

The Highland Council

City of Inverness Area Committee – 28 January 2016

Agenda Item	6
Report No	CIA/4/16

**Victorian Market, Inverness – Action Plan – Market Management
Inverness Common Good Fund**

**Joint Report by the Director of Development and Infrastructure and the
Inverness City Area Manager**

SUMMARY

This report updates Members on the preparation and initial implementation of an Action Plan focussed on improving trading conditions for the Victorian Market (the Market) and the City centre. It details a proposal to prepare and offer a Tender to the open market. Specifically the report sets out the:

- status of the Market within the City;
- Terms of Reference used in structuring the Feasibility Study (the Study);
- how the Market works;
- how the utilisation of a third party operator could improve performance; and
- the risks and the benefits.

Members are invited to note the consultation with the Traders to date and consider the terms of the Study and the report and then agree to instruct officers to prepare a Tender.

1. Introduction

1.1 The role of the Market within the City

1.1.1 Asset of the Inverness Common Good Fund – The Market is held on the account of the Inverness Common Good Fund (the Fund) and is managed by the Council on behalf of the Fund. The Council is under a duty to ensure that Fund assets are managed efficiently and effectively to produce a Market Value rate of return. At present, Council resources are targeted on:

- managing the tenancies so that they produce a Market Value rate of return;
- managing the daily operation of the market through the provision of daily Facilities Management services; and
- ensuring that the fabric and structure of the Market is maintained. This involves allocating significant sums for capital projects such as the recent renovation of the roof.

1.1.2 An asset within the City of Inverness – The Market draws footfall into the City centre. The mix of tenancies includes a wide range of businesses which fall into the following general categories:

- varied Micro and small businesses, many of which are family – owned and have traded from the Market for generations; and
- specialist businesses such those selling Jewellery, for which the Market is well known.

1.1.3 The Market is seen as a good place to start a new business, because the rent is inclusive of all costs and lease terms are usually short, no more than five years long. Many Tenants' have traded for longer periods through negotiating lease renewals at the end of each lease term. This gives an element of certainty. The location of the Market, within the City centre is recognised by the Inverness City Vision and the City Centre Development Brief. Members also approved the Fund's Investment Strategy which recognises the importance of a vibrant City Centre and the investment needed to maintain the Funds' property assets.

1.2 Actions to date

The report presented to the Committee on 2 June 2015 (CIA 35/15, taken in Private) set out an Action Plan which, if implemented would see the Market improve its contribution to the economic vibrancy of the City whilst generating a market value return for the Fund.

Members agreed to the continued development of a contract for the management of the Victorian Market, which will include the preparation of a Business Case, and to note:

- i) the initial Feasibility Study attached relating to ideas for structural changes; and
- ii) that further reports will be made to the City of Inverness Area Committee on progress.

This report focusses on developing the following target initiatives identified to Members at Committee on 2 June 2015, being:

- i) Marketing Plan – The Study confirms that this should be included within the Tender.
- ii) Facilities Management – The Study highlights the need to ensure that operational management arrangements are set up in the most effective manner in readiness for interest from the Private Sector.
- iii) Tenancy management – The Study confirms the need to ensure that the Tenants' lease arrangements undergo a phased change over a period of 3 to 5 years to reflect the inclusion of a Service Charge. The aim is to provide a sustainable base for an on-going

programme of investment for the long-term benefit of the Fund and the businesses within the Market.

The progress of the actions to improve the built environment is detailed in a separate report.

The Study attached (**Appendix1**) details an opportunity to progress the rejuvenation of the Market as a Trading Centre for the City, through the letting of a Tender for the provision of Facilities Management, Tenancy Management and Marketing Services.

- 1.3 If implemented, the proposals could see the transfer of the management of Tenancies and general maintenance, Marketing and Facilities of the Victorian Market from the Council, to a Private Sector Managing Agent.
- 1.4 The Study sets out the:
 - present position of the Victorian Market as a property asset;
 - the Council's vision for the Market as a centre piece to the City Centre Development Brief;
 - Vision -v- Reality; and
 - elements to be considered as part of the potential Tender.
- 1.5 The Study (Para 2.4) sets out the challenges, officers are committed to ensuring that Members are engaged and that the tenants are kept informed of proposals and that appropriate support is given.
- 1.6 This report was deferred to today's meeting, in order to consider further representations from Traders. In response a newsletter was sent to Traders (copy attached, **Appendix 2**). A further meeting took place with Traders, on 12 January and a constructive discussion took place which enabled Traders to have further understanding of the need to investigate Private Sector options for managing the Market.

2. How the Market works

2.1 Executive Summary

The Study highlights the context of the Market as an asset for the Fund, the City and the potential of its development along with the risks.

The principal issues which need to be addressed within the Tender are highlighted as being the:

- vision for the Market;
- need to phase the implementation of any Service Charge;
- possible impact of a Service charge on occupancy rates;
- review of running costs;

- roles of the Council and Agent; and
- branding of the Market

A phased approach is suggested which can be summarised as follows:

- the first 3 years of the Management Agreement would be used for:
 - the implementation of a new longer lease;
 - introduction of the concept of a Service Charge;
 - the commencement of the Service Charge, which may involve Rents being 'pegged' to ease implementation for the Tenants';
 - the review of operational costs;
 - the Council and the Agent would begin to scope the development and implementation of the Vision;
 - on-going branding of the Market; and
 - introduction of Start-up or Pop-up retail units.
- during years 4 and 5, the focus would be on:
 - delivery of the Vision for the Market;
 - New Leases would be longer term with a Service Charge incorporated;
 - there would be a focus on improving income to the Fund by reducing Service Charge costs and generating higher rental income;
 - creation of a focal point by using the Market Hall area as a space to attract an anchor tenant; and
 - extending opening hours

The discussions with Traders to date have been designed to build confidence in the Council's determination to have meaningful Stakeholder engagement. The Stakeholders are:

- the Council;
- Market Traders;
- adjacent businesses;
- Inverness Business Improvement District;
- Federation of Small Businesses; and
- Inverness Chamber of Commerce

Stakeholders will be consulted depending on the issues under consideration.

3. The Market as a Property Asset

- 3.1 The Study confirms that, at present, the Fund appears to make a modest surplus averaging out at circa £45,000 annually over the last 5

Financial Years. However, this does not take into account the capital investments made in project work. Examples include the Roof Replacement project, cost £966K in 2012, and the work planned to the Academy Street entrance.

- 3.2 The Study confirms that tenants' costs would rise significantly if a Service Charge was imposed now. Consequently, its introduction should be phased over a period of years. Phasing would allow Rent levels to take account of the Service Charge. This would be balanced against the need to recover the cost of maintenance/capital works.
- 3.3 Currently, rental income does not provide a good rate of return once the cost of providing services such as Facilities Management and Capital Projects are taken into account (see **Appendix 3**).
- 3.4 The Market also has a diverse range of businesses. The Study suggests that this range could be developed to attract specialist traders over the period of the Management Agreement.

