Report to Policy Committee

Author/Lead Officer of Report:
Liam Pond (Interim Operations Manager City Centre Maintenance & Sheffield Markets)

Tel: 07732208846

Report of:	*Richard Eyre: Director Street Scene & Regulations*
Report to:	*Waste & Street Scene Policy Committee*
Date of Decision:	*Wednesday 22 March 2023*
Subject:	Review of Energy Tariffs for Market Traders

Has an Equality Impact Assessment (EIA) been undertaken?	Yes	X	No	
If YES, what EIA reference number has it been given? 1499				
Has appropriate consultation taken place?	Yes	X	No	
Has a Climate Impact Assessment (CIA) been undertaken?	Yes		No	X
Does the report contain confidential or exempt information?	Yes		No	X

If YES, give details as to whether the exemption applies to the full report / part of the report and/or appendices and complete below:-

*"The (**report/appendix**) is not for publication because it contains exempt information under Paragraph (**insert relevant paragraph number**) of Schedule 12A of the Local Government Act 1972 (as amended)."*

Purpose of Report:

This paper sets out a range of options regarding the recovery of utilities charges from Moor Market and Crystal Peaks Market tenants. Increases in utility charges have not been passed through to tenants since 2014 and energy prices have risen steeply in recent years. This has created a significant under recovery between the charge tenants pay and the cost to the council.

This report therefore sets-out the impact of under-recovery and proposes options in relation to charges going forward.

Recommendations:

The Waste & Street Scene Committee is recommended to:

- Approve an increase in the current tariffs charged to tenants of 111% on Electricity and 107% on Gas
- Agree a period of 12 weeks from the decision being taken to the implementation of the new tariff.
- Agree that a review should take place after 6 months to assess the impact of the changes and make proposals to the Committee for moving towards full cost recover on utility costs over the next three years and note that any proposal to vary the tariff be brought back to the committee for decision.

Background Papers:
(Insert details of any background papers used in the compilation of the report.)

Lead Officer to complete:-		
1	I have consulted the relevant departments in respect of any relevant implications indicated on the Statutory and Council Policy Checklist, and comments have been incorporated / additional forms completed / EIA completed, where required.	Finance: James Lyon, Finance Business Partner
		Legal: Scott Fitzjohn
		Equalities & Consultation: Ed Sexton
		Climate: Jessica Rik
	Legal, financial/commercial and equalities implications must be included within the report and the name of the officer consulted must be included above.	
2	**SLB member who approved submission:**	Richard Eyre: Director Street Scene & Regulations
3	**Committee Chair consulted:**	Cllr Joe Otten, Chair of Waste and Street Scene Committee
4	I confirm that all necessary approval has been obtained in respect of the implications indicated on the Statutory and Council Policy Checklist and that the report has been approved for submission to the Committee by the SLB member indicated at 2. In addition, any additional forms have been completed and signed off as required at 1.	
	Lead Officer Name: Liam Pond	**Job Title:** Interim Operations Manager City Centre Maintenance & Sheffield Markets
	Date: 13 March 2023	

1. PROPOSAL

1.1 BACKGROUND

1.1.1 Market traders pay three separate charges in both the Moor Market and Crystal Peaks Market. There is a rent for the market stall, a service charge that is designed to recover the cost of providing the general services of the markets used by all (which includes items such as market staffing costs, cleansing etc.) and a utility charge that covers the cost of the gas or electricity used directly by the individual stall holders. All three fees haven't been reviewed for some time and both the service charge and utility fees are currently under recovered.

1.1.2 This report only deals with the costs for the utility charges; however the intention is to bring a future report to committee which will outline the service charge position and rental fee, and present options for those fees.

1.1.3 As part of various support measures to help market traders through challenging economic times, such as the Covid-19 pandemic, the utilities tariff hasn't increased since 2014.

1.1.4 This has led to a under charge in the recovery for all tenant's utility charges over this period. Additionally, the service charge payable by all tenants works on the principle that all traders contribute to one third of the utility charges for the common areas (public space outside their immediate stall area). This has also seen no increase in recent years.

1.1.5 The market traders all have individual utility meters for their stalls, caged storage areas and warehouses to enable accurate billing.

1.2 INTRODUCTION

1.2.1 The purpose of this report is to outline the financial implications that the under recovery of recharged utilities to tenants has created, and provide some options on addressing this unsustainable situation.

