

CITY OF MARION
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GENERAL COUNCIL MEETING
8 September 2015
CONFIDENTIAL REPORT

Originating Officer: David Barrett, Unit Manager Cultural Facilities

Corporate Manager: Liz Byrne, Acting Manager Libraries & Cultural Development

Director: Abby Dickson, Acting Director

Subject: Signatures Café

Reference No: GC080915F01

File No: 16.21.3.52

If the Council so determines, this matter may be considered in confidence under Section 90(2) and (3)(d) of the *Local Government Act 1999* on the grounds that the report contains information relating to the commercial operations of Signatures Café. The disclosure of this information could reasonably be expected to prejudice the commercial position of the operator of the Café who supplied the information in confidence to Council.



Adrian Skull
Chief Executive Officer

RECOMMENDATION:

1. That pursuant to Section 90(2) and (3)(d) of the *Local Government Act 1999*, the Council orders that all persons present, with the exception of the following persons: Adrian Skull, Chief Executive Officer; Kathy Jarrett, Director; Vincent Mifsud, Director; Abby Dickson, Acting Director, Liz Byrne, Acting Manager Libraries and Cultural Development; Kate McKenzie, Manager Governance; David Barrett, Unit Manager Cultural Facilities; Victoria Moritz, Governance Officer; Craig Clarke, Unit Manager Communications, be excluded from the meeting as the Council receives and considers information relating to Signatures Café, upon the basis that the Council is satisfied that the requirement for the meeting to be conducted in a place open to the public has been outweighed by the need to keep consideration of the matter confidential given the information relates to commercial operations of a confidential nature the disclosure of which could reasonably be expected to prejudice the commercial position of the person who supplied the information.

REPORT OBJECTIVES AND EXECUTIVE SUMMARY:

The purpose of this report is to provide Council with an update on the operations of Signatures Café since approving the establishment of a rent free period from February 2015 to January 2016. Since approving this amendment to the lease the Operator has repaid all rent owing and has substantially reduced the existing outgoings debt from \$13,308 to \$3,626. The report provides Council with an update on the café's profit and loss statement and recommends that a further rent free period of 6 months from January 2016 until July 2016 be approved. The intent of this further rent free period is to continue to support Signatures Café to become a viable and financially sustainable business which in turn supports the vibrancy of the Cultural Centre. The additional period equates to 26 weeks, including the waiving of the 1.5% commission on catering, this represents a combined loss of income to Council of approximately \$14,500. Council will not incur any expenses as a result of this arrangement as the Operator remains responsible for payment of outgoings. This represents a favourable return to Council when compared to the previous \$160,000 per annum cost incurred managing the café in-house. Hoffwood Pty Ltd will be required to continue to submit full financial reports at the conclusion of each month of the rent free period to enable on-going financial monitoring of the café's performance. A progress report will be supplied to Council in February 2016.

RECOMMENDATIONS (3)**DUE DATES****That Council:**

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| 1. Approves a variation to the existing lease for Signatures Café that provides a further rent free period of 6 months from 4 January 2016 to 3 July 2016. | 8 September 2015 |
| 2. Requires Administration to report back to Council in February 2016 on the outcomes of the rent free period and recommendation for future rental return. | February 2016 |
| 3. In accordance with Section 91(7) and (9) of the Local Government Act 1999 the Council orders that this report, Signatures Café and the minutes arising from this report having been considered in confidence under Section 90(2) and (3)(d) of the Act shall, except when required to effect or comply with Council's resolution(s) regarding this matter, be kept confidential and not available for public inspection for a period of 12 months from the date of this meeting. This confidentiality order will be reviewed at the General Council Meeting in December 2015. | December 2015 |

BACKGROUND:

Signatures Café is an integral component of the MCC acting as a vibrant café and meeting place and providing catering services which complement the theatre, function rooms, library and gallery.

The Café was operated by Council from 2004 to 2013. Prior to 2004 the Café and other functions of the Centre were managed by a private operator. The decision to bring the management of the Café's operations in-house resulted from the lease being terminated due to the operator being unable to meet its financial commitments. The decision to bring the management of the Café in-house was made with a commitment to revisit the management model in the future (GC220604R03). At this time, it was acknowledged that the development of the Domain Precinct would significantly change the commercial environment in which the Café operates. The opening of the SAALC and GP Plus in 2011 provided Council with an opportunity to attract a private operator to manage the Café.

