

**CITY OF MARION
GENERAL COUNCIL MEETING
11 APRIL 2017**

CONFIDENTIAL REPORT

Originating Officer: Tyson Brown, Unit Manager Cultural Services
Manager: Carol Hampton, Manager City Property
General Manager: Abby Dickson, General Manager City Development
Subject: Signatures Café
Reference No: GC110417F01

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; Vincent Mifsud, General Manager Corporate Services; Abby Dickson, General Manager City Development; Jaimie Thwaites, Acting Manager Corporate Governance; Carol Hampton, Manager City Property and Tyson Brown, Unit Manager Cultural Services be excluded from the meeting as the Council receives and considers information relating to Signatures Cafe, 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 OBJECTIVE

The purpose of this report is to review the management model for Signatures Café and seek Council direction regarding rental and ongoing assistance and alternative management options post 2 July 2017.

EXECUTIVE SUMMARY

Hoffwood Pty Ltd (the Operator) has been operating Signatures Café from Marion Cultural Centre (MCC) with the following support provided by Council in an attempt to improve financial viability:

- Rent free until 2 July 2017
- Change in operating hours, and
- Reduced percentage of outgoings (from 7.14% to 3.15% up until 30 July 2017).

The cafe operates 8am to 3pm (minimum hours are Monday to Friday 10am – 3pm under the lease) and no weekend trading, this ceased during 2016. The Operator has also made changes to the menu and reviewed catering packages for events to reduce costs and improve profitability.

The Operator has indicated that the operational changes have not increased income. Administration has worked alongside the Operator to implement a variety of measures to improve performance during February and April 2017 including:

- Increasing operating hours during the week until 4pm (additional hour per day).
- Meeting with local businesses to promote venue hire and catering services.
- Improvements to the menu.
- Providing catering for functions eg wakes in the café space out of café operating hours.
- Exploring opportunities to increase café patronage through associated MCC activities

The Operator has utilised February to April 2017 as the final attempt to improve the financial return on the business to determine if it will be viable to continue post July 2017. The Operator however continues to indicate he cannot sustain the business if full rent and outgoings are applied. The Operator has a lease until 31 August 2018 with a right of renewal for a further 5 years, also the Operator can assign the lease.

The outcomes of the recent initiatives have not provided the return required and the Operator indicated on 30 March 2017 that financial assistance will be required post 2 July 2017 if they are to continue managing the cafe.

Administration has undertaken an assessment of the viability and impact of the following management models for operating the café:

1. Undertake an EOI to secure a new Operator and continue to provide rent free and reduction in outgoings to the current Operator in the short term.
2. Cease financial support to the Operator as of the 3 July 2017
3. Work with the Operator to assign or sublet the lease
4. Council managed cafe
5. Cease operation and install vending machines

Signatures Café is an integral part of the Marion Cultural Centre (MCC) providing activation of the internal space and services to users of MCC, consideration needs to be given to the options for the ongoing operation of the café.

It is recommended to engage a hospitality agent to undertake an EOI to engage a new operator and it is estimated that this process may take up to 6 months. Under the lease Council is obliged to take reasonable steps to mitigate its damages and to endeavor to lease the Premises. To maintain service continuity throughout the EOI process, it is recommended Council retain existing subsidies with the current Operator until the end of October 2017 to enable a smooth transition and maintain continuity of service.

RECOMMENDATIONS

DUE DATES

That Council:

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| 1. Endorses the engagement of a hospitality agent to undertake an Expression of Interest for an Operator for Signatures Café. | 14 April 2017 |
| 2. Resolves to allocate additional funds of up to \$6,500 to engage a hospitality agent to undertake the Expression of Interest in the 2016/17 third budget review process. | 14 April 2017 |
| 3. Approves the continuation of a rent free period and reduced outgoings charge of 3.15% up until a new Operator is appointed or 27 October 2017. | October 2017 |
| 4. Notes that in the event a new Operator has not been appointed by 27 October 2017 a further report will be brought to Council to consider its position. | October 2017 |
| 5. 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 December 2017. | December 2017 |

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 management of the café by an external operator provides Council with an opportunity for an ongoing revenue stream, offsetting MCC operational costs and enhancing the public value achieved from the Centre.

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.

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

At the 26 March 2013 General Council meeting, Council resolved to enter into a lease arrangement with the current Operator for a term of 5+5 years and the lease included an initial 12 month rent free period to establish the business. The Operator has been operating the

lease since September 2013. Rent became payable as of September 2014 at the rate of \$550 + GST per week.