1.2.2 Due to the recent energy crisis following the invasion of Ukraine last year energy prices have escalated rapidly over the past 12 months creating significant additional financial pressures on the markets service.

1.2.3 The options set out in the report consider the impact that increasing cost recovery could have on market traders, who are already feeling the impact of other price rises in goods and services due to the energy crisis, without impacting their overall business sustainability.

1.3 Current position on costs

1.3.1 The below table sets out the projected full year effect of the cost of energy increases across the markets service in 2022/23. For clarity not all costs highlighted in the table are recoverable from market tenants, but the table illustrates the sudden significant increase in utilities costs for the market service that has led to the need to review the utilities costs charged to market traders. The actual outturn will be known following the billing issued for quarter 4 22/23, but the projections have proven to be accurate in quarters 1-3.

	Utility projected increases across market service 2022/23		
	Total Utility cost from last financial year budget (2021/22) £	**Estimated Utility Increase on this financial Years Projections (22/23) £**	**Price Increase (difference) (22/23) £**
MOOR			
Water (Projected +4%)	23,400	24,340	940
Gas (Projected +107%)	32,900	68,100	35,200
Electricity (Projected +111%)	209,000	440,990	231,990
Crystal Peaks			
Water (Projected +4%)	19,700	20,490	790
Gas (Projected +107%)	12,900	26,700	13,800
Electricity (Projected +111%)	91,000	192,010	101,010
Total	**388,900**	**772,630**	**383,730**

Table 1 – Projected Utility Increase 2022/23

1.4 Actual costs and recovery

1.4.1 Using the consolidated billing for quarter April -June 2022 demonstrates the level of under recovery currently in place for utility charges.

1.4.2 Electricity: - Tenants are currently charged at a rate of £0.1151 per kWh up to the first 1000kw usage and then £0.0878 per kWh tariff over that.

April 22-June 22

	Actual bill for quarter 1	Amount recharged per quarter via sub-meters	Difference
Moor	**£90,211**	**£17,894**	**£72,317**
Crystal Peaks	**£28,183**	**£5,140**	**£23,043**
Totals	**£118,394**	**£23,034**	**£95,360**

1.4.3 The recovery rate for this quarter was approximately 19% of the actual costs.

1.4.4 Each quarters billing has different actual figures, but the principle of only recovering approximately 19% of the costs remains the same.

1.4.5 **Gas: -** Tenants are currently charged at 0.42 m3. (Note Crystal Peaks will only be charged for gas in the service charge as none of the current traders use gas as a commodity for trading.)

April 22-June 22

	Actual bill for quarter 1	Amount recharged per quarter via sub-meters	Difference
Moor	**£13,269.29**	**£1,535.16**	**£11,734.13**
Crystal Peaks	**£6,668**	**£0**	**£6,668**
	£19,937.29	**£1,535.16**	**£18,402.13**

1.4.6 The recovery rate for this quarter was approximately 8% of the actual costs.

1.4.7 Each quarters billing has different actual figures, but the principle of only recovering approximately 8% of the costs remains the same.

1.4.8 Cost recovery will never be at 100% of the utility charges for the markets, as there are some elements of the markets utility costs that are not directly attributable to individual traders, either through the service charge or direct utilities costs. These nonrecoverable costs are budgeted for separately, however this demonstrates how low recovery now is.

1.5 Mitigation

1.5.1 There are energy efficiency improvement programmes in place to reduce the amount of energy used. The Moor Market has recently had some grant funded works conducted to replace back of house lighting with low energy LEDs and the installation of a solar PV array on the office roof. This has been funded through a grant process at no cost to the markets budget or tenants. This replaces all T8 and T5 fluorescent fittings throughout the service corridors, cage areas and plant rooms.. Savings generated will be seen across cages and warehouse recharges as all back of house lighting has been changed to low power LED

1.5.2 Similar measures have also been taken in Crystal Peaks. 50% of the high level lighting has been removed as it was over saturated. A plant consumption survey has been completed, and an upgrade to a more efficient air handling system was installed four years ago. A future work programme has seen the incremental replacement of all traders lighting from high energy fluorescent fittings to LED

1.6 PROPOSED OPTIONS FOR ENERGY COST RECOVERY

1.6.1 No Increase in the energy tariffs recharged to tenants.

Advantages	Disadvantages
• No impact on tenants • Reduces risk of traders needing to leaving market due to affordability.	• In 23/24 approximately 348k utilities costs will be under recovered • Unsustainable financial position which could lead to further cuts in quality and level of service provision to tenants and public to attempt to mitigate costs.

