

## **SCRUTINY COMMITTEE REPORT**

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|----------------|--------------------------------|
| Date Written   | 19 <sup>th</sup> December 2023 |
| Report Author  | Lance Whiteley                 |
| Service Area   | Regeneration                   |
| Committee Date | 23 <sup>rd</sup> January 2024  |

# **St. Tydfil's Shopping Centre**

## **1.0 SUMMARY OF THE REPORT**

- 1.1 Provide an overview with regards to the current position relating to St Tydfil's Shopping Centre

## **2.0 PURPOSE OF THE REPORT**

- Provide an overview with regards to the current position relating to the shopping centre.
- Detail progress made in relation to the site since item was presented to Scrutiny in September (relates to a specific action noted in September's Scrutiny).
- Ensure financial position/impact/implications of the purchase of the centre are explained.
- Outline any successes made to date and what the challenges are moving forward.
- Proposals going forward to improve the development and use of the site.
- Any other information which may be relevant and will add value to the Scrutiny.

## **3.0 INTRODUCTION AND BACKGROUND**

Following purchase of the centre, Scrutiny seeks to review progress of the plans for the site and will offer critical friend challenge of any future strategies to develop the centre and Glebeland site. Value will be added by offering recommendations to ensure any developments that take place will be of benefit and improve the town centre.

## **4.0 WHERE WE WERE**

4.1 St Tydfil's Shopping Centre was acquired by Merthyr Tydfil County Borough Council (MTCBC) from Patrizia Hanover Property Unit Trust on 14<sup>th</sup> December 2021.

The site was acquired by (MTCBC) with next to no experience in running a Shopping Centre and as a result contracted the services of established retail management group Cooke and Arkwright (**C&A**) to provide expert advice and support to daily operations of a small on-site Management team retained under MTCBC employment.

## **5.0 WHERE WE ARE NOW**

5.1 The Centre sits on approximately 4.5 acres and provides 180,000ft of retail accommodation built over 2 stories and comprising 48 units of varying sizes, an indoor market hall with space for approximately 50 stalls, a large public area, with escalator to the upper portion and service yards.

The site also hosts 25 maisonettes/flats along with some dedicated car parking areas within the curtilage of the development.

The vast majority of resident occupancy is long term with the expectation that there will be no major change in rental income generated over the medium term so this business plan focuses entirely on the commercial sector.

At the time of acquisition, reports on the centre were provided through Paragon and Cooke & Arkwright who summarised the structural condition of the site and its suitability for acquisition. In addition, a Legal due diligence report was provided by Hugh James Solicitors, which included analysis of tenancy leases and other occupational terms.

Reports indicated that there were no red flags to the acquisition provided MTCBC took into consideration the issues raised within the reports with some "high risk" urgent actions identified mainly around roof repairs. There does not appear to have been any use made of the original structural condition reporting at acquisition as any kind of reference point or guide for on-going inspection to monitor or repair the areas that were highlighted as needing attention.

Deterioration has continued over MTCBC's period of ownership and a new up-to-date structural survey is in process. This will ascertain current levels of repair and help set work priorities from which a detailed plan for maintenance will need to be developed and budgeted along with a more structured monitoring and inspection procedure for longer term preventative maintenance planning.

These measures will be essential to sustain and enhance resident, customer and tenant surroundings while not forgetting the preservation of the Councils investment but all need consideration in line with any potential redevelopment plans.

At the time of acquisition, the due diligence reports provided an anticipated annual net income in the region of £835,500. For the first full year of trading following acquisition the 2022/23 Shopping centre budget was set at £600,000 with a final budgetary figure for financial year 2022/23 actually achieving approximately £504,000.

The current Budget for 2023/24 has been set at £418,275 but continues to come under pressure from declining market rental rates affecting lease negotiations, threats of store closures and potential impact of arrears write-off.

Acquisition reports highlighted 8 vacant retail units in the centre that were considered at the time to be within an acceptable tolerance for the prevailing market position. At the end of 2022/23 financial year, the number of vacant premises had grown to 12 with the loss of some larger tenants like Wilko and Shaws.

This increase in vacancies and corresponding drop off in rental payments are partly because of a fundamental shift in the retail market with retailers trying to downsize portfolios and being increasingly prepared to vacate centres and towns entirely.

Current floor space occupancy rates for the Shopping centre is now at approximately 50% in the 2023/24 budget which means, 50% plus the shortfall of any concession agreement for service charges is being covered by MTCBC.

## **6.0 WHERE WE WANT TO BE**

6.1 The above circumstances, coupled with the market forces affecting rentals in the retail sector, are impacting negatively on St Tydfil's operational trading performance to budget and the threat posed by lease expiry over the short term is also of concern.

Occupancy levels need to be addressed. There needs to be a considered diversity programme along with detailed actions focussed on retaining, attracting and creating a strong tenancy ensuring occupancy levels improve to reduce the burden of service charge provision on MTCBC and rental income tracks toward targeted levels.

A strong priority needs to be given to the retention of existing tenancy. To enable this timescales will need to be set around proposed development commencements, which, can be factored in to lease negotiations. Renewal and new lease negotiations will need to remain creative and flexible to balance market conditions and tenants expectations with optimal economic and societal returns to the Authority.

The use of relevant data to demonstrate St Tydfil's strengths and unique selling points should be used to create a package of information to complement a considered diversity of tenancy to help attract and improve occupancy rates.

