



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:

Subject: Review of Crystal Peaks Market Service Charge

| | | | | |
|---|-----|-------------------------------------|----|-------------------------------------|
| Has an Equality Impact Assessment (EIA) been undertaken? | Yes | <input checked="" type="checkbox"/> | No | <input type="checkbox"/> |
| If YES, what EIA reference number has it been given? 2144 | | | | |
| Has appropriate consultation taken place? | Yes | <input checked="" type="checkbox"/> | No | <input type="checkbox"/> |
| Has a Climate Impact Assessment (CIA) been undertaken? | Yes | <input checked="" type="checkbox"/> | No | <input type="checkbox"/> |
| Does the report contain confidential or exempt information? | Yes | <input type="checkbox"/> | No | <input checked="" type="checkbox"/> |
| If YES, give details as to whether the exemption applies to the full report / part of the report and/or appendices and complete below:- | | | | |
| <p><i>“The (report/appendix) is not for publication because it contains exempt information under Paragraph (insert relevant paragraph number) of Schedule 12A of the Local Government Act 1972 (as amended).”</i></p> | | | | |

Purpose of Report:

This paper sets out a proposal to review the service charge paid by traders at Crystal Peaks Market Place. There has not been an increase passed on to traders in several years despite the operational cost of the market increasing.

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

Recommendations:

The Waste and Street Scene Policy Committee is recommended to:

- 1) Approve the increases to the service charge set out in paragraph 1.6.3 of the report, to be implemented 12 weeks from the date of approval;
- 2) Note that a review will take place 6 months following implementation to assess the impact of the changes and note that following this review proposals will be made to the Committee in respect of changes to the service charge.

Background Papers:

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

| Lead Officer to complete:- | | | | | | | | | |
|---|--|---|---|--|---|-------------------------|---|--|----------|
| 1 | <table border="1" style="width: 100%;"> <tr> <td style="width: 45%; vertical-align: top;">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.</td> <td style="width: 55%;">Finance: James Lyon</td> </tr> <tr> <td></td> <td>Legal: David Sellars</td> </tr> <tr> <td></td> <td>Equalities & Consultation: Ed Sexton</td> </tr> <tr> <td></td> <td>Climate:</td> </tr> </table> | 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 | | Legal: David Sellars | | Equalities & Consultation: Ed Sexton | | Climate: |
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| | Legal: David Sellars | | | | | | | | |
| | Equalities & Consultation: Ed Sexton | | | | | | | | |
| | Climate: | | | | | | | | |
| | <i>Legal, financial/commercial and equalities implications must be included within the report and the name of the officer consulted must be included above.</i> | | | | | | | | |
| 2 | <table border="1" style="width: 100%;"> <tr> <td style="width: 45%;">SLB member who approved submission:</td> <td>Ajman Ali – Executive Director</td> </tr> </table> | SLB member who approved submission: | Ajman Ali – Executive Director | | | | | | |
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| 3 | <table border="1" style="width: 100%;"> <tr> <td style="width: 45%;">Committee Chair consulted:</td> <td>Cllr Joe Otten, Chair of Waste and Street Scene Committee</td> </tr> </table> | Committee Chair consulted: | Cllr Joe Otten, Chair of Waste and Street Scene Committee | | | | | | |
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| 4 | <table border="1" style="width: 100%;"> <tr> <td colspan="2">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.</td> </tr> <tr> <td style="width: 45%;">Lead Officer Name: Liam Pond</td> <td>Job Title: Interim Operations Manager City Centre Maintenance & Sheffield Markets</td> </tr> <tr> <td colspan="2">Date: 12.06.2023</td> </tr> </table> | 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: 12.06.2023 | | | |
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| Lead Officer Name: Liam Pond | Job Title: Interim Operations Manager City Centre Maintenance & Sheffield Markets | | | | | | | | |
| Date: 12.06.2023 | | | | | | | | | |

