 1.1 The original design of the venue and operation for the new Market Hall was to have a central bar serving all drinks while also being responsible for managing the floor such as cleaning, pot wash and other operational duties.
- 1.2 It was envisaged there would be 8 hot food kitchens, 2 smaller dessert units and Blackhurst butchers being retained in the front unit.
- 1.3 As with all food markets it is important that the offer continues to evolve and never stays still - in the first year of operation there was a small number of unit changes that now sees the market operating 7 hot food kitchens, 1 desert offer and the main bar. This is supplemented by two small units available for daily hire (non-food).
- 1.4 In the second year of trading we have not seen any change in the business mix with all traders still trading, with many of the original traders still operating in the market despite the continuing pressure in the hospitality sector.

## 2. Independent Review

- 2.1 It is of critical importance to continue to review the performance of hospitality venues, so in year 1 several mystery visits took place to ensure the quality of the market of high quality. In year 2 hospitality experts Hotel Audit undertook a Customer Experience and operational view of the Market.
- 2.2 Hotel Audit specialise in hospitality operations, brand standards, customer experience and finance, the resulting findings offered a review of operational and financial performance and offer an unbiased customer experience insight.
- 2.3 The main recommendations from the review are as follows:

**Revenue should be forecasted and measured daily and reported weekly for actions to be taken reacting to any changes to expected demand.** - *Response - Financial data is reported monthly with a month-on-month performance measurement. Further detailed weekly turnover figures are reported and checked.*

**Daytime customers typically want good coffee and an environment which is conducive for conversation with the option of food as a secondary driver. Currently the Market has a very poor coffee product, and the music is played too loud for people to talk either face-to-face/ part of a group or on the phone.** – *Response – Work is underway to look at how the front of bar is redesigned to resemble a coffee offer to customers as they walk into the market. The redesign would also allow for the bar operator to invest in improved coffee machines and increase the offer.*

**Utilise a vacant unit for guest food partners with a stipulation that they are not currently operating in the Market, and they have a short-term residency with a recommended maximum duration of 2 weeks.** – *Response – This is*

*already being implemented, the recent crumble pop up is a good example. We have two small units but as part of a design review one of these units may change into a unique seating booth area.*

**More energy should be targeted towards establishing a calendar of events with a focussed approach ensuring the partners are consulted and each event fully costed** – *Response - Events in the back space now regularly sell out. There has also been a marked increase in private bookings.*

**With the Market now being in operation for over 12 months it would be wise to review current marketing performance across all channels** – *Response - a hospitality marketing agency has now reviewed the website and socials. A 12-month marketing strategy has now been produced and continues to be rolled out through year 3 along with retained content creators and agency.*

- 2.4 In conclusion the review noted that “Southport Market, situated away from Lord Street, appears like a gem amongst .... buildings, retail units and independent shops and its kerb appeal draws customers to its entrance giving the impression that the Market is single handed attempting improve the area and complement Lord Street rather than compete against it.”
- 2.5 It also noted The Market as it currently exists, given its location, has to work harder to attract footfall than the more popular food and drink areas of Southport and confidence should be high that this can be achieved. Whilst there will be benefit from the Southport Town Deal project *Les Transformations de Southport*, which includes plans to widen the pedestrian paths on King Street and part-pedestrianise Market Street, changes must be made to ensure the Market doesn't get left behind when more investment pours into the area and new hospitality venues become established.
- 2.6 At its foundation, the Market (in concept and delivery), is a great venue and unique in its offering in Southport however the focus now should be on addressing the outcomes and recommendations of this report to ensure it becomes operationally sound and becomes, organised so that it can address weaknesses such as midweek daytime trade and respond to comments continually highlighted by guest feedback.

### **3.0 Financial Performance**

- 3.1 Food traders and the bar pay a turnover rent rather than a set rent measured on square footage; this arrangement is now common practice in many food markets and allows the landlord to be rewarded the more successful the operation becomes. It also importantly allows new start-up businesses breathing space to become established and to build up a robust cash flow.
- 3.2 The agreed income targets for the operation consists of turnover rent, service charge, general rents, Outdoor markets, and any utility recharges.

3.3 Expenditure is made up several budget headings that are required such as salaries, marketing and events, utilities, repair and maintenance along with consumables.