1.6.2 **Increase the current tariff recharged to tenants by 50%**

Advantages	Disadvantages
• Will improve the budget position compared to the "do nothing" option in 1.6.1 by approximately £33k • Minor financial impact on tenants • Slight increase in risk of some traders leaving markets due to financial position/ • Still significantly cheaper than other commercial retails spaces in the city centre	• Still leaves large deficit in the energy costs. £315k estimated across both markets • Greater impact on council's corporate relief package for energy cost increases

1.6.3 **Increase Utility Bills by 111% on Electricity & 107% on Gas (this year's annual increase in the Council's energy costs)**

Advantages	Disadvantages
• Will improve the budget position as compared to options 1.6.1 by approximately £73k • Brings utility costs much more inline with other commercial lets within the city • Demonstrates discretion and consideration of the cost of living impact on tenants by not fully recovering costs	• £275k still under recovered • Increases risk of some tenants leaving Markets • Likelihood of increased aged debt as tenants adjust to increased costs • Increased impact on council finance and markets services in recovery of aged debt • Income from rent and service charge negatively impacted if tenants leave markets and vacancy rate increases. • Cost increases maybe passed on to market customers in the setting of higher prices for goods and services.

1.6.4 **Full recovery of all energy charges from tenants at current tariffs the council pays.**

Advantages	Disadvantages
• No under recovery • More sustainable position for markets budget • No subsidy required from revenue support grant, which reduces need to make further savings maintaining standards • Reduced risk to markets operation is energy cost change rapidly.	• Likely to see a larger increase in traders leaving the markets as it becomes unaffordable. • Increase in costs passes on to markets customers • Significant reduction in rent and service charge income due to higher vacancy rates

1.6.5 Changes to fees cannot be implemented immediately. There will be a period of 12 weeks between any decision to change fees and the charge being implemented. This gives the tenants a reasonable period to prepare for any fee increases.

1.6.6 There are no proposals to backdate any under recovery charges.

1.6.7 Should a decision be taken to increase recovery rates, but not fully recover cost, as is recommended, it is proposed that the impact is reviewed at 6 months with a further performance report to committee on vacancy rates, aged debt and budget position with a view to agreeing a 3 year plan on increasing utility cost recovery until reaching full cost recovery.

1.6.8 The recommended proposal is 1.6.3 which would increase the current tariffs the tenants pay by 111% on Electricity and 107% on Gas.

2. HOW DOES THIS DECISION CONTRIBUTE ?

2.1 The council's delivery plan sets out that the council needs to ensure its financial stability and sustainability. By reducing the large subsidy currently being provided to utility costs, we are helping support this outcome.

2.2 Post pandemic the markets are returning to being thriving and vibrant places to shop, eat and socialise. Maintaining markets that offer a wide variety of quality goods and services at reasonable prices contributes towards our strategic goals of tackling inequalities and supporting people through the cost of living crisis. By keeping vacancy rates low in the market we're supporting small local businesses to contribute towards our ambition for clean economic growth, and continue supporting footfall not only in the markets, but also in the city centre.

3. HAS THERE BEEN ANY CONSULTATION?

3.1 There are monthly market traders forums that are open to all traders. The subsidy of utilities costs and its unsustainable nature have been discussed in those forums and notes circulated to all traders who haven't attended.

3.2 One to one discussions with traders who have sought further detail and clarity have taken place with the markets management team.

4. RISK ANALYSIS AND IMPLICATIONS OF THE DECISION

4.1 Equality Implications

4.1.1 This would be the first overall increase in 9 years and the first at the Moor Market and therefore the impact may be more significant.

4.1.2 The recommended increase of 111% on electricity and 107% on gas would still represent cheaper tariffs than the market rate, and there will still be an ongoing loss to the council from the under-recovery.

4.1.3 Following discussions at the monthly market traders forums, there is some awareness and expectation amongst traders that an increase would be due, in-line with tenancy agreements.