1. PROPOSAL

1.1 BACKGROUND

- 1.1.1 Market traders pay three separate charges in Crystal Peaks Market. There is a rent for the market stall, a utility charge, and 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.). Due to the pandemic the Service Charge has not been reviewed and we are significantly under recovering.
- 1.1.2 The service charge is devised from the costs incurred by the Landlord for running and maintaining shared parts of the building or estate, which legally the landlord can charge back to tenants. This report only deals with the costs for the service charge; however the intention is to bring a future report to committee which will outline the rent position and review the impact of the recent Committee decision to increase the utility charges by 50%.
- 1.1.3 As part of various support measures agreed by Cabinet Members to help market traders through challenging economic times, such as the Covid-19 pandemic, the service charge hasn't increased since 2009 where it saw a 3% increase.
- 1.1.4 This has led to a under charge in the recovery for all tenant's services attributable to the service 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 are categorised on their stalls set out into 4 key areas, Non-Food, Food, Café and Meat & Fish.

1.2 INTRODUCTION

- 1.2.1 The purpose of this report is to outline the financial implications that the under recovery of service charge from Council tenants has created and provide some options on addressing this unsustainable situation.

- 1.2.2 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/cost of living, without impacting their overall business sustainability.

The figures used in this report are from the financial year 2021/22. This is because the service charge reconciliation is procedurally issued to traders

1.2.3 three months after the end of the financial year. The figures for 2022/23 will be published before the end of June.

1.3 This report had to use the figures available to officers at the time otherwise there is a risk of missing committee until September, when it would be too late to make any changes to the service charge recovery this year.

1.3.1

CURRENT POSITION ON COSTS

The below table sets out the operational cost and amount attributable via the service charge in 2021/2022 financial year

| Service Provided | | Actual Cost | Non-Food | Food | Cafes | Meat & Fish |
|----------------------|------------------------------------|-------------------|-------------------|------------------|------------------|------------------|
| MANAGEMENT | | | | | | |
| 1 | Site Management Resources | 106,028.49 | 74,817.64 | 15,113.55 | 9,278.01 | 6,819.28 |
| 2 | Site service charge | 155,844.07 | 109,969.36 | 22,214.38 | 13,637.12 | 10,023.20 |
| | | 261,872.56 | 184,787.01 | 37,327.94 | 22,915.14 | 16,842.48 |
| UTILITIES | | | | | | |
| 3 | Electricity | 58,854.98 | 41,530.26 | 8,389.33 | 5,150.10 | 3,785.29 |
| 4 | Gas | 9,127.64 | 6,440.80 | 1,301.08 | 798.71 | 587.05 |
| 5 | Water | 6,112.49 | - | 2,959.91 | 1,817.05 | 1,335.52 |
| | Sub-total | 74,095.11 | 47,971.06 | 12,650.32 | 7,765.87 | 5,707.86 |
| SOFT SERVICES | | | | | | |
| 6 | Security | 21,643.17 | 15,272.22 | 3,085.07 | 1,893.88 | 1,391.99 |
| 7 | Cleaning and environmental | 152,590.53 | 106,846.54 | 21,583.56 | 13,249.87 | 10,910.57 |
| 8 | Marketing and promotions | 15,791.35 | 11,142.96 | 2,250.94 | 1,381.82 | 1,015.63 |
| | Sub-total | 190,025.05 | 133,261.73 | 26,919.56 | 16,525.57 | 13,318.19 |
| HARD SERVICES | | | | | | |
| 9 | Mechanical and electrical services | 14,062.68 | 9,923.15 | 2,004.53 | 1,230.55 | 904.45 |
| 10 | Lifts | - | - | - | - | - |
| 11 | Fabric repairs and maintenance | 87,734.91 | 61,909.01 | 12,505.94 | 7,677.24 | 5,642.72 |
| | Sub-total | 101,797.59 | 71,832.16 | 14,510.47 | 8,907.79 | 6,547.17 |
| INSURANCE | | | | | | |
| 12 | Insurance | 5,947.09 | 4,196.49 | 847.71 | 520.40 | 382.49 |
| | TOTAL | 633,737.40 | 442,048.44 | 92,256.00 | 56,634.76 | 42,798.20 |

