



Derby City Council

**COUNCIL CABINET**  
**15 July 2015**

**ITEM 14**

Report of the Cabinet Member for  
Communities and City Centre Regeneration.

**Cattle and Wholesale Market – Property Rationalisation Update.**

**SUMMARY**

- 1.1 As part of the Property Rationalisation Programme a service review has been undertaken on the Cattle and Wholesale Markets.
- 1.2 The objectives of the review were to :-
  - Explore the current viability of the Cattle and Wholesale Markets.
  - Recommend any options to improve the medium and long term viability and sustainability of the sites in their current Cattle and Wholesale configuration.
  - If the sites are not viable in the medium term to recommend long term, regeneration/redevelopment opportunities for the site and a strategy to develop them.
- 1.3 The review has identified that the Cattle Market made an operational loss in 2014/15 of approximately £188k pa and that the Wholesale Market made an operational loss in 2014/15 of £94k pa. Although these losses vary from year to year, partly depending on repairs expenditure, the overall 'tone' of them is likely to increase.
- 1.4 Work was undertaken to see whether any improvements could be undertaken that would substantially improve the viability and sustainability of the sites in the medium and long term. This concluded that it is unlikely that any action would be successful in doing so, given that both markets' core businesses are in long term decline and the current configuration of the sites.
- 1.5 Recognising that these combined sites are not viable, it is proposed that they be redeveloped in a way which will support the principles and objectives of the Council Plan and City Centre Masterplan2030 as far as possible by seeking to achieve the optimal balance between:
  - Creating sustainable employment opportunities.
  - Re-generating a large highly visible site located next to one of the key gateways to the City Centre (A52).
  - Generating a capital receipt and/or a sustainable positive revenue stream from the site.

- It is also likely that the Council will require external specialist property advice to scope and determine the optimal balance between these objectives.
- 1.6 To support this, and to avoid a range of empty property risks and costs, it is proposed that the Council commit to the demolition of the buildings on the Cattle and Wholesale market sites once the existing leases have ended.
  - 1.7 It is recognised that these proposals will cause disruption to those businesses currently based at the Cattle and Wholesale markets, including those which are not directly market businesses but whose occupation is ancillary to the markets, and that Officers will work with the existing Tenants to endeavour to minimise the disruption to their respective businesses.

## **RECOMMENDATION**

- 2.1 To note that the Cattle and Wholesale market are currently not viable and that it is unlikely any action would substantially improve the viability and sustainability of the sites in the medium and long term in their current configuration.
- 2.2 To agree that the Cattle and Wholesale Market be redeveloped with the objective of supporting the delivery of the Council and City Centre Masterplan.
- 2.3 To agree to the demolition of various buildings on both the Cattle and Wholesale Market sites once the existing leases have ended, and any security or other measures that may need to be put in place pending redevelopment.
- 2.4 To approve that at the appropriate time in the sites regeneration programme the cost of demolition of the buildings, be included within the Capital programme.
- 2.5 To authorise officers to work with existing tenants to endeavour to minimise disruption to businesses.

## **REASONS FOR RECOMMENDATION**

- 3.1 To provide the Council with the necessary flexibility to undertake the regeneration of a poorly performing property with a significant net cost budget.
- 3.2 Support the delivery of the Council Plan and Masterplan for the City Centre
- 3.3 To seek to maximise the value of the sites as substantial council assets in generating either future capital receipt(s) and/or a sustainable positive revenue stream(s).
- 3.4 There are alternative livestock markets at Bakewell; Melton Mowbray and Leek at which farmers can sell their livestock, and alternative options for occupiers of the

wholesale market which no longer operates affectively as a single entity.



