

Stratford upon Avon Town Council – Appendix ‘C’ Market Contract Review July 2021

1. Introduction

This report has been written to try to determine the impact on the Town Council’s finances if proposed changes to the split of the market income are approved.

The current situation is that the **gross income is split 60% / 40%** between the District Council and the Town Council.

Gross expenditure on the Victorian Christmas Market is also split 60 % / 40%.

Other expenditure is currently the responsibility of each individual Council.

However, from a report provided to the District Council’s Cabinet in May 2021, it appears that the District Council incur considerably more expenditure than the Town Council in market contract management.

The proposal by the District Council is that the **net profit is split 50% / 50%** on the basis that this would be fairer.

2. Stratford on Avon District Council (SDC)

See extracts from the Cabinet Report below:

THE CABINET

17 MAY 2021

Subject: Extension of the Stratford-upon-Avon Market Contract
Lead Officers: Julie Lewis
Contact on 01789 260007
**Lead Member/
Portfolio Holder:** Councillor I Shenton

Summary

The market contract was awarded in April 2017 and commenced on 1 October 2017 for a period of five years. The contract gives both the District and Town Council the option to extend for a further five years until 30 September 2027. The District and Town Councils are required to notify the contractor of their intentions in regards to the possible extension to the contract one year before the end of the five-year period, namely 30 September 2021.

Recommendation

That the current market contract is extended until 30 September 2027.

1 Background/Information

- 1.1 The market contract was awarded to LSD Promotions Ltd in April 2017 following the tendering of the contract. The contract was jointly awarded by the District and Town Councils, and as such they share the income received from the contract.
 - 1.2 The value of the contract at award was £135,550 per annum with an annual RPI uplift. The contract was jointly awarded by the District and Town Councils with the income split 60/40.
 - 1.3 **Current Contract**
 - 1.3.1 The current contract is working well. The contractor has invested in the region of £100K in new equipment and branding which has greatly improved the appearance and content of the markets.
 - 1.3.2 Covid-19 has impacted on the market contract. The number of stalls on the markets has been reduced to bring them in line with the government's guidance with regard to social distancing.
 - 1.3.3 The Councils have not received the contract payments since March 2020. These payments have been replaced with a set stall fee paid to Councils dependent on the number of stalls that are let per month. For example stalls let on Rother Street are £5 per stall and those on Waterside are £10 per stall.
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- 1.3.4 The introduction of the Victorian Christmas Market (VCM) in 2017 has given the retail and hospitality within the town centre better trading periods, bringing coaches of day visitors and with coach operators planning to make Stratford an overnight destination for the VCM.
- 1.3.5 The current contractor (LSD Promotions) generates considerable publicity for Stratford via the markets.

1.4 **Warwick District Council Markets**

- 1.4.1 Warwick District Council (WDC) is currently working to bring a number of smaller size contracts together to form one main contract that will cover markets across Warwick, Leamington Spa and Kenilworth. At the beginning of 2020, WDC had previously extended its current arrangements for a further year owing to COVID-19. It now plans to tender its contract with break points at three years, five years and six years to bring it in line with our contract which would finish in 2027 if we were to award a five-year extension. It is felt it is best to bring the two Councils together in 2027 in terms of the market contracts.

1.5 **Stratford-upon-Avon Town Council**

- 1.5.1 Stratford-on-Avon District Council (SDC) and Stratford-upon-Avon Town Council (STC) are both market authorities and this was the reasoning of joint procurement of the market contract in 2012. There is a tri-party agreement in place between SDC, STC and LSD and this is the foundation for the Markets Forum, for the monitoring of the markets contract. Stratford-upon-Avon Town Council administers the Forum and also collects contract fees from the contractor.
- 1.5.2 A meeting has been held with STC to suggest that the income split is revisited as it currently favours STC in terms of profits. It is proposed that all the administration and staffing would be better done by one organisation rather than some by STC and some by SDC. It is proposed that SDC takes on full administration for the market.
- 1.5.3 In 2019 STC received approximately £30,000 profit against £19,000 for SDC. A 50/50 profit-share would make the situation slightly more favourable to SDC. STC has approved this as it has no appetite to take on the markets on its own.