1.3.2

Actual Costs Crystal Peaks Service Charge 2021/2022

Below is a key of the amount per square metre that is attributable to service charge financial year 2021/22

| Sq Foot Key | | Annual Cost | ACTUAL Annual |
|---------------------------|------------------|-------------------------|----------------------|
| Category | Sq Metres | Charged per Sq M | cost per Sq M |
| Non-Food | 592.46 | £540.00 | £767.91 |
| Food | 119.68 | £540.00 | £785.06 |
| | 712.14 | | |
| Cafes | 73.47 | £540.00 | £785.06 |
| Meat and Fish | 54.00 | £540.00 | £800.99 |
| | 839.61 | | |
| Prep Space M&F | - | £0.00 | £0.00 |
| Storage M&F | - | £0.00 | £0.00 |
| Storage | - | £0.00 | £0.00 |
| | 839.61 | | |

SQ M Annual Service Charge – Charged & Actual 2021/2022

Actual costs and recovery

Using the figures from 1.3.2 on service charge per square metre generates the overall table below showing the under recovery in financial year 2021/2022.

1.4.1

| Stall Type | Square Meters | Charged | Actual | Under Recovery |
|-------------|---------------|------------------------|---------------------------|-------------------|
| Non-Food | 592.46 | (@£540) £319,928.40 | (@£767.91) £454,955.95 | £135,027 |
| Food | 119.68 | (@£540) £64,627.20 | (@£785.06) £93,955.98 | £29,328.78 |
| Cafe | 73.47 | (@£540) £39,673.80 | (@£785.06) £57,678.58 | £18,004.56 |
| Meat & Fish | 54.00 | (@£540) £29,160.00 | (@800.99) £43,253.46 | £14,093.46 |

Total Amount Under recovered = £196,454.57

The recovery rate for this financial year 2021/22 was approximately 69.8% of the actual costs.

1.4.2

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

1.4.4

Mitigation

1.51.

5.1

A number of structural and operational changes over recent years has meant that the markets team is running as lean/and efficiently as possible. It is only through increased tenancies take up and reduction in external charges/costs that the service charge could be reduced. Current occupancy figures at Crystal Peaks Market are 79%.

1.5.2

Changes to the Service Charge would not be implemented immediately. There will be a period of 12 weeks between any decision to change the charge and the charge being implemented. This gives the tenants a reasonable grace period to prepare for any increases.

1.5.3

There are no proposals to backdate any historic under recovery of charges.

1.5.4

Should a decision be taken to increase the service charge rate, 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

1.6 rates, aged debt and budget position with a view to agreeing a plan on increasing service charge cost recovery until reaching full cost recovery.

1.6.1 **PROPOSED OPTIONS FOR SERVICE CHARGE INCREASE**

No increase to service charge recharged to trader.

| Advantages | Disadvantages |
|---|---|
| <ul style="list-style-type: none"> • No impact on tenants • Reduces risk of traders needing to leaving market due to affordability. | <ul style="list-style-type: none"> • In 23/24 approximately 197k service charge 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. • Operational costs of the Market continue to increase for the Council which in turn is not passed on to traders |

1.6.2

50% Increase to the deficit between current service charge charged and actual cost

| Stall Type | Amount Currently Charged | 50 % Difference between Charged/Actual | Proposed New Charge Per SqM |
|-------------|-------------------------------|--|-----------------------------|
| Non-Food | £540 (Actual Cost £767.91) | £113.95 | £653.95 |
| Food | £540 (Actual Cost £785.06) | £122.53 | £662.53 |
| Café | £540 (Actual Cost £785.06) | £122.53 | £662.53 |
| Meat & Fish | £540 (Actual Cost £800.99) | £130.49 | £670.49 |