When entering into the current lease, which included an initial 12 month rent free period, Council took a long term view of attracting a quality operator to improve and stabilise the café making it a viable business. At the 26 March 2013 General Council meeting Council resolved to enter into a lease arrangement with Hoffwood Pty Ltd for a term of 5+5 years.

DISCUSSION:

Hoffwood Pty Ltd has significantly improved the operations of the café evidenced predominantly by the reduction in operating expenditure of approximately 24% (approximately \$119,578 p.a.). There has been a slight increase in turnover of approximately 1% (approximately \$1,643 p.a.). Further market development and growth in catering revenue is required to achieve a higher turnover.

Hoffwood Pty Ltd has been operating the lease since September 2013. Rent became payable as of September 2014 at the rate of \$550 + GST per week. The annual rent is payable by equal consecutive calendar monthly instalments always in advance.

When the café was managed by Council the facility operated at a \$160,000 per annum loss to Council.

The existing lease provides for the following return to Council:

- An annual rent of \$28,600 + GST.
- A contribution to outgoings equal to 7.14% of the annual budgeted outgoings for the MCC paid in equal monthly instalments. The current monthly instalments are equal to \$2,014.08 + GST for this contribution.
- A commission of 1.5% on all catering income that Signatures Cafe receives as a direct result from venue hire at the MCC. This commission is invoiced on a quarterly basis in arrears of the income being received.

On 11 February 2015 Mr Hoffert met with the Unit Manager Cultural Facilities and advised that the café was struggling to return enough to pay the outstanding rent and contribution to outgoings. He indicated that the current income level was sufficient to cover the cost of goods and staff costs but insufficient to cover the additional rent and contribution to outgoings.

Hoffwood Pty Ltd has applied a range of strategies to improve the business viability including different marketing scenarios, changes to the menu, increased food options and reductions in overheads through staffing efficiencies. Mr Hoffert has advised that these strategies have delivered a minor increase in trade since the commencement of his operations however the increase is insufficient for the café to be financially viable on its own.

Mr Hoffert advised that he is still committed to making the Café a viable business and providing a service for the MCC and the community but to do so is requesting short term support from Council. If this is not possible, he has advised that he will honour all commitments/expenses under the lease but will be forced to immediately place the Café on the market for transfer to another operator.

On 28 February 2015 Hoffwood Pty Ltd had the following aged debt to Council:

Debtor	Total Balance	Current	30 Days	60 Days	90 Days	90+ Days
Outgoings	13,307.65	2,352.08	2,352.08	2,352.08	2,352.08	3,899.33
Rent	4,840.00	2,420.00	1,815.00	605.00	.00	.00
Total	18,147.65	4,772.08	4,167.08	2,957.08	2,352.08	3,899.33

- Rent was in arrears of \$4,840 inclusive of GST. This covered the period from Monday 19 January to Sunday 15 March 2015.
- The outgoings contribution outstanding equalled \$13,307.65 inclusive of GST. This covered the period from 1 August 2014 to 28 February 2015.

At the 24 March 2015 General Council Meeting, Council resolved to provide a rent-free period backdated to 16 February 2015 until 3 January 2016.

The rent free period equates to 46 weeks, including the waiving of the 1.5% commission on catering, this represents a combined loss of income of approximately \$25,800. This also resulted in a reduction in the rental debt owed by Hoffwood Pty Ltd from \$4,840 to \$2,420. This still represents a favourable return to Council when compared to the previous cost incurred managing the café in-house (annual loss of \$160,000).

Hoffwood Pty Ltd has been submitting full financial reports at the conclusion of each month to enable on-going financial monitoring of the café's performance. At the time of writing this report, four months' data has been provided as below:

Month	Gross Profit	Operating Expenses	Net Profit/Loss
April 2015	\$15,933.73	\$16,296.93	-\$363.20
May 2015	\$25,859.15	\$24,102.48	\$1,756.67
June 2015	\$12,661.00	\$21,470.03	-\$8,809.03*
July 2015	\$30,306.17	\$18,894.41	\$11,411.76**
3 Month Total	\$84,760.05	\$80,763.85	\$3,996.20

Notes:

*June's higher than usual loss is due to not receiving revenue for catering activities

**July's higher than usual profit is due to the receipt of revenue for June catering activities

It is important to review the financial performance of the Café as a whole rather than focusing on individual monthly results. The last four months of café operations have delivered a minimal net profit of \$3,996.20. Hoffwood Pty Ltd has repayed all outstanding rent (\$2,420.00) and a substantial component of the outstanding arrears (\$9,408.32). Further payments have been received by Council in July and August 2015 (\$11,760.40). Monthly

repayments have been above the required outgoings contribution and the agreed repayment plan.