5.2 **Financial**

- 5.2.1 The below table outlines the financial position of the market. The current market contract is financially beneficial to both SDC and STC.

| | 2018/19 | 2019/20 |
|---------------------|-------------------|-------------------|
| Markets expenditure | 52,610.35 | 49,943.63 |
| Salary costs | 35,333.03 | 36,034.56 |
| Other expenditure | 129.56 | 677.06 |
| Income | -103,020.88 | -105,806.05 |
| Total | -14,947.94 | -19,150.80 |

- 5.2.2 Should the contract not be extended on the current basis, it is doubtful another contract will be procured on such beneficial terms.
- 5.2.3 Additionally STC has agreed that should the contract be extended from 1 October 2021, a new arrangement will be entered into with STC. This will be on the basis of SDC providing administration for the Market Forum and with a profit split of 50/50 to each Council. This will be more beneficial in terms of profit to SDC.

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3. Stratford upon Avon Town Council (STC)

- 3.1 STC administers the quarterly invoicing to the market contractor LSD and the banking of receipts. SDC then invoices STC for their 60% share and STC administers payment to SDC. Note that no STC staff costs are recharged to the market budget in the Management Accounts.
- 3.2 The Town Clerk attends Market Forum meetings and liaises with SDC officers for matters relating to the market contract and the Victorian Christmas Market (VCM). STC’s Admin Officer administers the Market Forum, including the agenda and minutes. Again note that no STC staff costs relating to these activities are recharged to the market budget in the Management Accounts.
- 3.3 Expenditure incurred by STC regarding the VCM is recharged to SDC once all supplier invoices and miscellaneous expenditure have been paid, to enable total expenditure for VCM to be accounted for. SDC then invoices STC for 40% share of these total costs. Overtime costs of STC staff are recharged to the VCM expenditure in the Management Accounts.
- 3.4 The following figures were reported in the STC’s Management Accounts for the financial year 2019/20 (the most recent full year before COVID-19 restrictions affected market trading):

| | 2019/20 |
|---------------------------------------|-----------|
| | |
| Income (gross amount invoiced by STC) | £ 142,119 |
| | |
| Expenditure (SDC 60% share) | £ 85,271 |
| Tripartite expenses | £ 300 |
| Christmas Market (STC 40% share) | £ 18,285 |
| | |
| Net Income | £ 38,263 |

- 3.5 In reviewing the SDC information in the report above, a number of queries were raised about the values reported because of insufficient detailed explanation:
- The annual Income figures in 5.2.1 of the SDC report did not appear to reflect SDC’s 60% share of the market contract income as calculated using the figures in the STC’s Management Accounts. A detailed breakdown of the SDC Income figure has subsequently been provided which shows SDC’s figures include STC’s payment to them of its 40% share of VCM expenditure and some other additional income in relation to VCM.

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- The item ‘Markets expenditure’ includes the total cost of the Victorian Christmas Market and other expenditure incurred by SDC in relation to the Rother Street and Waterside markets.
 - The item ‘Salary costs’ was presumed to be the annual salary plus employer on-costs (pension and National Insurance contributions) of the SDC officer(s) employed to manage the market contract. However, this figure was queried as being considerably overstated on the basis that it is understood that 2 days per week would be required to cover this role. If this figure was adjusted to reflect the proportion of time spent on market activities, this has a significant impact on the net profit which the SDC report indicates is achieved from their administration of the market contract (**i.e. the net profit would be higher than reported**). SDC have subsequently provided revised ‘Salary costs’ which have been re-calculated to more accurately reflect the total staff costs incurred on the markets.
 - There is a figure of ‘Other expenditure’ of £677.06 in the SDC report, which it has subsequently been explained relates to Travel, Supplies and Services.
- 3.6** The last quarterly payment made by the market contract under the original contract terms (i.e. after annual RPI increases) was **£35,985.75** in December 2019 for the second quarter of 2019/20 (note the market contract runs from October to September). The annual value at the time was **£143,943**. An RPI increase of 0.6% would have been due from October 2020 and a further RPI increase would also be due in October 2021 (percentage still to be determined).
- 3.7** The quarterly payments were suspended when COVID-19 restrictions were introduced in March 2020 and income since that time has been calculated using stall counts and a reduced fee to reflect fewer stalls in use. Total Gross Income invoiced over the last 12 months between July 2020 and June 2021 is **£30,285 (i.e. less than one quarterly payment under the contract terms)**.