4. Link to investing in physical improvements

- 4.1 The Study suggests that during the term of the Management Agreement, the Fund will need to continue to invest. The focus should be on:
 - Market Entrances – apart from direct investment in making improvements, consideration should be given to improving the adjoining Streetscape. This fits in well with the proposal to improve the Academy Street Entrance. The proposals to improve buildings on Academy Street and the plans to improve Station Square and surrounding area are also important; and
 - the internal layout – walkways are narrow and floor space could be better utilised, particularly within the Market Hall. An evaluation of installing a mezzanine floor should also be considered.

These changes would complement the development of businesses trading in the Market.

5. Next Steps

- 5.1 Stakeholder engagement - is ongoing with support being given to marketing and ensuring that the Market functions effectively. It will be important to maintain consistency through the period of change and the City Area Manager will lead on regular Stakeholder meetings to introduce proposals and listen to feedback.
- 5.2 It is recommended that the City Area Manager proceeds as set out within this report keeping Stakeholders appraised. Other adjacent

projects and integration with the City Centre Development Brief will be led through the Inverness City Task Force. Reports will be taken to the City of Inverness Area Committee detailing progress on the Action Plan.

- 5.3 Proposals to improve the marketing of the Victorian Market and the development plans to improve entrances and the interior, continue to be the immediate priority.
- 5.4 Before we seek interest from the Private Sector we will ensure that consideration will be given to the recommendations detailed within the Study and highlighted in this report, together with input from our Stakeholders. The resulting Tender document will then be presented for offer on the open market. Once Tenders are returned, they will be evaluated and a recommendation made to the Committee.
- 5.5 It should be noted that the Council's standard Tender offer makes it clear that the Council is under no obligation to accept any of the Tenders received.

6. Project Management

- 6.1 The Tender process will be led by the City Area Manager. This will involve regular progress reports being made to the City of Inverness Area Committee. Other Stakeholders, will be kept informed.

7. Implications

7.1 Legal

The Council will continue to meet all its legal obligations under the terms of any contracts agreed and processes will comply with the Councils Financial Regulations and Contract Standing Orders. The agreement of Council may be required for final approval of the acceptance of a Tender. This will be confirmed when returned Tenders are evaluated.

7.2 Climate Change

All contracts will be managed in a manner which meets the Council's obligations in relation to climate change.

7.3 Resources

- 7.3.1 The costs of utilising a Managing Agent will be known on receipt of Tender Returns. **Appendix 3** details the Running Costs for the Market set for the last five Financial Years.

- 7.3.2 Prior to approval being sought from this Committee to the letting of a Facilities Management Agreement, a Business Case will be prepared drawn from the recommended Tender detailing the financial model being applied. This will ensure that the Fund produces a stable

financial 'Market Value' return for the principal benefit of the Residents of the former Burgh of Inverness.

7.4 Rural

The proposals detailed in this report will potentially attract private sector investment and promote job growth and help support the landward areas surrounding the City.

7.5 Risks

7.5.1 The Study sets out these in the section headed 'Vision -v- Reality. The Tender should be prepared giving keen attention to the points highlighted in the Study. The risks identified, range from the need to detail management responsibilities, to being clear about expectations on developing the tenancy mix and Market Brand. Ensuring that the Tender is correctly prepared will also reduce the risk to income and the preserve the reputation of the Council. The need to maintain the confidence of the Tenants will be met by phasing in any changes, ensuring that Tenants are engaged and able to contribute their thoughts.

7.5.2 The method of implementation will be crucial to maintaining the future viability of the Market and improving the return to the Fund. This process will include ensuring that advice and support is offered to Business Start-ups and Micro Businesses. It is planned to open discussions with Business Gateway on how best this could be achieved.

7.5.3 Importantly, the Study concludes that Private Sector Management is a viable option and that so long as the transformation from Council to Private Sector is phased, there is potential for the Market to fulfil its role in the development of a vibrant City Centre as envisaged by the City Vision and City Centre Development Brief.

7.5.4 Client liaison will be a key feature of the Management Agreement and the City Area Manager will ensure that this process is designed in consultation with relevant stakeholders to ensure that governance lines and responsibilities are clear to all parties and in particular, that change is managed effectively, with update reports to the City of Inverness Area Committee. This will include regular liaison with the Provost and Central Ward Members.

7.6 Gaelic and Equality

There are no known Gaelic or equality implications arising from this report

8. Conclusion

- 8.1 The Study confirms that the appointment of a Managing Agent will allow for the benefits of private sector specialist facility management and promotion to complement the existing high standards of tenancy management provided by the Development and Infrastructure Service.
- 8.2 Approval of the recommendations will give officers authority to draft a Tender. This will be achieved in compliance with the Councils Financial Regulations and Contract Standing Orders. Tenders will be received and evaluated by officers and then if appropriate, the Committee will be invited to approve the letting of the Contract. The recommendation will be supported by a Business Case which will detail any risk implications.

RECOMMENDATION

Members are invited to:

- i. note the further discussions with Traders since the deferral of this Report from the Committee held on the 3 December 2015
- ii. note the report and the Feasibility Study attached, relating to the potential of Private Sector management of the Victorian Market **(Appendix 1)**;
- iii. agree, subject to consultation with Stakeholders, to instruct officers to draft and publish an Invitation to Tender for a contract for the management of the Victorian Market described within this report and the Feasibility Study, for a duration of five years, planned to commence as soon as practicable; and
- iv. note that further reports will be made to the City of Inverness Area Committee on progress, with a Tender Report being prepared and presented to the City of Inverness Area Committee for approval as appropriate as soon as practicable in 2016.

Designation: Director of Development and Infrastructure and the
Inverness City Area Manager

Date: 18 January 2016

Author: David Haas, Inverness City Area Manager,
Allan Maguire, Head of Property Partnerships



**+ Graham
Sibbald**

4 Ardross Street
INVERNESS, IV3 5NN

T: +44 (0)1463 236977
F: +44 (0)1463 224886
inverness@g-s.co.uk

www.g-s.co.uk

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Highland Council
Glenurquhart Road
Inverness
IV3 5NX

For the attention of Mr David Haas, Inverness City Manager

Dear Sirs

VICTORIAN MARKET, ACADEMY STREET, INVERNESS

1.0 PURPOSE OF REPORT

1.1 We refer to our email of 8th July 2015 and subsequent meeting with Council representatives at Inverness Town House on 3rd September 2015 and as instructed we have now prepared a report with our recommendations in terms of your proposals to transfer management of the Victorian Market from Highland Council Property Management Team to a private sector managing agent.

1.2 Our report consists of 4 sections as follows:-

- Present position of Victorian Market as a property asset.
- Highland Council vision for Victorian Market as part of Inverness city centre development brief.
- Vision – v – Reality
- Elements to be considered as part of a Tender Brief.