<b>SUPPORTING INFORMATION</b>
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- 4.1 To support the delivery of the property rationalisation programme, a series of strategic asset service reviews have been instigated. One of these reviews has been to look both the Wholesale and Cattle markets.
- 4.2 The objective of the review was to :-
- Explore the current viability of the Cattle and Wholesale Markets.
  - Recommend any options to improve the medium and long term viability and sustainability of the sites in their current Cattle and Wholesale configuration.
  - Recommend if the sites are not viable in the medium a long term regeneration/development opportunities for the site

**Current Viability**

**Cattle Market**

- 4.3 This site consisting of an area of 4.4 ha (11acres) comprises:-
- A line line of linked buildings at the front of the site, let to various tenants for a variety of uses including offices, workshops, retail and a pub.
  - Auction rings and livestock holding pens let to Derby Market Auctions (DMA). DMA's rent is based on a percentage of the fees they receive from the various livestock and other auctions they undertake on site. DMA currently hold only one livestock auction a week on the site and a horse and poultry sale twice a month.
  - Large concrete hard standing at the front and rear of the site, used circulation space car parking and the operation of the weekly car boot sale.

In addition to the various tenancies on the site income is generated from a weekly car boot sale, car and overnight lorry parking.

A plan of the site is shown in Appendix 2

- 4.4 The breakdown of when the leases on site are scheduled to terminate is as follows:-

No of leases up for renewal or schedule to terminating in the next 6 Months	9
No of lease schedule to terminate between 6- 12 months' time	1
No of leases schedule to terminate in 12+ months' time	2
Total Number of leases/agreement on site	12

- 4.5 Under the various leases, the Council is responsible for the maintenance of the buildings the site and site security. In addition under the terms of the DMA lease the Council are responsible for the utility cost and cleaning of the various livestock auction rings and holding pens. This cost incurred by the Council in meeting these obligations is currently in excess of the rent being received from DMA.

- 4.6 The Council have identified a maintenance liability of £3.3 m of repairs that may need to be undertaken to the premises in the next 3-5 years.

- 4.7 The net operating position in 2014/15 for the site is as follows:-

Income	£284,500
Expenditure inc Building maintenance	£472,100
Net Position (Operating Loss)	- £(187,600)

#### 4.8 **Wholesale Market**

- 4.9 This site consisting of an area of 1.23 ha (3.05 Acres) comprises:-

- The main block in the centre of the site subdivided into 28 units.
- A secondary block of 17 units located to the rear of the site

A plan of the site is shown in Appendix 2.

- 4.10 The level of occupancy is shown below:-

Let	50%
Vacant	35%
Occupied for City Council Use	15%

- 4.11 The breakdown of when the leases on site are scheduled to terminate is as follows:-

No of leases up for renewal or schedule to terminating in the next 6 Months	27
Total Number of leases/agreement on site	27

- 4.12 Under the leases granted, the Council is responsible for the maintenance of the building and common parts. It also undertakes the cleaning and removal of rubbish from the common areas. The cost of cleaning and removal of rubbish is recharged back to the Tenants through a service charge. The City Council is liable to meet the cost of the service charge relating to both all the units it occupies and all vacant units
- 4.13 The Council have identified a maintenance liability of £1.5 m of repairs that may need to be undertaken in the next 3-5 years.
- 4.14 The net operating loss in 2014/15 for the site taking into account property maintenance cost is £93,800.

**Options to improve the medium and long term viability and sustainability of the sites in their current Cattle and Wholesale configuration.**

- 4.15 Given that both sites are operating at a loss, work has been undertaken to look at what actions could be undertaken to eliminate this operating loss and improve the medium and long term viability and sustainability of the sites
- 4.16 The main areas considered were:-
- Can the current levels of income be increased
  - Can the current levels of expenditure be decreased
  - Investing in the current infrastructure.
- 4.17 This work concluded that whilst some short term improvements could be undertaken which would have some effect on mitigating the operation loss of both sites; it is unlikely any action would substantially improve the viability and sustainability of the sites in the medium and long term.
- 4.18 The reason for this are:-

**Cattle Market**

- The site is fully let and the rents achieved are at market value. Therefore, there is little scope in the short term in achieving a substantial increase in rental income through the reviewing of rent, letting of empty units etc.