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- 3.8** Based on figures currently available to STC, a revised estimate of the net profit for the market BEFORE splitting is shown below:

| | 2019/20 |
|--|-----------------|
| | |
| Income (gross contract value) | £ 142,119 |
| | |
| Victorian Christmas Market (STC/SDC) Net Expenditure | £ 43,837 |
| Expenditure (SDC) | £ 3,080 |
| SDC Staff costs (2 days per week – 2021/22 rates) | £ 14,815 |
| STC Staff costs (ad-hoc as required) | not charged |
| Other expenditure (SDC) / Tripartite expenses (STC) | £ 977 |
| | |
| Net Income | £ 79,410 |
| | |
| Split 50% / 50% | £ 39,705 |

This is over £1,000 above the figure of **£38,263** for STC which was reported in 2019/20 under the previous split but it still does not take account of any STC Staff costs. However, this re-calculation also suggests a considerable increase in the net profit reported to SDC’s Cabinet (**£19,150.80**).

N.B. these figures are not achievable while COVID-19 restrictions continue to affect the amount of market income which is being invoiced. Under the new proposal to share net profit, expenditure on fixed staff costs for market contract management will still be incurred regardless of reduced income. However, income could potentially be higher when the market contract is reinstated (currently expected from April 2022), assuming RPI increases are applied and expenditure does not increase substantially.

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4. Conclusion

Agreement is required of all expenditure items by both parties which will be charged to the administration of the market contract under the new proposal, including whether STC expenditure and staff costs for assistance with the Victorian Christmas Market will be recharged.

The impact of the short term arrangements with the market operator also require consideration because normal payments under the market contract continue to be “suspended” due to the impact of the coronavirus pandemic.

There are a number of options which can be considered:

- 4.1** Assuming SDC confirm they will adjust the percentage of staff costs charged to market contract management, and assuming agreement can be reached on all other expenditure to be recharged by both parties, the proposal to move all market contract administration to SDC and adopt a new split of 50% / 50% of net profit would seem to give STC a similar return to that achieved under the 60% / 40% split of gross income.
- 4.2** However, the current SDC officer who is responsible for market contract management is due to retire at the end of July 2021, but will be returning in September on a part time basis to manage the VCM for 2021. Given the level of experience which will be lost, there could be an impact in the short term on the amount of officer time required by the District Council to administer the markets going forward, and the net profit could be reduced in future years.
- 4.3** Under the ongoing merger discussions and activities between SDC and Warwick District Council, future management of the Stratford markets will go to officers based in Warwick, which will affect the local knowledge and relationship built up over many years with the existing market contractor. To build on the existing relationship, the Town Council could decide to request that they take on all the management and administration of the market contract in Stratford. However, this would require a new officer to be appointed by STC and will incur additional staff costs, although these could be similar to the staff costs currently incurred by SDC.
- 4.4** Given the ongoing uncertainty over COVID-19 restrictions on the amount of income which will be received, and uncertainty over officer involvement required by SDC / WDC over the rest of the current financial year, STC may prefer to maintain the status quo and continue with the current arrangement of splitting gross income 60% / 40%, with the intention of reviewing the situation ready to implement in the next financial year 2022/23.

5. Recommendation

Given the level of uncertainty over income and expenditure for the Stratford markets over the next financial year, it is not possible at this time to give councillors a confident assessment of the income which will be received if the SDC proposal is accepted.

There is further uncertainty over the implications of replacing the current highly experienced SDC markets officer with a WDC officer who will not have the same level of local knowledge.

It is therefore recommended that STC seek agreement with SDC on option 4.4 above, to maintain the current arrangement and review again in the next financial year.

Responsible Financial Officer

July 2021