1.3 We have relied upon information as provided by Highland Council in terms of tenancy schedule, standard lease, rental income and running costs.

2.0 EXECUTIVE SUMMARY

2.1 The Victorian Market is managed by Highland Council and over the last five years has generated an average annual rental in the region of £270,000 per annum. There are ongoing annual costs in terms of repairing, cleaning and providing security over the common parts. The average cost over the last five years has been circa £225,000 thereby generating an average surplus of £45,000 per annum.

2.2 Highland Council are undertaking a feasibility study with regards to the present management of the Market and whether there are opportunities to add value to the asset by a tendered transfer of property management to the private sector. In addition the Council wish to investigate the possibility of rebranding the Victorian Market by changes to entrances as well as the internal layout.

2.3 Graham and Sibbald have prepared a report with regards to possible issues that may arise and that should be considered in terms of a Tender Brief for the actual management of the Market.

Senior Partner
ID Leighton FRICS

Managing Partner
L McAndrew BLE MRICS

Partners
NR Fisher FRICS DipBS
BJ Devine FRICS
P McEachran FRICS
BD Murdoch BSc MRICS
DS Ross MRICS DipBS
KA Murchie BLE MRICS
IR Croall BSc MRICS
KM Scobbie BSc(Hons) MRICS
GR Louttit MRICS IRRV
RW Buchanan DipSurv MRICS
C Henderson MRICS
S Buglass BSc FRICS ACIARB
PE Docherty MRICS DipBS
CMC McCash BSc MRICS
MA Wilson BSc MRICS
AW Dandie MRICS
G Tonner MRICS
C Campbell BSc MRICS MEI
G Davidson BSc(Hons) MRICS
DC Cameron BSc(Hons) MRICS
FH Lang BSc MRICS
J MacBean BSc MRICS
K Watters BSc(Hons) MRICS
AJ Leask BSc MRICS
NA MacFarlane MRICS DipBS
AR Welch BSc(Hons) MRICS
DA Robertson BSc(Hons) MRICS

Associates
KJ MacDonald MRICS
M Esslemont BSc MRICS M.Inst.CS
J Burns BSc MRICS
KA McGuire MSc MRTPI MRICS

Planning Consultant
I Kelly BSc(Hons) DipTP MRTPI

Consultant
IC Gillies FRICS MCIArb



Regulated by RICS
Chartered Surveyors
A Quality Assured Firm

2.4 Prior to issuing a Tender Brief we advise that Highland Council give serious consideration as to their expectations from transfer of the management to the private sector. This will include providing advice within the brief on

- The "Vision" for the Market and a timescale/plan for implementation.
- Whether a service charge should be introduced to recover costs for the common parts. If so, should this be immediate or phased.
- Possible impact of a service charge upon rental levels and occupancy rates.
- Can existing staff and running costs be reduced? This would entail analysis of present outgoings and whether these costs could be reduced under private sector management.
- The respective roles of the Council and the agent, particularly with regards to possible longer term changes in the Market.
- Branding of the Victorian Market. This is a specialist field and a property asset manager would normally sub contract this work.

2.5 Given the complexities of the Asset we are of the opinion there may be merit in considering a two phase approach to the management of the Victorian Market

Phase 1 – From appointment of Agent up to end of Year 3.

In our opinion it will be difficult for Highland Council to achieve its vision for the Market in the short term and we suggest that in the initial 3 year tender period the Market would be co-managed by both the Council and the private sector agent with pre-determined roles and responsibilities. Day to day asset management duties would be the responsibility of the Agent but larger management issues would need to be coordinated by all stakeholders. The Council and the agent would liaise closely with the Tenants Association advising as the terms of the appointment.

We envisage that the term would be used to-

- Draft up and introduce a new longer lease.
- Introduce the concept of a Service Charge element to tenants.
- Begin to recover the Service Charge costs albeit rents would be pegged at similar levels as existing. Therefore the tenants would see no difference in their rental liabilities but the Council would begin to recover running costs.
- Highland Council and Agent to investigate if running costs can be reduced over the three year period.
- Highland Council and Agent to begin to scope out basis for implementation of the "Vision". I.E. Possible termination of leases in Market Hall to create central space for longer term anchor tenant.
- Ongoing Branding and Marketing of the Market.
- Introduction of start-up or pop up retail units.

Phase 2 – From Year 4 onwards.

- Implementation of the “Vision”.
- All new leases of standard retail units to be on longer term with running costs being recovered by way of a Service Charge.
- Medium term goal to establish growth in overall income by reduction of service charge costs if possible and increase in rental income.
- Create focal point in Market Hall enabling marketing of this area to attract anchor tenant.
- Address issues of extending opening hours.

3.0 PRESENT POSITION OF VICTORIAN MARKET AS A PROPERTY ASSET

- 3.1 Victorian Market is a unique example in the Highlands of a covered pedestrianised parade of retail units. The original Market Arcade accessed from Academy Street dates from 1817 although this was rebuilt in 1890 following a fire and over the following 10 years, further extensions were added to the arcade by way of the Market Hall and Church Street entrance as well as the Queensgate Arcade and links to Academy Street. We understand the Market is Category B Listed as from 22nd December 1976.
- 3.2 The Market occupies a prominent position in the city centre and as stated there are entrances from Academy Street, Queensgate, Church Street and Union Street which converges in the centre of the Market.
- 3.3 In terms of ownership, we understand Inverness Common Good Fund/Highland Council have outright ownership of the heritable property comprising the Market Arcade and Market Hall. The retail units at Queensgate Arcade are in private ownership and do not form part of this report in terms of asset management, although the views of the occupiers/owners will obviously be important in deciding on any significant changes to the Victorian Market as an entity.
- 3.4 From plans and a retail summary as provided, we note that the asset consists as follows:-
- Market Arcade – 12 retail units.
Market Hall/Fish Hall – 25 retail units.
- From a summary of rental income, we note that the Market Arcade is fully let with the 12 retail units producing an average rental in the region of £11,348 per annum. The Market Hall presently has 21 occupied units with 4 vacant properties. The average annual rental is £5,365 per annum.
- 3.5 We note that the gross rental income as at September 2015 was £275,670 per annum. The 5 year average rental from 2011 to 2015 is in the region of £270,000 per annum.