- Income generated by the livestock auctions has decreased by an average of 13% over the last three years. Given significant long term structural changes to how the livestock sector operates including:
  - an increase in the number of direct sales by farmer to meat producers
  - increasing level legislation regarding Food safety, labelling and animal welfare
  - and varying fortunes of the national livestock industry generally

all of which are outside DCC control, it is unlikely that there will be a significant sustainable increase in the level of fees being generated through the sale of livestock.

- Whilst some short term reduction in cleaning cost for the livestock rings could be achieved, the major livestock disease problems in the previous decades; the increasing need for bio-security and the safeguarding of animal (and human) health will remain major compliance issues for the foreseeable future. Therefore, it is envisaged that as both hygiene standards and the corresponding costs incurred (by DCC, under the terms of the lease) to meet these standards will raise in the future, impacting on the medium and long term viability of the site. In addition, to the day to day costs there will be pressure on the Council to invest in the site to upgrade older facilities in order to meet these high standards, without a corresponding rise income.

#### Wholesale Market

- 4.19
- The rent and service charge currently being charged is at market levels. Therefore, there is limited scope in the short term to increase income through the reviewing of the rents currently being paid.
  - Given the level of voids there is scope to increase rental income through the letting of the vacant units on site. However, if all the available units were let this would only produce an annual operating surplus of £3- 4,000.
  - Works could be undertaken to reduce the future maintenance liability on the premises. However, as the Council is currently responsible for all structural repairs is “expected” to carry out these repairs any way it is unlikely that a substantial increase in the level of rental income, would be achieved.

#### **Long term regeneration/development opportunities for the sites.**

- 4.20
- Given that it is difficult to for the sites in their current configuration to be financially sustainable in the medium to long term it is proposed that the sites be redeveloped for an alternative use. A redevelopment of these sites will support the objectives of the Council Plan and City Centre Masterplan2030 through the :-

- The creation of sustainably employment opportunities.

- Re-generation of a large site visible site located next to one of the key Gateways to the City Centre.
  - Generation of a capital receipt or a sustainable positive revenue stream from the site.
- 4.21 Given the wide range of possible development that the sites could accommodate, detailed feasibility work will now be undertaken to assess future redevelopment options of both the Cattle and Wholesale Market and how best to present the sites to the market.
- 4.22 In order to achieve this, the Council needs to be in a position to maintain flexibility in drawing up development plans for the future regeneration of the sites
- 4.23 The prime legislation governing the termination and renewal of commercial and business leases, such as the various leases granted to the various tenants at the Cattle and wholesale market is the Landlord and Tenant Act 1954.
- 4.24 This legislation allows a tenant to stay in occupation of the property until such time as notice is served either setting out the terms of a new lease or that the Landlord terminates their agreement which can only be on certain specific grounds which are:-
1. The tenant has not fulfilled their obligations under the lease (persistent non-payment of rent; failure to undertake repairs etc.)
  2. The landlord has offered the tenant suitable alternative accommodation
  3. The landlord wishes either to occupy the premises for their own use; to demolish the property or is seeking to redevelop the property
- 4.25 Therefore, the best option to achieve the required flexibility in seeking future redeveloping the sites is for the Council to commit to undertake the demolition of various buildings on both the Cattle and Wholesale sites once the existing lease have ended.
- 4.26 It is anticipated that the total cost of undertaking the demolition of the buildings on site and of paying statutory compensation to any displaced tenants is in the region of £1.5m. The cleared site value for both sites is estimated to be in the region of £3.0 - 3.5m
- 4.27 The cost of demolition, which is unlikely to take place until the financial year 2016/17, is expected to be met from the Capital Property Rationalisation. This is forecast to have in excess of £1.5m by 2016/17.
- 4.28 Council recognises the disruption this proposal will have on the businesses currently located at the Cattle and Wholesale Market. Officers will work with the Tenants to endeavour to minimise the disruption to their respective businesses.