#### Year 1 v Year 2 (Food and Drink Performance)

	Year 2
<b>Food</b>	+45.48%
<b>Drink</b>	+29.37%
<b>Total</b>	+38.32%

\*Year 1 trading commenced from 21<sup>st</sup> July 2021

3.4 The trading period for year 2 was for a full 12 months while year 1 was condensed due to a July 2021 opening. However, year 2 has seen significant growth in food and drink total turnover. It should be noted that venues will usually see a dip in turnover in year 2 compared to the opening months of a new venue such as a food market. According to the National Restaurants Association (2023), 60% of hospitality venues are reported to fail in year one, and 80% are reported to fail within the first five years – with failure rates increasing in 2022 and 2023 given current economic conditions.

#### Year 2 Food and Drink Rental Performance v Business Plan Targets

	Target	Outturn	Variance
<b>Total</b>	£323,000	£331,307	-£8,307

Includes recharges

3.5 The year 2 total turnover rents and recharges have exceeded the business plan target by £8,307.

3.6 For year 2 there was also a target of £113k for outdoor markets, that was based on current outdoor market achieved before Covid-19. Due to resource and operational issues the outdoor markets have not been possible to resurrect.

3.7 The Southport Markets were relocated to King Street and Market Street once the Market Hall relaunched. However due to the increasing costs of road closures and diversions required they were no longer financially viable. Following on from this work began with The Makers Market, the leading artisan outdoor market businesses in the North West. After several months, The Makers Market also pulled out of Southport due to viability issues. Therefore, in year 2 none of the outdoor market income has been achieved.

3.8 To try and make up for the shortfall paid events and hire in the event space has been a major focus for the team. Income from these activities in year 2 was £26,489, this is compared to £7,652 in year one, up 28%.

#### Year 2 Expenditure v Business Plan Targets

	Target	Outturn	Variance
<b>Expenditure</b>	£435,000	£541,013	£106,013

3.9 The table above shows the year 2 expenditure outturn was over £106k than forecasted in the business plan. The main reason for this variance is utility costs, the current budget for all utility costs for the market is £83,000, with actual expenditure in year 2 being £183,424 resulting in over £100k non budgeted spend due to the spiralling costs of all utilities compared to when the business plan was agreed in 2020. In year 3 this additional utility pressure is being met centrally, but the tourism budget absorbed the increase in year 2. These pressures are affecting all venues across the sector and are expanded upon in section 4 of this report.

#### Year 2 Actual v Business Plan

	Target	Outturn	Variance
<b>Income</b>	£437,000	£357,796	£79,204
<b>Expenditure</b>	£435,000	£541,013	£106,013
<b>Total</b>	-£2,000	£183,216	£181,216

3.10 The reason the end of year variance can be explained by:

- Circa £100k utility pressures
- Circa £85k lost income on outdoor market targets

#### Revised Year 2 Actuals V Business Plan

	Target	Outturn	Variance
<b>Income</b>	£437,000	£357,796	£79,204
<b>Expenditure</b>	£435,000	£423,648	£-11,352
<b>Total</b>	-£2,000	£65,852	£67,852

\*Expenditure excludes utility pressure and salary for major events

\*Variance income due to outdoor markets not taking place.

## **4 Continuing Sector Pressures**

4.1 The trading environment for the hospitality sector in year 2 saw significant changes and challenges due to cost-of-living crisis. It has been well documented that the hospitality sector has and is facing spiralling costs such a utilities and consumables with both having a direct impact on The Market. The Council's report on the performance of Sefton Hospitality Operations Limited outlined the significant impacts of current economic conditions across the sector, and it is appropriate to repeat some of those key considerations here as being relevant to Southport Market.

4.2 As stated earlier, according to the National Restaurants Association (2023), 60% of hospitality venues are reported to fail in year one, and 80% are reported to fail within the first five years – with failure rates increasing in 2022 and 2023 given current economic conditions. The challenges of opening a new hospitality venue at any time are exacerbated by increasing cost pressures affecting sector-wide profitability, with venues such as Southport Market seeing more than 100% increases in energy bills during the period, and wages increasing sector wide in a

post-Brexit environment (notwithstanding the Council's continued commitment to paying a Real Living Wage or better).