- 3.6 We have analysed the annual running costs of the Market and estimate the 5 year average cost to be in the region of £225,000 per annum. At present these costs are absorbed by the Common Good Fund and as such that the Market as an asset produces a 5 year average net income in the region of £45,000 per annum based upon figures as at September 2015. However these figures ignore one off and extraordinary repairs and in this connection we understand that in 2012 the Common Good Fund expended significant monies by way of roof repairs at a cost in the region of £965,000. Again we understand these costs were absorbed by the Common Good Fund with no recovery of costs from tenants.
- 3.7 Historically, we understand the Market has traded with relatively high occupancy rates which are due in part to the present lease arrangement whereby either party can terminate a lease after the first year's occupancy by giving three months' notice.
- 3.8 We note that the tenant mix reflects a widespread range of retail uses. In terms of the tenant mix, we understand this has not been a significant issue in the past but the Council would be keen for the market to develop with niche traders in the future as well as a possible anchor tenant.
- 3.9 We have been provided with a copy of the standard lease for market units within the Victorian Market and we note that the essential terms are as follows:-
- Lease term – the lease is for a period of one year and after the first year, the lease can be terminated by either party by giving 3 months prior notice.
 - Rent review – In the event that the lease continues for a minimum period of 5 years, the landlord has the right to review the Market Rental on the basis of a 5 year lease with disregards in terms of tenant's improvements, tenant's occupation and tenant's goodwill.
 - Repairs – The tenant accepts the property in its present condition as at the date of entry and is responsible for internal repairs during the period of the lease, as well as external decoration after 5 years. The landlord is responsible for works under Schedule 1 of the lease including:
 - Cleaning of common parts
 - Security to common parts
 - Day to day repairs to common parts
 - Provision of heat, light and power to common parts
 - Refuse collection/disposal from agreed disposal points
 - Use – The Use Clause states that the property is to be used for retailing. Betting shops and licensed shops are not permitted.
 - Alienation – The tenant is not permitted to sub-let or assign the lease without the landlord's consent.

- Observations on Lease – We would make the following points with regards to the present lease.
 - The lease is silent with regards to insurance. We note that Highland Council do, in terms of outlays, insure the Market, but we are unaware as to the extent of the insurance cover. At present it does not appear that the insurance monies are recovered from the tenants.
 - Landlord's costs – There is no provision to recover any costs from the tenants in respect of running costs, day to day repairs or significant one off works to the common parts.
 - Lease terms – The lease is on a year to year basis with 5 year reviews. This type of lease will appeal to tenants as there is minimal risk on their part and after the first year, the lease can be terminated given 3 months' notice. However, in terms of asset management this leads to higher administration costs and also affects the quality of the tenant covenant.
 - Alienation Clause – This is restrictive as there is no test of reasonableness but given the year to year nature of the lease at present we would not consider this to be a significant problem.
 - Use – The lease states that the use is general retailing. Ideally this should be defined in terms of the Use Class Orders.

3.10 We have been provided with details of annual expenditure and income for the 5 years from 2011 to 2015. A summary of the costs and income is attached.

See **Appendix 1 – Summary of costs and income.**

3.11 We understand the asset is fully managed by Highland Council with direct labour costs in terms of caretaker, security costs etc. as well as indirect labour costs by way of asset management i.e. standard duties such as rent collection, negotiating of leases, marketing and contract administrations.

4.0 HIGHLAND COUNCIL VISION FOR VICTORIAN MARKET

4.1 The Victorian Market lies within an area covered by the Inverness City Centre Development Brief as published by Highland Council and adopted in March 2013. The overall Mission Statement of the Brief is to have a resurgent city centre as the heart of Inverness which is the service centre for the Highland area. The aspirations of the Brief are to this end:

- Improve the commercial vitality and viability of the city centre.
- Make the city centre the most attractive and desirable place for businesses to locate.
- Enhance the user experiences for tourists and other visitors.
- Make the most of our historic buildings.
- Reconnect the city centre with the River frontage.
- Increase connectivity and active travel to, from and within the city centre.

The Victorian Market which lies at the heart of the Old Town area of the centre is specifically identified in the development brief with the following development opportunities:

- Enhancing the eligibility of the entry points to the Market to create a more welcoming environment. Further Streetscape works at the main entrance and at Falcon Square to help direct people into the Market.
- The Market currently consists of relatively narrow walkways with a small number of benches located near the main entrance. Accordingly, the reworking of the ground floor premises and the addition of a mezzanine floor in the Market Hall should be explored. This could help open up the Market, create a civic space and increase the rate of return.
- Similar indoor markets such as Merchant Square and Princes Square in Glasgow have clear and welcoming entrances and a mix of uses including retail units, cafes, restaurants, bars, stalls and arts and crafts fairs. The combination of these uses would provide both daytime and night time attractions.

4.3 From our discussions with the officials of Highland Council, it is noted in developing the Action Plan, a feasibility study has been undertaken which has identified various issues and opportunities primarily dealing with improvements to the Market entrance, but also with the intention of creating a heart to the Market, to create a destination for residents and tourists alike. As part of this review, there are further key actions identified, specifically:

- To consider appointment of a managing agent to raise the profile.
- Review of the existing facilities management.
- Review of tenancy management.

5.0 VISION – v – REALITY

5.1 The principal purpose of this report is to consider how a private sector managing agent would manage the Victorian Market on behalf of Highland Council/Inverness Common Good Fund and in turn, on behalf of the tenants and the community as a whole.

5.2 It may be stating the obvious, but the private sector agent will do what is required of them within the Tender Brief as prepared by Highland Council and careful consideration should be given to this prior to issuing of the brief. From our initial meeting with Council officials, we note that the intention is to pass all management duties to the private sector agent. In terms of practical day to day issues, this would include the following:

- Marketing and letting of vacant units.
- Rent reviews and Lease renewals.
- Lease extensions.
- Assignations and sub-lets.

- Lease termination and dilapidations.
- Rent collection.
- Client/tenant liaison.
- Health & Safety management issues.

In addition to the above, we assume that the following elements would also require to be included as part of the brief:

- Ongoing management of repairs and day to day upkeep of common parts.
- Introduction of some form of Service Charge recovery.
- Retention of existing Highland Council personnel – TUPE of personnel.
- Health & Safety issues.

In addition to the above, we note that Highland Council would wish to develop the Market as a “brand” and ultimately aspire to open out the Market Hall, secure an anchor tenant and extend the opening hours. These elements of a brief could be regarded by existing tenants as contentious particularly if for example leases are to be terminated in order to create a larger space within the Market Hall area for an anchor tenant. A tender brief would be within the public domain and ideally prior to issuing the brief, Council representatives would have opportunities to discuss and explain the vision for the Hall with existing tenants, in order that they are fully aware of proposals and timescales.

5.3 Points for Consideration:

Lease

- The present lease is essentially on a year to year basis but incorporating 5 year rent reviews assuming the tenant remains for that period. From a management perspective, this will lead to higher administrative duties by way of annual notices to quit but as stated above, the attraction to a tenant is that this minimises risk. Conversely from the landlord’s point of view, the risk is increased given that the tenant is only obliged to give 3 months prior notice. This in a way, reflects the very nature of the Market, particularly the Market Hall where there are a reasonable number of start-up businesses. From the landlord’s perspective, these will always be higher risk and private sector agent would require to be guided by the Council as to how they wished to develop the tenant mix within the Market. From a property management point of view, it is preferable to have better quality tenants on longer leases, as this improves the asset valuation but from a community point of view, the Council may wish that a certain retail units are offered on a more flexible lease terms to encourage start-up businesses.