- 4.29 It is envisaged that for the foreseeable future, the car boot sale will carry on at the Cattle Market site.

#### **OTHER OPTIONS CONSIDERED**

- 5.1 The renewal of the leases of the existing Tenants on site would have not improved the medium and long term viability and sustainability of either the Cattle or Wholesale Markets sites.
- 5.2 A disposal of the sites in their current configuration will not enable the Council to maximise the potential return from the asset.

**This report has been approved by the following officers:**

<b>Legal officer</b> <b>Financial officer</b> <b>Human Resources officer</b> <b>Estates/Property officer</b> <b>Service Director(s)</b> <b>Other(s)</b>	Olu Idowu – Head of Legal Services Amanda Fletcher – Head of Finance Neighbourhoods and Chief Executive  Alistair Burg – Interim Head of Strategic Asset Management and Estates
<b>For more information contact:</b> <b>Background papers:</b> <b>List of appendices:</b>	John Sadler 01332 643334 John.Sadler@derby.gov.uk Review Documentation Appendix 1 – Implications Appendix 2 - Plan of site

<b>IMPLICATIONS</b>
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**Financial and Value for Money**

- 1.1 The estimated capital cost for the demolition of the Cattle and Wholesale Market and statutory compensation payments to the tenants is estimated to be £1.5 m. Given the termination dates of the various lease at the premises it is unlikely that any demolition will take place until the financial year 2016/17. The cost of demolition to be met from the capital element of the Property Rationalisation Funds.
- 1.2 The demolition of the Wholesale and cattle market will create an ongoing revenue pressure of £55,000, which is the overall net income budget for both sites. Cleaning of the Cattle Market is currently undertaken by Streetpride. Ending this would result in a loss of income to Streetpride of £120,000, however costs will also reduce by a broadly similar amount.. Under the Property Rationalisation programme it has been assumed that any building maintenance savings will be used to offset the on-going revenue pressure.
- 1.3 Until the site is developed, there will be on-going revenue costs for the site, such as rates and site security. It is anticipated that any activity that continues on the site would generate an income stream that would at least match these costs. If not, the activities would likely cease, allowing the site would be closed and secured. This is anticipated to result in only minimal on-going revenue costs.

**Legal**

- 2.1 A resolution by the Council to the demolition of the buildings at the Cattle and Wholesale Market will allow the Council to resist the renewal of any leases that are protected by the Landlord and Tenant Act 1954.
- 2.2 Nevertheless, as the report identifies, the Council will be obliged to make statutory compensation payments to each of the relevant leaseholders.

**Personnel**

- 3.1 The proposed regeneration of the Cattle and Wholesale Markets sites will have an impact on staff based in both the Markets Team and Streetpride associated with the management and running of the sites. Consolations regarding the specific effects and timings will be on-going.

**IT**

- 4.1 No direct implications.

**Equalities Impact**

- 5.1 An Equalities Implication Assessment is to be completed in support of this work.

### **Health and Safety**

- 6.1 The demolition of the buildings on the Cattle and Wholesale market site will reduce the number of empty buildings the Council will need to keep secure.

### **Environmental Sustainability**

- 7.1 The demolition of the livestock market will reduce the level of effluent currently being produced from the site.

### **Property and Asset Management**

- 8.1 These comments have been included in the report.

### **Risk Management**

- 9.1 The proposals would lead to the reduction in risk to the Council in that empty building that will be demolished reducing the number of buildings that the Council need to keep secure.

### **Corporate objectives and priorities for change**

- 10.1 The recommendations will allow the redevelopment of poorly performing property and meet the following objectives of the Council Plan and the City Centre Master plan:-
- The creation of sustainable employment opportunities.
  - Re-generation of a large site visible site located next to one of the key Gateways to the City Centre.
  - Generation of a capital receipt or a sustainable positive revenue stream for the Council from the site.



## **Appendix 2 – Plan of Cattle and Wholesale Market**