Examples of financial impact on traders

| Stall type | Example Square Metres | Current Charge Per Square Meter | Annual Service Charge | Proposed Increase Charge | Annual Service Charge | Difference Annually |
|------------|-----------------------|---------------------------------|-----------------------|--------------------------|-----------------------|---------------------|
| Non -Food | 18 | £540 | £9720 | £653.95 | £11,771 | £2051 |
| Food | 20 | £540 | £10,800 | £662.53 | £13,250 | £2450 |

| | | | | | | |
|-------------|----|------|---------|---------|---------|-------|
| Café | 27 | £540 | £14,580 | £662.53 | £17,888 | £3308 |
| Meat & Fish | 18 | £540 | £9720 | £670.49 | £12,068 | £2348 |

| Advantages | Disadvantages |
|---|---|
| <ul style="list-style-type: none"> Will improve the budget position compared to the “do nothing” option in 1.6.1 by approximately £98k Minor financial impact on tenants Slight increase in risk of some traders leaving markets due to financial position Still significantly cheaper than other commercial retail spaces in the city and Crystal Peaks Mall | <ul style="list-style-type: none"> Still leaves overall deficit of full cost recovery by approximately 98k |

1.6.3

Full Cost recovery

| Stall Type | Amount Currently Charged | Difference between Charged/Actual | Proposed New Charge Per SqM |
|-------------|--------------------------|-----------------------------------|-----------------------------|
| Non-Food | £540 | £227.91 | £767.91 |
| Food | £540 | £245.06 | £785.06 |
| Café | £540 | £245.06 | £785.06 |
| Meat & Fish | £540 | £260.99 | £800.99 |

Examples of financial impact on traders

| Stall type | Example Square Metres | Current Charge Per Square Meter | Annual Service Charge | Proposed Increase Charge | Annual Service Charge | Difference Annually |
|-------------|-----------------------|---------------------------------|-----------------------|--------------------------|-----------------------|---------------------|
| Non -Food | 18 | £540 | £9720 | £767.91 | £13,822 | £4102 |
| Food | 20 | £540 | £10,800 | £785.06 | £15,701 | £4901 |
| Café | 27 | £540 | £14,580 | £785.06 | £21,196 | £6616 |
| Meat & Fish | 18 | £540 | £9720 | £800.99 | £14,417 | £4697 |

| Advantages | Disadvantages |
|--|--|
| <ul style="list-style-type: none"> No under recovery More sustainable position | <ul style="list-style-type: none"> Likely to see a larger increase in traders leaving the |

| | |
|--|---|
| for markets budget <ul style="list-style-type: none"> • No subsidy required. Reduces need to make further savings maintaining standards <ul style="list-style-type: none"> • Reduced risk to markets operation | markets as it becomes unaffordable. <ul style="list-style-type: none"> • Increase in costs passes on to markets customers • Significant reduction in rent and service charge income due to higher vacancy rates |
|--|---|

1.6.4 The recommended proposal is 1.6.2 which would increase the current Service charge by 50% on the difference between the current charge and actual costs

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. Reducing the large subsidy currently being provided on service charges, helps to 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 Market Management have consulted the traders individually to make them aware that a committee report has been submitted regarding the service charge.

3.2 A you ‘.gov’ email has been sent to all traders in Crystal Peaks market to make them aware that a service charge review is to be discussed at the Waste & Street Scene Committee

4. RISK ANALYSIS AND IMPLICATIONS OF THE DECISION

4.1 Equality Implications

4.1.1 This would be the first increase to the service charge in 14 years therefore the impact may be more significant.

- 4.1.2 The recommended increase of 50% between the current charge and actual cost would still see a competitive service charge when compared to other retail outlets, and there will still be an ongoing loss to the council from the under-recovery.
- 4.1.3 Discussions have highlighted that some of the traders believe they may struggle with the service charge 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 service charges and (c) stagger any future increases towards full cost recovery over a number of years
- 4.1.4 It's highly likely that increases in costs would be passed onto customers in many cases
- 4.1.5 The desired outcome is to make the markets budget more sustainable while minimising the risk to traders of becoming unprofitable, and to minimise impact on cost being passed through to customers.
- 4.1.6 Any increase in recovery of service charge will affect the profitability of traders. As small business owners changes in profitability can put the overall business at risk of continuing. This could impact the business owners and any staff working for them.
- 4.1.7 The proposed increase is likely to compound other cost increases (e.g. wholesale prices) that traders seem likely to have been experiencing. The costs will continue to increase in line with inflation and the cost of living crisis.