At the time of writing this report, Hoffwood Pty Ltd had the following aged debt to Council:

Debtor	Total Balance	Current	30 Days	60 Days	90 Days	90+ Days
Outgoings	3,626.15	2,215.49	1,410.66	0.00	0.00	0.00
Total	3,626.15	2,215.49	1,410.66	0.00	0.00	0.00

Council will continue to receive revenue throughout the remaining endorsed rent free period resulting from the Operator's contribution to outgoings equalling \$8,861.96 to be invoiced monthly in accordance with existing contractual arrangements.

Administration is working with the operator to improve awareness of the Café via joint marketing approaches. Signatures Café is included in all MCC Events Diary publications, Messenger advertisements and venue hire information. A report is also being developed for Council which will consider ways to improve the amenity of the plaza, activate the space and increase patronage into the area which has the potential to expand the café's customer base. In developing options to improve the amenity of the Plaza input will be sought from the Café operator. This report is due to be brought to Council on 13 October 2015. Successful activation of the Plaza has the potential to increase café trade in the mornings and afternoons.

It is clear from the above financial information that Hoffwood Pty Ltd has the capacity to continue making payments to Council for outgoings but achieving a rental return is still not currently viable. Discussions with the café Operator indicates that the rent free condition is providing the required financial assistance to build the catering arm of the business. The Operator has indicated that the growth in catering revenue is required to support the long term viability of the business. Time and financial support is required to raise the profile of the catering services and expand its customer base.

Options available to Council

Option 1: Establish a further rent free period of 6 months from Monday 4 January 2016 until Sunday 3 July 2016

The intent of this further rent free period is to continue to support Signatures Café to become a viable and financially sustainable business which in turn supports the vibrancy of the Cultural Centre.

The period equates to 26 weeks, including the waiving of the 1.5% commission on catering, this represents a combined loss of income of approximately \$14,500.

Council will continue to receive revenue throughout the further rent free period resulting from the Operator's contribution to outgoings. This equals approximately \$12,084.

No expenses will be incurred by Council.

This represents a favourable return to Council when compared to the previous \$160,000 per annum cost incurred managing the café in-house

Hoffwood Pty Ltd will be required to submit full financial reports at the conclusion of each month of the rent free period to enable on-going financial monitoring of the café's performance.

The above changes will be confirmed via an exchange of letters which record the interim variation to the existing lease.

A progress report will come back to Council in February 2016 which reviews the performance of the café during the further rent free period and considers future lease arrangements.

Option 1 is recommended to Council as it continues to support the development of the café operations long term. Council will not incur any operational expenses with outgoings being paid in full by the operator; and Council is not losing money in operating the café in-house.

Option 2: Return to normal lease provisions from Monday 4 January 2016

Mr Hoffert understands this may be an option Council chooses and has indicated if a further rent free period is not possible then he will seek to on sell the business.

Option 2 is not recommended to Council for the following reasons:

- A new rent free period is a more favourable financial position to managing the Café in-house at an operating loss of \$160,000 per annum.
- The net position of the Café has improved since being managed by a private operator but is not yet returning a break-even position. The exit of the existing operator prior to achieving a break-even point will make the task of attracting a new operator extremely difficult.
- The financial reports received since the endorsement of the current rent free period indicate that a rental return to Council is not a viable option for Hoffwood Pty Ltd.

Repayment of existing Debts

Hoffwood Pty Ltd is committed to continuing the debt repayments to Council and when the rent free arrangement was first established the Operator provided a guarantee that the outstanding debt will be fully repaid by 3 January 2016. The outstanding debt currently equals \$3,626.15 indicating this Debt will be repaid before January 2016. Repayments are being made on a monthly basis and have been above the agreed amount of \$1,747.52 inclusive of GST.

The capacity for this to occur is evidenced by the regular repayments received since April 2015 as well as the financial reports provided by Hoffwood Pty Ltd.

Social / Cultural Impact

Signatures Café is an important meeting place within the MCC for community members and adds value to the services Council provides via the Theatre, meeting rooms, Library and Gallery. The management of the Café by an external operator provides Council with an on-going revenue stream, offsetting MCC operational costs and enhancing the public value achieved from the Centre.

CONCLUSION:

The intent of the further rent free period is to continue to support Signatures Café to become a viable and financially sustainable business which in turn supports the vibrancy of the MCC. The approach recommended in this report for Council's consideration will further support Council's long term vision to achieve a sustainable business model for Signatures café which continues to deliver positive community outcomes.