- 4.3 According to the Office for National Statistics (October 2023 - [Consumer price inflation, UK - Office for National Statistics](#)), the price of gas and of electricity remains 60% higher and 40% higher respectively than it was in October 2021. These inflationary pressures affect the sector and the venue in two fundamental ways. Firstly, these lead to much higher energy costs than anticipated in the original business case or the previous business plan. Secondly, they impact consumer spend as all households feel the pressure of the cost of living crisis, affecting business and venue revenues as discretionary spend by customers is affected due to other priorities. Similarly, food and non-alcoholic beverage prices increased by 0.1% between September and October 2023 (Source: ONS, October 2023). This leads to an annual rate of increase of 10.1% in the twelve months to October 2023, down from 12.2% in the twelve months to September 2023, and from a recent high of 19.2% increase in the twelve months to March 2023, the highest annual rate for more than 45 years.
- 4.4 The most recent ONS data reaffirms the severity of cost inflation pressures on the sector – including but not limited to Southport Market – and anecdotally there remains clear visibility of pressures on hospitality venues across the sector, across the Liverpool City Region and beyond. However, as above this data suggests easing in inflationary pressures for the sector. October 2023's easing in food and drink price increases was driven by downward price movements for 9 of the 11 classes considered in the most recently monthly data, including particularly dairy and vegetables.
- 4.5 Nevertheless, the price of food in October 2023 remains around 30% higher than October 2021.
- 4.6 These pressures have significantly affected the costs incurred by Southport Market during the period of operations to date, and in turn have affected consumers and therefore revenue.
- 4.7 According to Deloitte (Q3 2023) there are marginal increases (0.4%) in discretionary spending, with the most notable quarter-on-quarter growth being in non-essential spend areas such as holidays, hotels, restaurants, and going out categories. There are many and varied views on outlook for the future of the hospitality sector (Deloitte [2023] use the term “prolonged recovery”), but these forecasts and the slow easing of cost inflationary pressures are expected to support recovery in the hospitality sector over the coming years, despite continued short-term challenges.
- 4.8 Southport is feeling the above impacts, it also has further pressures on the visitor economy due to the close of the STCC while it undergoes rebuild
- 4.9 Despite the above concerns, The Market has started to trade strongly in year 3. However it is too early to tell if this will carry on throughout the year with July and August being a hard trading month due to weather and the continuing cost of living crisis.



4.10 Given its assets such as Southport Market, its shareholding in Sefton Hospitality Operations Limited, and the importance of the sector to Sefton's economy, the Council will continue to monitor and evaluate market conditions and outlook for the industry on an ongoing basis. Moreover, in the case of the Market and all SHOL venues, management of operations will be as proactive as possible in respect of both driving revenue and managing costs. Driving revenue particularly includes events that activate the space and drive footfall, while continuing to reflect the venue's role in its community.

## 5. Events

5.1 The events space to the rear of the Market continues to be a great success, the team have put on multiple sell out events throughout year 2 with thousands of tickets sold for Easter events, themed nights and Christmas extravaganza events.

5.2 The space is also used for free events along with large numbers of private bookings.

5.3 The space is also always offered free of charge for community events. Also, throughout year 2 working with partners we have been looking at how the market can be utilised to help tackle issues within the community. A free comedy bingo social in the winter months has been taking place providing a warm space and to help with isolation.



## 6. Conclusions

- 6.1 Overall year 2 of the market has been successful in achieving its business plan numbers for the food and drink, despite economic and sector conditions. The pressures of the utility costs and outdoor markets should be noted, and the year 3 business plan targets will be amended accordingly.
- 6.2 **The events space continues to improve with income 28% up year on year, with the overall market up 38% turnover year on year.**
- 6.3 Year 2 has seen the impacts of the cost-of-living crisis, and inflationary pressures, as outlined in section 4. This is also continuing into year 3 with the summer season for Southport forecasted to be underperforming compared to recent summers.
- 6.4 There is a need to continue to monitor expenditure. Costs such as utilities are almost completely outside the control of the venue. However, steps have already been taken to reduce spend in other areas such as consumables without impacting on the overall quality. .
- 6.5 Lastly small improvements will need to be implemented going forward such as an events bar, improved coffee offer, new and improved stage and looking at other operational improvements. These continuous improvements will be sustained on an ongoing basis as the venue works to continue to drive footfall and deliver a positive customer experience and repeat business.
- 6.6 It is recommended to review year 3 business case targets, considering the continued utility pressures and limits on outdoor markets until Market Street and King Street public realms works are completed. A revised Business Plan for Southport Market will be developed and presented to the Cabinet Member in due course.