Ideally from an asset management point of view, we would suggest that the leases be revised for more established tenants to incorporate the following:

- Lease terms – minimum period of 3-5 years.

- Rent – the rental to be fixed for a 3 or 5 yearly period and reviewed on a 3/5 yearly basis thereafter.
- Market rent – We advise that market rents at rent review dates be Index linked or similar.
- VAT – Highland Council to advise as to charging of VAT.
- Use – The use classes to be as per the Use Class Orders.
- Alienation – On the basis of a 3/5 year lease, a test of reasonableness should be incorporated in that the landlord's consent shall not be unreasonably withheld for a sub-let or an assignment of the lease.
- Insurance – We would suggest that the landlord insure the property and recover a pro rata premium from each of the tenants.
- Repairs/Service Charges – At present there does not appear to be a mechanism to recover these costs. At present the tenant is only responsible for internal repairs to their own property as well as external decoration on a 5 yearly basis. There is no provision for the recovery of the common costs in respect of the repairs or upkeep of common areas.

Start-up businesses could continue to be leased on the basis of a year to year lease or a Licence to Occupy but in the understanding that the lease will be for a longer term period at the end of the first year. Another option to consider would be making space available for "pop up" retail space which would be available on a short term basis.

Introduction of Service charge agreement

- As stated, annual running costs excluding exceptional one off items average in the region of £225,000 per annum. In a conventional shopping centre we would normally expect these costs to be recovered or alternatively that the rental reflected a payment in respect of a pro rata element of the running costs. In this instance, for indicative purposes, we have checked the Rateable Value of each retail unit and calculated the % of total RV to arrive at a notional split of the repair costs. See **Appendix 2 – Notional impact of a Service Charge**. As you will note if all running costs were passed on to the tenants on the basis of an equitable apportionment by reference to Rateable Value this would result in a significant increase in total rental. We estimate the average increase to be in the region of 70%.

- The Victorian Market by nature of its location and format, particularly in the Market Hall area, attracts small start-up businesses. We expect that the introduction of a service charge to recover all costs would be highly contentious and possibly lead to several businesses closing. We have not been tasked with undertaking an analysis of existing rental levels within the Market at present, but from checking a sample of the Valuation Roll floor areas and the passing rentals it would appear that the existing rental levels for Market Arcade and Market Hall are generally in the region of £350-£420/sq m (£32.50-£39.00/sq ft). In our opinion these rental levels are higher than rents established for shops in the surrounding streets which arguably have a better location but it should be borne in mind that these units tend to be let on longer full repairing and insuring leases with the tenant committing to maintaining the property over a longer period. In addition the units will be larger than the Market retail units with the latter reflecting an element of inverse quantum. However in general we are of the opinion that the passing rents in the Market include the benefit to the tenants of having no contribution towards running costs of the common parts.
- Having regard to the above we would advise that Highland Council carefully consider the possible impact of a Service Charge agreement at the Victorian Market. In this connection we advise an analysis of passing rentals to establish if there are grounds to recover part or all of the running costs but reducing the base rental at the same time. In this manner Highland Council may elect to determine an annual "income" from the Market but thereafter apportion the income between rent and recovery of service charge costs.

Ongoing staff costs / TUPE

- It is noted that there are existing costs in respect of a caretaker as well as security and cleaning contracts. A private sector managing agent would require guidance within the Brief as to whether existing staff/contracts are to be retained or if these are to be re-tendered as part of the overall management of the Market.

Existing repairs scheme and Contract payments

- As with staff costs it is important that the Brief contains full details of any existing repairs contracts. It is noted that there have been payments to Internal and External contractors and clarification would be required as to whether these contracts are to be retained.

Running costs

- It may well be that cost savings can be identified in terms of the overall running costs.

Marketing and Branding

- It is noted that Highland Council wish to consider a rebranding exercise for the market. This type of work is out with the scope of a conventional property manager but could be handled by way of a sub contract within the Brief.

6.0 ELEMENTS TO BE CONSIDERED AS PART OF A TENDER BRIEF

- 6.1 Graham and Sibbald act on behalf of a number of private and public sector clients in managing property portfolios and from our experience of contract tenders we append details of elements that we would expect to be covered as part of a tender Brief for the management of the Victorian Market.

The initial Brief should clearly set out the perceived roles and responsibilities of the contract together with a contract period. We understand that the Management contract would be for a period of three years. However we consider there to be merit is option for an initial Tender period (Phase 1) of 3 years and a further Tender thereafter (Phase 2) with a view to implementation of the Council's vision for the Market. The day to day management duties would essentially be the same in both Tender periods but more strategic aspects of the Market management would be introduced in Phase 1 and Phase 2.

From other Management contracts we would expect the day to day elements of a Tender Brief to cover the following-

6.2 Financial Management

The Brief to set out how the Council expects the agent to administer the finances of the asset. Areas to include

- Details on agent's property management package.
- Reporting basis, ie what reports to Highland Council wish to have with regards to rental income and expenditure.
- Arrears reporting and actions.
- Budget forecasting and year end reconciliations.
- Insurance – Who insures the Market and deals with claims.
- Business rates – Agent to notify Assessors Dept on changes in tenancy.
- Processing Invoices – Agent to factor invoices received. In this connection it may be necessary to establish a float for quick payment.
- Asset Valuation – It is noted that Highland Council may seek this to be done as part of the contract.

6.3 Management of works.

- Repairs and maintenance – Highland Council to specify extent of works required by agent in terms of day to day repairs, cleaning contracts, one off repairs, testing of utilities.
- Out of hours call out. Tender to state what is required.
- Health and Safety. Copies of all risk assessments to be provided. HC to state what H+S works and reports they will require. HC to scope out risk management works such as M+E testing.

- Control of Asbestos at Work Regulations. HC to provide copies of Asbestos Management Plan and Asbestos Registers.
- Contractor Insurance. Agent to prepare list of long term contractors and ensure all insurance up to date.
- Tenant fit out works. Normally a landlord will seek a Licence in respect of tenant's alterations. HC to specify extent of agent's instructions.
- One off repairs. It is assumed that responsibility for these works will remain with Highland Council. As part of a Brief we would expect a summary as to the condition of the existing structure and a copy of the planned maintenance programme. The successful tenderer would require detailed condition reports.

6.4 Lettings

- Agent to deal with all new lettings and lease renewals. Heads of terms to be agreed.
- Agent to deal with property viewings and maintain log of all interested parties.
- Agent to liaise with Highland Council legal agents in agreed format to formalise lease.
- Highland Council and agent to agree on marketing strategy for vacant units.