When all the existing lease terms and conditions are applied in full it provides for the following return to Council:

- An annual rent of \$28,600 (excl GST) with an annual CPI increase.
- A contribution to outgoings equal to 7.14% of the annual budgeted outgoings for the MCC paid in equal monthly instalments. The 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.

In February 2015 the Operator advised the café was not generating sufficient income to pay outstanding rent and a contribution to outgoings. At the 24 March 2015 General Council Meeting (GC240315F03), 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 (GC080915F01), Council resolved to provide an extension to the existing rent free period until 3 January 2017.

At the General Council meeting on 26 April 2016 (GC260416F01) Council considered a progress report on Signatures Café and resolved to provide a rent free period from 4 January 2016 to 2 July 2017, reduce outgoings from 7.14% to 3.15% up until 30 July 2017 and to have a report provided on the process to seek a new operator.

At the 25 July 2016 General Council Meeting (GC260716F01) Council considered a progress report on Signatures Café and resolved that a report be brought back to Council in February 2017 on the future management of the café.

At the 28 February 2017 General Council meeting (GC280217F01) Council was provided an update noting that the Operator wanted to assign the lease to an existing café employee who had expressed interest in taking over the lease. A further report was requested on management options, as well as assessment of the applicant for suitability to engage in a lease agreement.

Under the lease, the Lessee may assign or transfer its interest provided that the Lessee has obtained the Lessors consent in writing. The Lessor can terminate the lease if the rent or any part is unpaid 7 days after the due date and as well as various breaches or default. Also in the event of the Lessee vacating the Premises, with or without the Lessor's consent, the Lessor is obligated to take reasonable steps to mitigate its damages and to endeavour to lease the Premises.

Administration has continued to work with the Operator to increase viability and the Operator has made several operational changes and as well as undertaking various promotional initiatives.

The Operator has indicated that it will not be viable to operate from July 2 2017 if rent is required to be paid. The Operator advised on 30 March 2017 that they would work with administration to transition a new operator into the café if Council decide to pursue that options.

DISCUSSION

Signatures Café plays a pivotal role in activating the MCC attracting customers and also providing services to users of the theatre, meeting rooms, library and gallery. It has been an ongoing challenge to find a management model that can provide a sustainable service and provide a financial return to Council. This can be largely attributed to challenges with operating the café which include:

- Close vicinity to Westfield food hall
- Lack of foot traffic through the site
- Reliance on visitors to MCC
- Warracowie Road acts as a physical barrier between MCC and the State Aquatic centre precinct.
- Lack of visibility (signs are currently being arranged the whole MCC site)

Administration has undertaken an assessment of the viability and impact of the management models available to Council for Signatures café.

There are different factors that need to be considered when assessing the options, these include:

- Financial return to council
- Activation of Marion Cultural Centre (MCC)
- Quality of food and service delivery
- Continuity of service / transition into new model
- Associated social impacts

The assessment of the different management models has been undertaken in consultation with café operators, other metropolitan councils with cafes, a business advisor and independent hospitality property agents. The assessment indicates that the model most likely to generate income to cover rent, outgoings and operating costs including wages is where the lease holder/manager operates from the business. The manager directly running and operating the business has greater incentive to build relationships with customers and can be proactive and responsive to customers increasing the financial viability. Emphasis was made on the necessity to build relationships with customers and to engage in proactive promotion through social media platforms so positive experiences can travel virally

The following Management Models have been developed for Council's consideration and an assessment of the risks and opportunities associated with each option is provided below.

Option 1: Undertake an EOI to secure a new Operator and continue to provide rent free and reduction in outgoings to the current Operator in the short term.

Under this option an EOI to appoint a new Operator for Signatures café would commence immediately.

The current Operator would continue to operate the Centre until a new Operator is appointed and they would continue to be provided with a rent free period and be charged 3.15% of outgoings. Continuing to provide financial support to the current Operator while an EOI is undertaken will provide continuity of service

This arrangement with the current Operator would be formalized should Council approve Option 1. The correspondence would clearly indicate both parties' obligations under the existing lease and an agreed approach.

Council would continue to receive 3.15% of (\$12,000 pa) outgoings while the EOI was undertaken

Once a new Operator was appointed full rental and outgoing charges would be received. This amount will be determined through the EOI negotiations and would be in the order of:

- An annual rent of \$28,600 (excl GST) with an annual CPI increase.
- A contribution to outgoings equal to 7.14% of the annual budgeted outgoings for the MCC paid in equal monthly instalments. The monthly instalments are equal to \$2,014.08 (excl GST) for contributions to outgoings.

