

## CONFIDENTIAL REPORT

### REPORT RELATING TO: A leader in the delivery of the Community Vision

Originating Officer: David Barrett, Unit Manager Cultural Facilities  
Corporate Manager: Carol Hampton, Manager City Property  
General Manager: Abby Dickson, General Manager City Development  
Subject: Signatures Café  
Reference No: GC260416F01  
File No: 16.21.3.52

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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 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.



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; Tony Lines, General Manager Operations; Vincent Mifsud, General Manager Corporate Services; Abby Dickson, General Manager City Development; Carol Hampton, Manager City Property; Kate McKenzie, Manager Governance; Jaimie Thwaites, Unit Manager Governance and Records; Yvette Zaric, 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 options for Council's consideration regarding the future operations of Signatures Café within the Marion Cultural Centre (MCC). Administration has been working with the operator to develop options for the Café's operations that both support the operator and deliver community value.

**RECOMMENDATIONS (4)****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 from 4 July 2016 to 2 July 2017.   | 26 April 2016 |
| 2. Requires Administration to report back to Council in April 2017 on the outcomes of the rent free period and recommendation for future rental return.   | April 2017    |
| 3. Require a further report to be brought back in July 2016 outlining the process and approach to on sell the business to a new operator.   | July 2016     |
| 4. 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 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 September 2016. | 26 April 2016 |

**BACKGROUND:**

Signatures Café is an integral component of the Marion Culture Centre (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 operated. 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.

The café is reliant on foot traffic from people walking in from the street or nearby offices rather than people accessing the culture centre, library and gallery. People do not tend to come specifically for the café as there are considerable options available in the Westfield shopping centre. The operator has advised lunch trade is good and if an increase in morning and afternoon café and snack trade could be achieved it would increase the viability of the café. The proposed changes to the amenity of the plaza should assist in attracting more people to the centre and consider the café as a destination potentially increasing trade.

## **DISCUSSION:**

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 in advance.

Prior to the café being outsourced it operated at a \$160,000 per annum deficit to Council.

The existing lease provides for the following return to Council:

- An annual rent of \$28,600 (excl 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 (excl GST) for contributions to outgoings.
- A commission of 1.5% on all catering income that Signatures Café 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 operations however the increase is insufficient for the café to be financially viable on its own.

Mr Hoffert advised that he was committed to making the Café a viable business and providing a service for the MCC and the community but to do required support from Council. If this support was 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.

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. This rent free period equated to 46 weeks, including the waiving of the 1.5% commission on catering, this represented a combined loss of income of approximately \$25,800.

At the 8 September 2015 General Council Meeting, Council resolved to provide an extension of the existing rent-free period until 3 July 2016.

The extension of the rent free period (currently operating) 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 continues to receive revenue throughout this further rent free period resulting from the Operator's contribution to outgoings. This equals approximately \$13,293 p.a.

This represents a favourable return to Council of \$13,293 compared to the previous annual deficit incurred managing the café in-house of \$160,000.

Council will continue to receive revenue throughout the remaining endorsed rent free period (April to June 2016) resulting from the Operator's contribution to outgoings equalling \$6,042.24 not yet invoiced.

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, eleven months' data has been provided as below:

Month	Gross Profit (\$)	Operating Expenses (\$)	Net Profit (\$)
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	38,525.53	21,246.14	17,279.39
August 2015	12,653.22	28,245.70	-15,592.48
September 2015	22,005.83	19,232.19	2,773.64
October 2015	22,647.66	16,807.75	5,839.91
November 2015	28,773.72	21,947.88	6,785.84
December 2015	8,067.15	17,422.64	-9,355.49
January 2016	10,822.80	12,418.17	-1,595.37
February 2016	12,104.09	14,008.60	-1,904.51
<b>TOTALS</b>	<b>210,053.88</b>	<b>213,198.51</b>	<b>-3,144.63</b>

The last eleven months of café operations have delivered a net loss of \$3,144.63. However, Hoffwood Pty Ltd has repaid all outstanding debt to Council and is currently meeting monthly outgoing instalments.

Administration continues to work 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. The MCC is partnering with Signatures Café to deliver an event for invited businesses to market both the MCC as a venue for hire and Signatures Café as a catering provider.

Administration has also progressed options for the improvement of the amenity of the plaza with a design being presented to Council on 26 April 2016.

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 viable.

Mr Hoffert in meeting with staff in April has indicated that it would not be financially viable to continue to operate the café if a rent free period is not granted for next financial year. He has also indicated that while he is committed to the Café he is unable to continue to make a loss so he is prepared to work with Council to find an alternative provider to operate the business. He wishes to work with Council so there is a smooth transition to a new Operator. He is continuing to explore ways in which he can minimise expenses.

The main cost to the current provider is staff costs. If another provider is found who is prepared to work in the business during the week while they grow the business, then the opportunity remains to make the business viable in the long term.

Based on the previous process in securing an Operator it could take some time to find an alternative provider. As indicated the current Operator would like to work with Council to ensure continuity of the café service. It is recommended that Council authorise staff to start working with the current Operator to on sell the business. A further report will be brought back to Council outlining the process to be undertaken to commence this process.

### **Options available to Council**

#### **Option 1: Establish a further rent free period from Monday 4 July 2016 until Sunday 2 July 2017**

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 Marion Cultural Centre.

The period equates to 52 weeks, including the waiving of the 1.5% commission on catering, this represents a combined loss of income of approximately \$29,350.

Council will continue to receive revenue throughout the further rent free period resulting from the Operator's contribution to outgoings. This equals approximately \$23,004.

This represents a favourable return to Council of \$23,004 compared to the previous annual deficit incurred managing the café in-house of \$160,000.

Hoffwood Pty Ltd will continue to 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 April 2017 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 supports the retention of the current Operator in the short term and provides continuity of service while Council works with the current Operator to on sell the business.***

#### **Option 2: Return to normal lease provisions from Monday 4 July 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 immediately 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 deficit 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.
- This would not support the Operator to work with Council to on sell the business.

### **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 ongoing revenue stream, offsetting MCC operational costs and enhancing the public value achieved from the Centre.

### **CONCLUSION:**

The intent of a 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. This option is recommended to Council as it supports the retention of the current Operator in the short term and provides continuity of service while Council works with the current Operator to on sell the business.