6.5 Property Inspections.

- Agent to undertake regular inspections of all units on agreed format. Agent to update client on regular basis.
- Emergency Call outs. Agent to submit emergency call out plan with contact details.
- Fire risk assessments. HC to confirm who does these.
- Landlord's plant. Details of any plant that requires regular maintenance to be included in the brief.
- Energy Performance. It is noted that there is a single EPC for the Market. Copies to be made available to the agent. It should also be noted that forthcoming changes in energy efficiency may require Highland Council to produce an Action Plan.

6.6 Tenant management

- Agent to service Notices on tenants in respect of lease renewals, terminations, rent reviews.
- Unauthorised sub lettings. To be dealt with by agent but on basis of keeping client informed.
- Service Charges. To be agreed.

- Utilities. On vacating a property the tenant will receive a Moving Out form with a requirement to take final readings and advise the supplier of same.
- Security contract. To be agreed.
- Frost protection.
- Dilapidations. Agent to service Schedule of Dilapidations on an outgoing tenant and ensure works completed.

6.7 Client Liaison

- It is essential from both the client and the agent's point of view that there are clear lines of communication. Normally the client will appoint a contract administrator and the agent will provide an organogram with hierarchy of personnel headed by the Contract Manager.
- Meetings. We would expect at least quarterly meetings between the client and an agent.

6.8 Extended opening hours

- It is noted that the Council are seeking to extend the opening hours of the Market and this will require stakeholder liaison particularly with the Tenant's Association.

6.9 Branding and marketing

- We note that some initial concept drawings have been prepared by 360 Architecture and the Agent would work closely with the Council's nominated specialist in the introduction of Branding.

7.0 **SUMMARY AND RECOMMENDATIONS**

7.1 The Victorian Market generated an average annual rental in the region of £270,000 per annum. There are ongoing annual costs in terms of repairing, cleaning and providing security over the common parts. The average cost over the last five years has been circa £225,000 thereby generating an average surplus of £45,000 per annum.

7.2 Highland Council is exploring the possibility of appointing a private sector Managing Agent to act on their behalf in day to day asset management as well as and longer term realisation of the Victorian Market as a prominent hub within the city centre. Having regards to the various issues at the Market we advise consideration be given to a two phase appointment

Phase 1 – From appointment of Agent up to end of Year 3.

In our opinion it will be difficult for Highland Council to achieve its vision for the Market in the short term and we suggest that in the initial 3 year tender period the Market would be co-managed by both the Council and the private sector agent with pre-determined roles and responsibilities. Day to day asset management duties would be the responsibility of the Agent under both Phases 1 and 2 but larger management issues would need to be coordinated by all stakeholders. The Council and the agent would liaise closely with the Tenants Association advising as the terms of the appointment.

We envisage that the initial 3 year term would be used to-

- Introduce a new longer lease.
- Introduce the concept of a Service Charge element to tenants.
- Begin to recover the Service Charge costs albeit rents would be pegged at similar levels as existing. Therefore the tenants would see no difference in their rental liabilities but the Council would begin to recover running costs.
- Highland Council and Agent to establish if running costs can be reduced over the three year period.
- Highland Council and Agent to begin to scope out basis for implementation of the "Vision". I.E. Possible termination of leases in Market Hall to create central space for longer term anchor tenant.
- Ongoing Branding and Marketing of the Market.
- Introduction of start-up or pop up retail units

Phase 2 – From Year 4 onwards.

- Implementation of the "Vision".
- All new leases of standard retail units to be on longer term with running costs being recovered by way of a Service Charge.
- Medium term goal to establish growth in overall income by reduction of service charge costs if possible and increase in rental income.
- Create focal point in Market Hall for marketing to attract anchor tenant.
- Address issues of extending opening hours.

7.3 Suggested Timeline of events

Stage 1 – Evaluation of all relevant factors for preparation of Tender Brief.

Stage 2 – Advise Tenants Association of proposals.

Stage 2 – Issue of Tender Brief.

Stage 3 – Appointment of Agent

Stage 4 – Initial 3 year contract

To: Highland Council
Re: Victorian Market, Academy Street, Inverness
Ref: 2015/10/0027/MW/RM

Stage 5 – Tender Period from Year 4 onwards



We trust this report is suitable for your purposes but should you require any further assistance in this matter please do not hesitate to contact us.

Your faithfully

Mark Wilson, RICS Registered Valuer
Graham and Sibbald
Mwilson@g-s.co.uk

To: Highland Council
Re: Victorian Market, Academy Street, Inverness
Ref: 2015/10/0027/MW/RM

APPENDIX I
Summary of Costs and Income



Client Highland Council

Subjects Victorian Market
Acadamy Street
Inverness

Date Oct-15

Analysis of running costs

Outlays	2011		2012		2013		2014		2015		5 year average	
	Cost	%	Cost	%	Cost	%	Cost	%	Cost	%	Cost	%
Labour costs	£99,097.61	48.99%	£68,781.16	25.84%	£47,771.61	16.74%	£54,985.83	27.83%	£54,983.04	31.41%	£65,123.85	30.16%
Maintenance	£45,363.96	22.43%	£59,578.14	22.38%	£63,742.63	22.33%	£34,774.78	17.60%	£7,951.39	4.54%	£42,282.18	17.86%
Contract payments	£0.00	0.00%	£0.00	0.00%	£49,907.11	17.48%	£14,849.41	7.52%	£32,692.78	18.67%	£19,489.86	8.73%
Security	£582.45	0.29%	£52,397.39	19.69%	£52,153.91	18.27%	£41,963.27	21.24%	£40,654.48	23.22%	£37,550.30	16.54%
Electricity	£6,442.99	3.19%	£6,341.40	2.38%	£4,937.46	1.73%	£13,168.81	6.67%	£7,161.85	4.09%	£7,610.50	3.61%
Water	£4,174.99	2.06%	£3,167.38	1.19%	£3,644.74	1.28%	£728.55	0.37%	£3,194.04	1.82%	£2,981.94	1.34%
Rates	£2,200.74	1.09%	-£35.28	-0.01%	-£78.57	-0.03%	£833.34	0.42%	£754.87	0.43%	£735.02	0.38%
Refuse collection	-£1,207.04	-0.60%	£1,563.38	0.59%	£1,226.01	0.43%	£1,353.41	0.69%	£562.44	0.32%	£699.64	0.29%
Cleaning	£24,531.21	12.13%	£32,936.88	12.37%	£30,887.62	10.82%	£18,949.93	9.59%	£17,510.90	10.00%	£24,963.31	10.98%
Insurance	£3,692.01	1.83%	£3,723.48	1.40%	£3,356.42	1.18%	£3,471.62	1.76%	£0.00	0.00%	£2,848.71	1.23%
Marketing	£2,003.00	0.99%	£20,858.65	7.84%	£5,661.00	1.98%	£7,894.00	4.00%	£4,773.00	2.73%	£8,237.93	3.51%
Miscellaneous	£15,398.71	7.61%	£16,860.60	6.33%	£22,237.33	7.79%	£4,601.81	2.33%	£4,836.54	2.76%	£12,787.00	5.37%
Total	£202,280.63	100.00%	£266,173.18	100.00%	£285,447.27	100.00%	£197,574.76	100.00%	£175,075.33	100.00%	£225,310.23	100.00%