4.2 Financial and Commercial Implications

- 4.2.1 The Council continues to face significant financial challenges and inflationary pressures, all of which contribute negatively to the Council's budget position.
- 4.2.2 Without actions to address these costs and reduce overspends an unsustainable financial position could be reached.
- 4.2.3 The current service charge recovery from traders is £453k and the cost is £650k, this leaves the Council effectively subsidising £197k.
- 4.2.4 The proposal of a 50% uplift would increase recovery to £552k, therefore reducing the subsidy to £98k.
- 4.2.5 The option of full cost recovery would reduce the subsidy to nil.

4.3 Legal Implications

- 4.3.1 There are no significant legal implications arising out of the legal

agreements that govern the relationship between the Council and its landlord under the Superior Lease or the leases between the Council and its tenants as both require the tenant to pay a proportion of the service charges properly incurred by their landlord.

4.4 Climate Implications

There are no significant climate implications arising from this report. The initial CIA indicates that the emissions level from the operation of the market will remain the same as 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 on operational costs.

5.2 The option to move straight to full cost recovery (1.6.3) 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 1.6.2 of increasing the Service charge by 50% on the deficit between the current charge and the actual cost. The principle of full cost recovery of Service charge, 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. This will reduce the potential of businesses needing to leave the market, which in turn reduced financial risk from lost rent or service charges on the overall financial position.

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.

7 APPENDIX

7.1 Below is a table that illustrates current, proposed and full/actual service charge cost recovered across Crystal Peaks Market Place.

| Stall Type | Sq Mtrs | Current Service Charge Recovered | Proposed Service Charge Recovered | Actual/Full Service Charge Cost |
|--------------|---------------|----------------------------------|-----------------------------------|---------------------------------|
| Non – Food | 592.46 | £319,928.40 | £387,439.21 | £454,955.95 |
| Food | 119.68 | £64,627.20 | £79,411.27 | £93,955.98 |
| Cafe | 73.47 | £39,673.80 | £48,676.08 | £57,678.58 |
| Meat & Fish | 54 | £29,160.00 | £36,206.46 | £43,253.46 |
| Total | 839.61 | £453,389.40 | £551,733.02 | £649,843.97 |

7.2 Rent paid by traders at Crystal Peaks is all charged at the same base value of £236.72 per individual stall (9mtrs Sq). Rent at Crystal Peaks was increased last by 2.5% 1st June 2014.

7.3 The service charge at Crystal Peaks Market has not seen an increase since 2009 when a 3% increase was implemented.

7.4 In addition to the rent and service charge, utility charges are also recharged to traders and individually metered. At Crystal Peaks it is only electricity that is billed separately as no current traders use gas as a commodity. A recent decision to increase the utility tariffs by 50% was implemented by the Waste & Street Scene Committee 22/3/23. This was agreed with a 12 week grace period which allowed the first quarter of the new financial year to be billed at old tariff rates. A review is planned to present to committee in December after two quarters of the new tariff have been recharged to traders.

7.5 The table below shows the average monthly cost to traders before an increase to proposed service charge.

| Stall Type | Sq Mtr | Rent | Service Charge | Utility Billing (New tariff) | Total |
|-------------|--------|---------|----------------|------------------------------|-----------|
| Non-Food | 9 | £236.72 | £404.96 | £21.72 | £663.40 |
| Food | 9 | £236.72 | £404.96 | £74.89 | £716.57 |
| Café | 18 | £473.44 | £809.92 | £343.02 | £1,626.38 |
| Meat & Fish | 18 | £473.44 | £809.92 | £253.47 | £1,536.83 |

7.6 The table below indicates an average monthly cost to traders with the proposed uplift in service charge.

| Stall Type | Sq Mtr | Rent | Service Charge | Utility Billing (New tariff) | Total |
|-------------------|---------------|-------------|-----------------------|-------------------------------------|--------------|
| Non-Food | 9 | £236.72 | £490.46 | £21.72 | £748.90 |
| Food | 9 | £236.72 | £496.89 | £74.89 | £808.50 |
| Café | 18 | £473.44 | £993.79 | £343.02 | £1,810.25 |
| Meat & Fish | 18 | £473.44 | £1,005.74 | £253.47 | £1,732.65 |