

Cattle Market Leases

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Lead Member/Portfolio Holder responsible	Councillor Sarah Cox - Portfolio Holder for Corporate Finance, Property and Resources

Corporate Priority:	Delivering sustainable and inclusive growth in Melton
Relevant Ward Member(s):	Melton Egerton – Cllr Pip Allnatt and Cllr Mike Brown
Date of consultation with Ward Member(s):	N/A
Exempt Information:	Appendix A, B and C of this report contains exempt information and is not for publication in accordance with Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

1 Summary

- 1.1 The Chair of Scrutiny Committee asked for a report to be considered by the committee with following details:
- Details of current occupiers of the site
 - How much rent is paid by each tenant
 - What percentage of rent is paid as income to MBC
 - The method for determining the rental values including when they were last valued and by whom

- 1.2 This report sets out answers to the above questions and provides an overview of the operation and management of this key commercial asset for the Council.

2 Recommendation

That Committee:

1. Notes the report and provides any feedback to the Cabinet

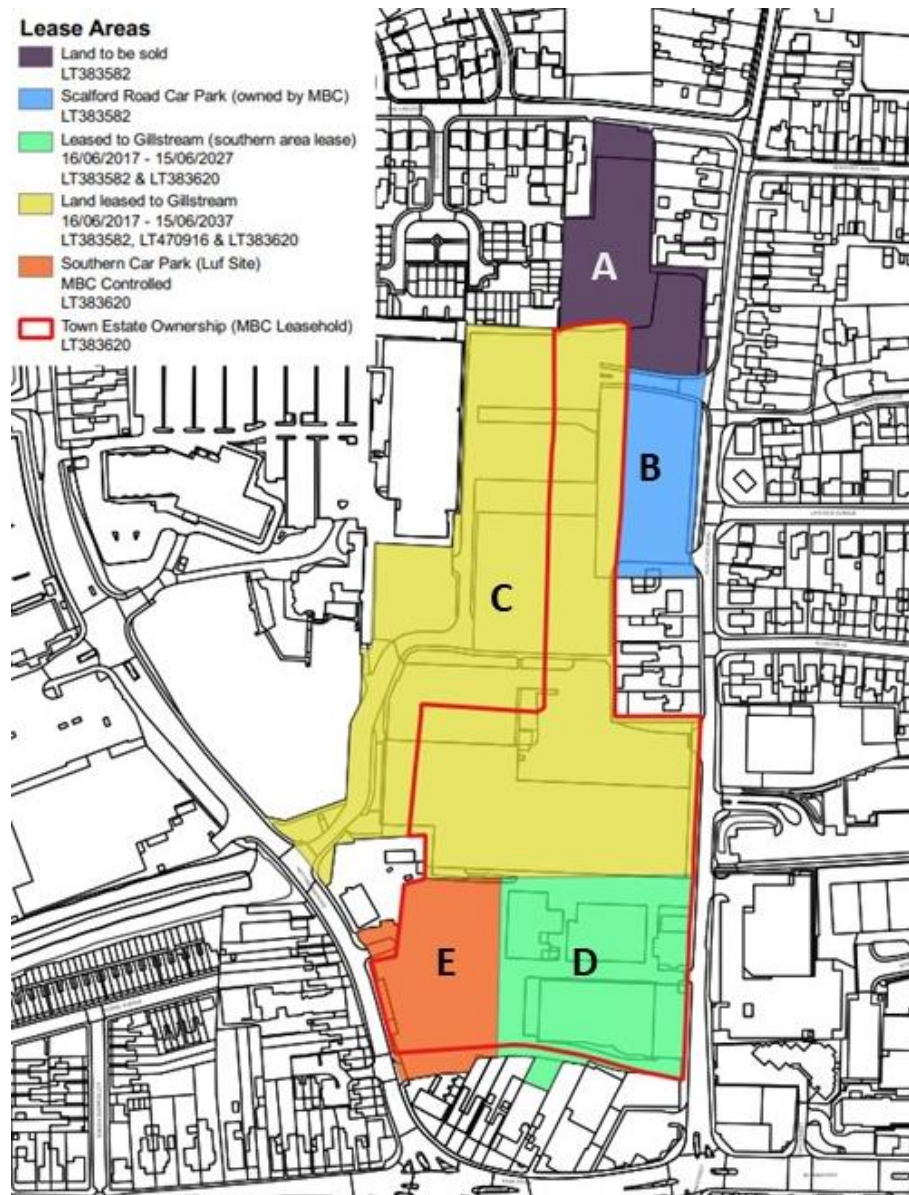
3 Reason for Recommendations

- 3.1 'Take a commercial approach to the management of our assets to deliver jobs, homes and income' is a focus area under the priority 3 of the Council's Corporate Strategy 2020-2024.
- 3.2 The Cattle market is one of the highest income generating asset for the Council and it is important to ensure that members have a good oversight of the effective management of it.
- 3.3 The livestock market is the only town centre based market in the Midlands and plays a key role in supporting the region's economy and food production sector.