Rents received £262,414.85 £256,014.88 £279,974.34 £279,343.71 £271,229.63 £269,795.48

Surplus £60,134.22 -£10,158.30 -£5,472.93 £81,768.95 £96,154.30 £44,485.25

NB

1. Summary excludes one off costs in 2012 £965,844.04

To: Highland Council
Re: Victorian Market, Academy Street, Inverness
Ref: 2015/10/0027/MW/RM

APPENDIX II
Notional impact of a Service Charge



Client Highland Council
 Subjects Victorian Market
 Academy Street
 Inverness
 Date Oct-15

ASSESSORS REF	USE	UNIT	RV	% of total	Annual costs	Apportionment	Rent	Total
06/08/0060277	SHOP	1 MARKET ARCADE	£12,500.00	5.33%	£225,000.00	£11,988.49	£15,000.00	£26,988.49
06/08/006030/1	SHOP	2-4 MARKET ARCADE	£14,150.00	6.03%	£225,000.00	£13,570.97	£16,500.00	£30,070.97
06/08/006033/2	SHOP	3 MARKET ARCADE	£6,400.00	2.73%	£225,000.00	£6,138.11	£8,050.00	£14,188.11
06/08/006039/4	SHOP	5-7 MARKET ARCADE	£10,500.00	4.48%	£225,000.00	£10,070.33	£11,800.00	£21,870.33
06/08/006042/8	SHOP	6 MARKET ARCADE	£5,900.00	2.51%	£225,000.00	£5,658.57	£7,420.00	£13,078.57
06/08/006048/0	SHOP	8 MARKET ARCADE	£5,750.00	2.45%	£225,000.00	£5,514.71	£8,000.00	£13,514.71
06/08/006051/4	SHOP	9 MARKET ARCADE	£5,700.00	2.43%	£225,000.00	£5,466.75	£7,700.00	£13,166.75
06/08/006054/5	SHOP	10-12 MARKET ARCADE	£10,000.00	4.26%	£225,000.00	£9,590.79	£13,500.00	£23,090.79
06/08/006057/6	SHOP	11-13 MARKET ARCADE	£9,750.00	4.16%	£225,000.00	£9,351.02	£13,300.00	£22,651.02
06/08/006066/2	SHOP	14-16 MARKET ARCADE	£11,000.00	4.69%	£225,000.00	£10,549.87	£12,500.00	£23,049.87
06/08/006069/3	SHOP	15 MARKET ARCADE	£10,000.00	4.26%	£225,000.00	£9,590.79	£11,400.00	£20,990.79
06/08/006078/9	SHOP	18 MARKET ARCADE	£8,750.00	3.73%	£225,000.00	£8,391.94	£11,000.00	£19,391.94
06/08/147005/5	STANCE	CHURCH STREET	£225.00	0.10%	£225,000.00	£215.79	£0.00	£215.79
06/08/148112/3	OFFICE	MARKET HALL	£1,100.00	0.47%	£225,000.00	£1,054.99	£0.00	£1,054.99
06/08/148004/5	SHOP	UNIT 1	£4,850.00	2.07%	£225,000.00	£4,651.53	£6,650.00	£11,301.53
06/08/148040/9	SHOP	UNIT 10	£2,550.00	1.09%	£225,000.00	£2,445.65	£0.00	£2,445.65
06/08/148044/7	SHOP	UNIT 11	£6,500.00	2.77%	£225,000.00	£6,234.02	£0.00	£6,234.02
06/08/148052/6	SHOP	UNIT 12A	£8,500.00	3.62%	£225,000.00	£8,152.17	£8,200.00	£16,352.17
06/08/148056/4	SHOP	UNIT 12B	£4,900.00	2.09%	£225,000.00	£4,699.49	£6,000.00	£10,699.49
06/08/148060/5	SHOP	UNIT 13	£7,750.00	3.30%	£225,000.00	£7,432.86	£0.00	£7,432.86
06/08/148048/5	SHOP	UNIT 13A	£6,300.00	2.69%	£225,000.00	£6,042.20	£9,750.00	£15,792.20
06/08/148064/3	SHOP	UNIT 14	£6,200.00	2.64%	£225,000.00	£5,946.29	£7,500.00	£13,446.29
06/08/148072/2	SHOP	UNIT 16/22	£4,900.00	2.09%	£225,000.00	£4,699.49	£10,500.00	£15,199.49
06/08/148073/9	SHOP	UNIT 17	£2,475.00	1.05%	£225,000.00	£2,373.72	£0.00	£2,373.72
06/08/148084/9	SHOP	UNIT 19	£5,500.00	2.34%	£225,000.00	£5,274.94	£6,750.00	£12,024.94
06/08/148008/3	SHOP	UNIT 2	£4,300.00	1.83%	£225,000.00	£4,124.04	£4,800.00	£8,924.04
06/08/148088/7	SHOP	UNIT 20	£5,500.00	2.34%	£225,000.00	£5,274.94	£5,700.00	£10,974.94
06/08/148092/8	SHOP	UNIT 21	£2,900.00	1.24%	£225,000.00	£2,781.33	£3,550.00	£6,331.33
06/08/148096/6	SHOP	UNIT 21A	£2,600.00	1.11%	£225,000.00	£2,493.61	£3,600.00	£6,093.61
06/08/148104/4	SHOP	UNIT 23	£3,500.00	1.49%	£225,000.00	£3,356.78	£6,100.00	£9,456.78
06/08/148012/4	SHOP	UNIT 3	£2,700.00	1.15%	£225,000.00	£2,589.51	£4,200.00	£6,789.51
06/08/148016/2	SHOP	UNIT 4	£5,300.00	2.26%	£225,000.00	£5,083.12	£7,500.00	£12,583.12
06/08/148020/3	SHOP	UNIT 6	£5,200.00	2.22%	£225,000.00	£4,987.21	£8,500.00	£13,487.21
06/08/148024/1	SHOP	UNIT 7	£3,750.00	1.60%	£225,000.00	£3,596.55	£4,500.00	£8,096.55
06/08/148028/9	SHOP	UNIT 7A	£2,750.00	1.17%	£225,000.00	£2,637.47	£4,200.00	£6,837.47
06/08/148032/0	SHOP	UNIT 8	£4,000.00	1.71%	£225,000.00	£3,836.32	£5,500.00	£9,336.32
06/08/148036/8	SHOP	UNIT 9	£5,200.00	2.22%	£225,000.00	£4,987.21	£8,800.00	£13,787.21
06/08/148068/1	SHOP	UNITS 15 & 18	£14,750.00	6.29%	£225,000.00	£14,146.42	£15,700.00	£29,846.42
06/08/148068/1	STORE	UNIT 9	£0.00	0.00%	£225,000.00	£0.00	£1,150.00	£1,150.00
06/08/148068/1	STORE	UNIT 17A	£0.00	0.00%	£225,000.00	£0.00	£350.00	£350.00