It is anticipated this process may take up to 6 months

Opportunities

- Minimises service disruptions
- Competitively tests the market to secure a quality operator
- A private operator with experience in managing café's hold the greatest potential at delivering a high quality service.
- Secures a business model which is financially viable
 - A privately managed café that is staffed by the manager daily offers the strongest opportunity for success
 - The manager directly running and operating the business is likely to have greater incentive to build relationships with customers and can be proactive and responsive to customers increasing the financial viability.
 - Where the manager operates from the business, staffing costs are streamlined

Risks

- The period required to appoint a new operator takes longer than 6 months

Should a new operator not be appointed within 6 months a report will be brought back to Council to consider options.

This option is recommended to enable a smooth transition to a new operator.

Option 2: Cease financial support to the current Operator

Under this option Council would apply full rent and revert to the 7.14% of outgoing post 2 July 2017.

The current Operator has indicated should this occur they would be unable to make rental payments and this would likely result in them defaulting on the lease requirements and Council would have the option to terminate the lease.

The following risks are associated with this option:

- It is unlikely that a new operator would be sourced via an EOI in time to take over the operations from 3 July 2017.
- This option would likely result in a period of closure which makes the attraction of a new operator more difficult.
- The service will be disrupted
- Customer service from the café and MCC would be negatively impacted.

This option is not recommended as it heightens the potential for service disruption and negative impact on the vibrancy of MCC.

Option 3: Work with the Operator to assign or sublet the lease

Under the lease the Operator can assign or sublet the lease, this is subject to Lessor consent.

Should Council approve this option the Operator would be responsible for negotiating the arrangements for the Assignee under the terms and conditions of the current lease. Under the lease Council can withhold consent if the proposed Assignee is unlikely to be able to meet the financial obligations or considers the Assignees business skills are inferior or has not complied with procedural requirements.

A current employee of the Operator has indicated interest in having the lease assigned to him. The prospective assignee was requested to provide information by 8 March 2017, as at the time of writing this report the required information had not been received.

This option would reduce Council's ability to select and appoint an operator of their choice.

The opportunity to competitively test the Market for the most appropriate qualified Operator is lost.

As the potential Assignee has failed to provide the required information it is not recommended to pursue this option.

As the potential Assignee has failed to provide the required information it is not recommended to pursue this option.

Option 4: In-house Management by Council

This Option would bring the management of the café in house,

In consultation with other Adelaide metropolitan councils there is only one café that is being directly managed by the Council. Previously when Council managed the café there were deficits between \$68k and \$165k annually.

The risks associated with this model is higher costs, loss of revenue and potential lower service standards.

This option is not recommended to Council due to the cost and the management of a café is best suited to suitably qualified operators.

Option 5: Close the café and install vending machines

Should Council approve this option the café would be closed and a suite of vending machines installed.

This option represents the lowest financial return to Council as currently Council budgets for \$12k to be paid by the current Operator for 3.15% of the outgoings.

Vending machines can be located onsite with drinks and snacks with healthy options with an income of between 12-15% of takings after \$400 has been received.

The vending machine option will have a negative impact on activation as attendance numbers at the centre would be reduced and existing customers will be disappointed in a reduction in

the service level. This will also have a negative impact on room hirers who require catering as well as additional events and meetings that are catered for by the café.

The food and beverage options will significantly reduce and the MCC was assessed as not viable for a fresh food vending machine as a minimum requirement of 2000 people visiting the premises is required daily. It was emphasised by the vending machine organisation, installing a fresh food vending machine in most venues including hospitals and multi-storey businesses is at an ongoing cost due to food wastage.

It is not recommended to close the café as it will reduce the level of income generation and significantly impact on the vibrancy of the MCC.

EOI Process

Should Council approve the undertaking of an EOI the following steps are involved:

1. Appoint a hospitality agent to assist with going to the market to seek a suitable operator. This requires funding of up to \$6,500.
2. Expression of Interest – to be undertaken over 6 to 8 weeks by the agent
3. Undertake assessment
4. Provide a report to Council
5. Implement transition of new lease holder into premises.

It is anticipated the process could take up to 6 months.

Initial advice from hospitality consultants that Council should be able to achieve a financial return.

Current Market Conditions

In developing the options advice has been sought from hospitality consultants on the current market and the types of Operators who may apply to manage the café.

Private Sector

Property managers suggest the market for leasing a café is positive and they anticipate interest including from existing providers for another council that is currently seeking EOI to operate a café.