4 Background

- 4.1 The Cattle Market site is located between Scalford Road and Nottingham Road and within easy walking distance of the town centre. The site accommodates the 1000-year-old institution of England's largest town-centre livestock market which plays an important part in the borough's economy.
- 4.2 Melton Borough Council (MBC) own the freehold of part of the site and occupy the remainder of the site under a 999 year lease from The Melton Mowbray Town Estate (MMTE) that started in 1870. MMTE does levy Charter Right charges based on the number of market stalls occupied throughout the year. Last financial year, this payment that was due is £14,891.
- 4.3 The Cattle Market site is operated by Gillstream Markets (Melton Mowbray Markets) who were selected through open procurement process in 2017. Gillstream have two leases from MBC which cover the majority of the site. The principal lease covers the new livestock buildings and the land north of the building for access, parking and washing areas and the second lease, referred to as the Southern Opportunity Area covers part of site, to the south of the livestock market. In accordance with the two leases Gillstream operate a livestock market with ancillary accommodation and associated enterprises.
- 4.4 A site plan below provides a breakdown of the various Cattle Market areas as follows;
- MMTE 999 year lease area as shown outlined in red on the plan.
 - Area A – Cattle Market North - land that has been declared surplus by the Borough Council and is currently being sold for residential development with a view to use £1m of capital receipt as match funding for the Levelling Up Funding for development of the Stockyard project.
 - Area B –Scalford Road Pay and Display Car Park. This element of the site owned freehold and managed by the Council. This site is approved by the Cabinet for disposal subject to further business case and due diligence.

- Area C – Let to Gillstream Markets on a 20-year lease. The principal lease commenced in 2017 and will terminate in 2037. This lease includes the new livestock buildings, collection yards, washdown areas and car/lorry parking. There are lettable retail units located beneath the new sheep building.
- Area D – Referred to as the Southern Opportunity Area. Gillstream hold a separate lease of this area. This lease will expire in 2027. Included within this leased area is the Banqueting Suite and Exhibition Hall, the Market Tavern and the old sheep shed buildings. These buildings are used for covered trading such as car boots, farmers market and specialist fairs and festivals. This area also incorporates Round Corner Brewery, Fur and Feather Gin Distillery and Feast and Furious Smokehouse. These three businesses are sub tenants of Gillstream.
- Area E – previously licenced to Gillstream. The licence has expired since December 2019. Gillstream currently use the area on informal basis for car parking on Tuesdays and the Borough Council receive a percentage of the takings. On other days parking is not controlled. This area is also used for larger Food Festival events. £10m Levelling Up Funding is received by the Council for redevelopment of this area as for food and drinks production units.



5 Main Considerations

5.1 Details of current occupiers of the site

- 5.1.1 The Council's direct tenant is Gillstream Markets Limited through the two lease agreements. Gillstream have then entered into agreements with the various occupiers across both leased areas in accordance with the lease conditions.
- 5.1.2 Gillstream have a number of sub tenants and occupiers within the principal leased area who occupy the trade units underneath the sheep building. Within the principal leased there are 21 lettable units (shops/units under the livestock market). Of these units 12 are let and Gillstream Markets receive an income from these.
- 5.1.3 In respect to the Southern Opportunity Area, there are 21 occupiers. Gillstream operate this as a commercial entity and the site provides a range of functions including, banqueting suites, market tavern, Farmers Markets and car boot along with large events such as the Food Festival and Artisan Cheese Fair. A number of units and areas within this Southern Opportunity Area have been further developed by the tenant and its sub tenants to provide a brewery, cocktail venue and the soon to be opened eatery. Additionally there are regular food retailers who occupy parts of the old sheep building and weekly market traders.
- 5.1.4 It should be noted that the rents and basis of occupation are negotiated between the occupier and Gillstream Markets. The Council has no involvement with the negotiations. Occupation may be by way of a lease (governed by the Landlord and Tenant Act 1954 legislation) or licence agreement which is more informal. Gillstream are solely responsible for managing the relationship and the terms of their respective legal agreements and the level of rental income. In accordance with the lease conditions, Gillstream seeks landlord consent prior to entering into any sub lease.
- 5.1.5 A full list of tenants/occupiers is noted in appendix A.

5.2 How much rent is paid by each tenant AND What percentage of rent is paid as income to MBC

- 5.2.1 The Council receives a rental payment from the two Gillstream Leases. The rent that MBC receives from Gillstream Markets is set in accordance with the terms of the lease agreements. This is made up of a base rent and a percentage of income if the sales and rents received by Gillstream exceed this base rent figure.
- 5.2.2 The original base rent for the Livestock Market lease was £75,000 and the for the Opportunity Area Lease was £50,000. This is a minimum rent that the Council will receive. There is then a Commission rent which is calculated based on the income generated by Gillstream Markets. If the Commission rent exceeds the Base rent then the Council receives the Commission rent. The base rent for the Principal lease may be increased annually in line with inflation linked to the RPI. There is no rent review provision for the Southern Opportunity Area lease.
- 5.2.3 The key contributor for the income received from Gillstream is livestock sales which represents 65% of the total income. The remaining income; 35% is made up from the various tenants and occupiers and activities/events across both leases. This 35% is taken from both the principal lease and the lease of the southern opportunity area.
- 5.2.4 Rental income from each individual occupier is negotiated between Gillstream Markets and the occupier and under the terms of our leases with Gillstream, MBC receives 35% of this income.