£234,600.00 100.00% £225,000.00 £275,670.00 £500,670.00

NO OF SHOP UNITS 35 £6,702.86

Annual Costs Stated Annual Costs of £225,000 represent the average yearly spend over the last 5 years
 Apportionment The Apportionment of costs is a notional apportionment based upon the % of rateable value relative to the total
 Rent Rent stated is annual rental received at present by Highland Council
 Total Total sum represents the amended rental that would be due were Highland Council to seek repayment of all common costs as per a rateable value apportionment

Inverness Common Good Fund – Victorian Market

It was with concern that The Provost and I read the letters you presented which were received during the meeting of the City of Inverness Area Committee held on Thursday 3 December 2015. My immediate reaction was one of surprise, noting the 3 briefings that Council officials, led by me, have given regarding the proposal to consider utilising a private sector specialist to run the Market for benefit of all stakeholders.

I have considered the terms of your letter and respond to the points raised as follows;

1. Report purpose – Councillors were not being asked to agree to let a contract, only to allow a proper evaluation to be made if this was an option which would bring benefit to all Stakeholders. The covering report to Committee clearly states that the Tender Offer (framework) which any proposal would be based, would be prepared in consultation with Stakeholders which would include current Tenants
2. Common Good Fund Responsibilities – You correctly state that all Councillors have a duty to play a key role in ensuring that the Common Good Fund delivers a Market Value rate of return. The Victorian Market does not achieve that. The tenants pay for use of the space within their Units; they do not meet the cost of servicing the Common areas. This includes Heating and Lighting as well as Janitorial services. The usual practice is for a Service Charge to be raised which acts to make a reasonable contribution to these costs. The Council is under a duty to properly evaluate the options to improve the environment of the Market which would drive up footfall and so help Tenants' viability. The Report to Committee was designed to do that.
3. Improve the Trading Environment – The Council is running the Market in effective and efficient manner. The Services currently provided ensure that the Market functions in terms of Tenancy and Facilities Management. The point is that we all accept that the Market can do better in terms of being a wonderful asset to the City and so produce improved trading environments both for businesses within and outside the market. Indeed, the Common Good Fund has a duty to ensure that it does not show fear or favour to any City Businesses and the proposals are designed to provide a level playing field for all City Centre Businesses.

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4. Stakeholder Engagement – At the briefings held with Traders and within the report to Committee, commitments have been given to consult with Traders as Stakeholders, on the development of the plans for the market. I do not accept that the Council is progressing this proposal without full stakeholder engagement. Apart from the consultation to date, Councillors are only being asked to commit to finding out what may be on offer from the private sector. A report would be taken back to the City Area Committee after any expressions of interest were received. This is about finding opportunities to add value to the Market through a tendered transfer of property management functions. The Council will retain control but with the benefit of expertise which will deliver a better trading environment for businesses.
5. What happens between the approval of the report and the issuing of the invitation to Tender? - We will give careful consideration to our expectations as a landlord. This will include engagement with Stakeholders on the following;
 - The ‘Vision’ for the Market – and a timescale for setting and applying the Vision
 - The inclusion of a Service Charge as part of new or renewed lease arrangements to recover the costs of looking after the common areas.
 - The phasing in of any Service Charge and the possible impact of a Service Charge upon rental levels and occupancy rates
 - Evaluating existing running costs
 - The respective roles of the Council and the Managing Agent
 - Branding of the Market
6. Basic roles – Arrangements would need to be put in place which allowed for the Market to function through a strong Stakeholder Group. The Council, Agent and Traders which assume roles and responsibilities and liaise on agreed actions. This arrangement would be designed as part of the preparation work to seek interest from the private sector and involve Traders.
7. Current Lease agreement , the need for change – It will be in the interests of all Stakeholders to ensure consistency, particularly in the following areas;

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- Buildings Insurance – at present the Common Good Fund meets the cost for insuring everything other than what may be covered by Tenants Contents Insurance Policies
- Landlords general costs – we need to secure reasonable recovery of costs for day to day repairs, facilities staffing costs and other significant one-off costs to repair the Common Areas
- Lease Terms – we need to assess the viability of extending the lease term to a minimum of five years. This would give more certainty for Tenants and also help the Common Good Fund to plan investment as it would be more certain of the likely income. We will ensure that we retain the ability to provide for new start-up businesses and are planning work with Business Gateway on this aspect.
- Power for Tenants to transfer ownership of Leases – we want to introduce a more flexible arrangement in tandem with the longer lease. This will allow Tenants to be able to sell their businesses allowing the new owner to trade with the benefit of a secure lease for a period of years rather than one renewing annually.
- Use – we want to review the uses to which Units can be put so that we get a good mix of businesses. This would be done in consultation with the Stakeholder Group.

In conclusion, I confirm that it is not in the interests of the Council to ensure anything other than a vibrant successful Market. The search for the best way of doing this must include an evaluation of the viability of the Private Sector running the Market. That is all we would be doing should the recommendations of the report to the City of Inverness Area Committee be agreed by Councillors at the first meeting likely to take place on 28 January 2016.

I look forward to hearing from you and would be pleased to host another Briefing for Traders before the Christmas Holidays. Otherwise please call me to discuss on the number noted below.

David Haas
Inverness City Area Manager
Telephone Number 01463 785019

**INVERNESS COMMON GOOD FUND
VICTORIAN MARKET RUNNING COSTS**

Appendix 3

	2010/11	2011/12	2012/13	2013/14	2014/15
	£	£	£	£	£
Running Costs	191,988	244,967	215,291	172,599	145,621
Central Support/Corporate Costs -					
< THC Property Management Fees	15,745	15,361	16,798	16,761	16,274
< Central Support Charges	6,005	7,679	4,268	4,976	4,986
< CGF Investment Management Fees	8,471	6,955	3,373	5,252	5,739
Marketing/Publicity	10,465	22,696	6,633	8,341	7,855
	232,675	297,658	246,363	207,929	180,475
Rental Income	(262,415)	(256,015)	(279,974)	(279,344)	(271,230)
Net (surplus)/deficit before Capital Projects	(29,740)	41,643	(33,612)	(71,415)	(90,755)
Capital Projects	1,925	978,137	65,524	55,397	84,894
Net (surplus)/deficit net of Capital Projects	(27,815)	1,019,780	31,912	(16,018)	(5,861)