4.1.4 Discussions have highlighted that some of the traders believe they may struggle with the tariff increase. As mitigations, the council is proposing to (a) not immediately pursue full cost recovery, (b) give a reasonable period of time before implementing the new tariffs and (c) stagger any future increases towards full cost recovery over a number of years

4.1.5 It's highly likely that increases in costs would be passed onto customers in many cases

4.1.6 A study in 2018 identified that the Moor Market's customer demographic suggests that the majority of customers may be working age adults but that younger adults (including students) and retired people may also be impacted – the research doesn't cover socio-economic factors

4.2 Financial and Commercial Implications

4.2.1 The Council has a statutory duty to set a balanced budget and continues to face significant financial challenges.

4.2.2 The increasing cost of energy combined with other pressures the Council is facing is significantly contributing to the Council's budget deficit position, and, without significant actions to reduce overspends and contain costs, an unsustainable financial position will be reached.

4.2.3 Energy costs are forecast to increase by 111% and 107% for electricity and gas respectively in 2022/23 and a further 13% and 5% for electricity and gas respectively in 2023/24.

4.2.4 The current Energy Bill Relief Scheme announced in September comes to an end in March 2023. The government provides a discount on gas and electricity unit prices. To calculate the discount, the estimated wholesale portion of the unit price to be paid is compared to a baseline ‘government supported price’ which is lower than the expected wholesale price. However, the rate that Sheffield City Council pays is lower than the ‘government supported price’ and therefore does not benefit from the current Energy Bill Relief Scheme.

4.2.5 The markets service has a current budget of £569,300 to fund the under recovery.

4.2.6 **Financial Year 2023/24**:-The energy bill for 2023/24 is estimated to be approximately £620,000 for both The Moor market and Crystal Peaks. The proposed options for 2023/24 result in the following under recovery positions.

4.2.7 Option 1: No change - £348,000.
Option 2: 50% increase - £315,000.
Option 3: 111% & 107% increase - £275,000.
Option 4: Full recovery results in the least direct financial risk / burden to Sheffield City Council as the energy cost charged to the authority is recharged to the market traders/tenants. This option does however have its own risks as outlined in this report.

4.3 Legal Implications

4.3.1 There are no significant legal implications arising from this report. The lease agreements for traders at both Crystal Peaks and the Moor Markets require the traders to pay for the electricity they use on their stalls by way of re-imbursement to the Council.

4.4 Climate Implications

4.4.1 Masking the true costs of energy doesn’t encourage users to reduce usage were possible, which doesn’t support the Council’s ambition to be net zero by 2030. Passing on more of the costs over a period of time will encourage tenants to consider more energy efficient means of operating their businesses, including investing in more energy efficient chillers and cooking appliances.

4.4.2 This principle aligns with the Demand Reduction/Efficiency Improvements category in the council’s climate impact assessment tool. This approach is expected to match a scoring criteria of 6 which aligns to “The project will achieve a moderate decrease in CO_2e emissions compared to before.”

4.5 Other Implications

4.5.1 There are no other implications

5. ALTERNATIVE OPTIONS CONSIDERED

5.1 The option to do nothing (1.6.1) has been rejected due to the unsustainable nature of the increasing subsidy required.

5.2 The option to increase tariffs by 50% has been considered and rejected it has very little positive impact on budget deficit and under recovery. It doesn't support enough improvement in the financial position and will require further saving to be found elsewhere in the markets budget, which will reduce levels of quality and service provided to tenants and customers.

5.3 The option to move straight to full cost recovery will be too much of an impact on the tenants. It's likely to create significant cost pressures that are too large to pass straight on to customers and may increase the markets vacancy rate, which will negatively financially impact the budgets for service charges and rents. Overall it could undermine the financial position rather than improve it.

6. REASONS FOR RECOMMENDATIONS

6.1 The option outlined in 1.6.3 of increasing the current tariff by 111% Electricity & 107% Gas means that the charges are moving towards the principle of full cost recovery of utilities costs, while allowing for some subsidy to support tenants to adjust to the increases, which will better allow them to manage costs and charges required to offset the impact on their businesses. The will reduce the potential of businesses needing to leave the market, which in turn reduced financial risk from lost rent or service charges.

6.2 The overall outcome should be a more sustainable market, maintaining its quality and service levels, and a high occupancy rate to continue the vibrant feel to the markets post pandemic.

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