Creation of a well thought out retail academy style program to nurture and develop aspiring local entrepreneurs who have the ambition to open and run their own business at a facility located in an attractive environment that is fit for purpose and with the relevant footfall and demography, is seen as essential to St Tydfil's future success.

The above challenges and the opportunities presented will be addressed in further detail within this document as outcomes from a SWOT analysis process.

This analysis will elaborate not only on the potential mitigating actions attempting to safeguard against threats identified and to seek to continually improve areas of weakness but also to consider how we utilise and exploit our strengths and develop and nurture our areas of opportunity as part of the on-going Vision and Strategy.

This 5 year business plan is being developed against a degree of uncertainty in respect of the economy and its impact on all sectors. This includes but is not limited to future changes to the Town centre, the world of work, the retail sector and much more so we need to ensure that our approach remains flexible and dynamic to adapt to changing circumstances.

## **7.0 WHAT WE NEED TO DO NEXT**

We are aware of the importance of creating a solid business structure that can support the development of St Tydfil's shopping centre.

A Core Management Group will be created who will be responsible for:

- Leading the development and implementation of the overall on-going strategy
- Developing and agreeing Business plans, goals and targets and monitoring of performance against relevant KPI's.
- Increasing operational effectiveness by directing, coaching, and counselling team members, communicating values, objectives and targets, assigning responsibilities and accountabilities
- Review and sign-off of proposals and final business deals
- Evaluates the Centres progress and success.
- Providing periodic reports to Commercial Board

The Core Management Group will consist of Council officers with the necessary skill set to contribute to the above areas of responsibility and will include:

- Area Lead
- Strategic Lead
- Commercial support
- Estates/Compliance
- Budget/Revenue
- Shopping Centre Manager (On site team)
- Centre Agents (External resource)
- Involvement of other expert Council department personnel on a “secondment” basis as and when required

External Resources in the form of centre agents are appointed to provide industry focussed expert guidance. Cooke & Arkwright (C&A) who were instrumental in the initial proposal for centre acquisition currently hold this position on a contract basis (3 years + 1 year optional extension) which includes the following deliverables:

- Strategic advice on property management
- Marketing, lease negotiation, lease renewals & rent reviews
- Service Charge administration.
- Tenant Liaison
- Lease compliance
- Insurance collection
- Comprehensive estate management services at contract start.

The initial 3 year period of contract support is due to expire in 2024 and a complete review of service provided to date and how the Core Management Group view the performance and wider potential future development of St Tydfil's will be assessed and integrated into the decision making process along with consideration of the potential for engagement with a single source provider who can offer a combination of Re-development support along with the above, on-going, strategic operational function.

Periodic reporting, in a concise and consistent template format, to the Councils Commercial Board will be set up to communicate Centre KPI performance levels against expectation for review and scrutiny.

Daily Operational management of the centre will continue under the small on-site team focused on the day-to-day operational functioning and compliance of the centre to provide a

first-class standard in the provision of hard and soft services and the basics of housekeeping, maintenance and security, all at an acceptable cost.

The on-site team will be responsible to an appointed Area Lead who sits within the Core Management Group.

The on-site team will consist of the following roles:

- Shopping Centre Manager
- Admin Officer
- Statutory Compliance Officer
- Indoor Market Manager.

The option for the transfer of the St Tydfil's shopping centre over to a Local Authority Trading Company (LATC) structure is being investigated and decisions will be made following full consideration of the potential pros and cons of such a move. External services have been engaged to commence discussion into this potential.

It is not envisaged that the above Governance and Structure will change dramatically should this potential for an LATC approach be adopted.

#### **4. Our Products and Services**

The aim of St Tydfil's over the immediate term with the goal of revenue maximization involves competing favourably for tenant attraction and retention holding ourselves accountable to high standards that ensure our facility is not just accepted by retailers and businesses but should be considered a natural choice in the areas of:

- Rental of commercial units that are fit for purpose
- Rental of residential units.
- Rental of Indoor Market space.
- Presentation, appearance and cleanliness
- Safety and security
- Response to tenant issues.
- Information and support.
- Providing opportunity for local aspiring entrepreneurs.
- Other hard and soft Service provisions

#### **Key Performance drivers:**

- Occupancy levels and the ability to retain existing and to attract new tenants
- Rent and service charge rates driven by market forces (benchmarked against regional/national levels)
- Rent and service charge arrears collection
- The potential write off of some historic arrears
- Multiple lease reviews (Expiries, break options, rent reviews, rolling agreements, stepped rents, etc.) between now and the end of the business plan period and the weakness of the prevailing market meaning negotiating strength sits predominately with the tenant.
- As a major driver for original acquisition being the opportunity for redevelopment the Council need to maintain a degree of flexibility in lease negotiations to accommodate any future plans or intentions. This again hands a degree of strength to the tenants negotiating for preferential terms as a result of required break clauses

## 8.0 CONTRIBUTION TO WELLBEING OBJECTIVES

8.1 A Safe & Prosperous Merthyr Tydfil

**DIRECTOR/CHIEF EXECUTIVE'S NAME  
TITLE**

**PORTFOLIO COUNCILLOR'S NAME  
PORTFOLIO TITLE**

| <b>BACKGROUND PAPERS</b>  |                         |                          |
|---|-------------------------|--------------------------|
| <b>Title of Document(s)</b>   | <b>Document(s) Date</b> | <b>Document Location</b> |
| List the Background documents which have been relied on in preparing the report. E.g. previous minutes of relevant committees |                         |                          |
| <b>Does the report contain any issue that may impact the Council's Constitution?</b>  |                         |                          |