- 5.2.5 The council's finance team undertakes a verification exercise on annual basis of Gillstream's accounts to ensure the income reported to the Council is reflective of their accounts.
- 5.2.6 In addition to the sub leases, income is generated from car boot stalls and stalls at the Farmers Markets and Tuesday antiques/flea markets and special events. Income from these uses varies on a weekly basis or by event. MBC receives 45% of any income generate by Car Boot Sales after allocation of a service charge and rates.
- 5.2.7 The table below shows the total income from both leases that MBC has received from Gillstream Markets.

Year	2018/19	2019/20	2020/21	2021/22	2022/23
Actual payment received	£225,626	£213,202	£181,007	£235,270	£251,259

- 5.2.8 In both cases, "Gross Income" does not include any VAT (or similar tax) or service charge which is levied on the users and occupiers.
- 5.2.9 There are no provisions within the leases to negotiate the Commission Based Rent percentages. Where changes have occurred in the past this has been done by negotiation.
- 5.2.10 In 2022-23 the income generated by Scaford Road Pay and Display Car Long Stay Park was £22,232.70. Harborough District Council's Civil Enforcement Officers are contracted for enforcement of the traffic regulation order (TRO) in this car park. The tariff set within the TRO is £2.50 for up to three hours. A weekly pass can be purchased for £16. The car park is patrolled by the Civil Enforcement Officers.
- 5.3 The method for determining the rental values including when they were last valued and by whom**
- 5.3.1 The setting and review of the rents for the sub-tenants and trade occupiers is undertaken solely by Gillstream in their capacity as landlord. In setting and reviewing rents Gillstream would consider market values, conditions and any incentives to try and get tenants for the available units on site.
- 5.3.2 Where Gillstream Markets enter into leases covered by the Landlord and Tenant 1954 Act legislation they are required to seek consent from MBC. Such consent cannot be unreasonably withheld. In these instances MBC would review the terms of the underletting negotiated by Gillstream and provided they are reasonable and in accordance with the RICS code of practice, grant them with formal consent to underlet. The Council cannot offer any legal advice to the incoming tenants or dictate terms to them.
- 5.3.3 Both of the leases between Gillstream Markets and Melton Borough Council have been created on the basis that all parties understand the obligations which are contained within the leases. The Council encourages all parties to seek the relevant professional legal and surveyor advice. Council officers providing advice are qualified surveyors, regulated by the Royal Institution of Chartered (RICS) codes of conduct.
- 5.3.4 MBC cannot become involved in rent reviews between Gillstream Markets and their sub tenants and occupiers as MBC is not the direct landlord. This is in accordance with Landlord and tenant law and legal precedents together with regulatory requirements from the RICS.

- 5.3.5 Where a proposal requires a sub-tenant to make a capital investment into the site, where the landlord are unable to cover this investment, a rent reduction can be offered to the tenant for a relevant period. At the end of this period, if the tenant vacates the unit, then the landlord would own the structure they constructed with the capital investment and be able to rent this out again to another user to achieve a commercial rent. This was the case for Round Corner Brewery who have made significant capital investment into the site and their lease terms are in line with standard commercial market practise.
- 5.3.6 In respect of both leases the tenant is to keep the areas in good tenantable repair and condition. The landlord is responsible for the main structures, drainage and access roads.
- 5.3.7 The Stockyard development is expected to generate additional income for the council once complete with the construction of new food and drinks production units. The planning application for the proposal is due to be submitted by January 2024.
- 5.3.8 Whilst the development works are underway, a new procurement for the operation and management of stockyard will be undertaken and new lease conditions agreed.

6 Options Considered

- 6.1 N/A

7 Consultation

- 7.1 N/A

8 Next Steps – Implementation and Communication

9 Financial Implications

- 9.1 The table in para 5.2.7 outlines the income from the cattle market represents a significant income stream for the Council of circa £250k based on the outturn for 2022-23. It is important there is effective and robust management of the operator to ensure payments are up to date and accurate. This process is supported by the finance team with the annual review of accounts and monthly payment analysis.
- 9.2 Where rent review periods are in place the Council needs to ensure these are activated and discussions take place in a timely manner to agree and amend where required to ensure income maximization from a key council asset.

Financial Implications reviewed by: David Scott, Assistant Director for Resources

10 Legal and Governance Implications

- 10.1 This report is for information only therefore there are no legal implications arising directly from this report.

Legal Implications reviewed by: Alison McKane, Assistant Director for Governance & Democracy (Monitoring Officer)

11 Equality and Safeguarding Implications

- 11.1 N/A

12 Community Safety Implications

- 12.1 N/A

13 Environmental and Climate Change Implications

- 13.1 N/A

14 Background Papers

14.1 N/A

15 Appendices

15.1 EXEMPT – Appendix A – List of Occupiers

15.2 EXEMPT – Appendix B – Percentage split of income as per the lease agreements

15.3 EXEMPT – Appendix C – Details of Expenditure and Income