Social Enterprise/Registered Training Operator

The café is of interest to training providers due to their access to SA government funding and through the reduced staffing costs as the students need to undertake practical experience to attain their qualifications meaning financial return is positive however it is tied to political cycles and volatility.

Activation of MCC again would be positive as it is anticipated the new lease would have extended hours and due to the positive social impact and increased numbers of people working and or training in the café it would increase its connections in the community and thus activation.

The service and meal quality has less certainty due to the volume of and less experience of some of the staff in comparison to the current or alternative private enterprises, though staff/trainees would be under continual supervision. Continuity of service is equal to the private enterprise as it would be carried out through the same EOI time frames.

Social outcomes would be the greatest under this model as it would serve as an incubator fostering personal development and employment outcomes for residents. Council would have the opportunity to stipulate preference for local providers and participants to maximise outcomes for City of Marion rate payers. The challenge would be consistency of participants and level of competence to ensure continuity and a quality service is provided.

Sourcing a social enterprise or RTO is a smaller market to attract an operator.

FINANACIAL PERFORMANCE OF THE CAFÉ

The current provider has managed the café with the greatest financial return to Council. For 16/17 financial year an income of \$12k has been budgeted for reimbursement of outgoings. The food quality and service has also been at a high standard. Since the lease commenced the hours of operation have reduced with the café no longer open on weekends.

The Operator has been submitting financial reports at the conclusion of each month to enable ongoing financial monitoring of the café's performance. The last twenty months of café operations have delivered a loss of -\$2,626.56 indicating the Operator at this point in time is unable to generate enough income to be financial viability. Refer Appendix 1.

Information on the income and loss through the café since opening in 2001 is provided in Appendix 2. The Operator has been managing the café with the greatest success to date as previous models have been at a cost to Council.

OBJECTIVES OF THE CAFE

To date various management models have not met the objectives of Council to generate income and to operate the café during MCC opening hours and to provide services for various activities held at MCC - gallery, theatre, room hire and library events.

The Lease sets out Council Objectives and Outcomes which is provided in Appendix 3.

Consideration should be given to the objectives of Council and consequently the level of support that may be required. The existing lease terms should be reviewed to reflect this and to ensure they are in line with the Council objectives as well as the current market trends.

CONCLUSION

The intent of the rent free period and reduced outgoings was to enable Signature's Café to become a viable business as well as supporting the vibrancy and service offerings of the MCC.

The Operator has had opportunity to make the business viable and has now indicated that they wish to cease providing the service. To ensure continuity of service and ensure a smooth transition it is proposed to appoint a hospitality agent to commence an EOI and work with the current Operator to ensure a smooth transition. To assist with this, it is proposed that the current level of subsidies be provided until a new operator is appointed or until 28 October 2017.

To date various management models including in house provision of the service and other operators have not been able to achieve this. It is important to work with the current Operator in line with lease obligations and to ensure continuity of service.

APPENDICES

Appendix 1 Hoffwood Financial Performance
 Appendix 2 Financial History of Signatures Cafe
 Appendix 3 Lease - Objectives and Outcomes

Appendix 1

THE OPERATOR FINANCIAL PERFORMANCE

Month	Gross Profit (\$)	Operating Expenses (\$)	Net Profit (\$)
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	6,825.84
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
March 2016	18,317.22	16,680.25	1,636.97
April 2016	15,632.49	14,343.88	1,288.61
May 2016	16,004.30	17,221.71	-1,217.41
June 2016	21,269.88	14,977.55	6,292.33
July 2016	12,455.85	15,305.32	-2,849.47
August 2016	17,566	15,776	1,790
September 2016	15,761	15,830	-69
October 2016	16,553.05	16,117.13	435.92
November 2016	19,601.38	14,479.58	5,121.80
December 2016	-3,317.82	13,575.48	-16,893.48
January 2017	9,388	8,988	400
February 2017	9728.06	12,561.96	-3,283.90
TOTAL	324,559.41	327,185.93	-2,626.52

Appendix 2

Date	Operator of Signatures Café	Income \$ excl GST	Net Cost \$ excl GST
2016/17	Hoffwood Pty Ltd	\$ 12,000 (budget)	
2015/16	Hoffwood Pty Ltd	\$ 24,169	
2014/15	Hoffwood Pty Ltd	\$ 27,568	
2013/14	Hoffwood Pty Ltd	\$ 17,181	
2013/14	Council		\$ 28,036
September 2013 - present	Hoffwood Pty Ltd		
2012/13	Council		\$ 159,483
2011/12	Council		\$ 165,332
2010/11	Council		\$ 103,930
2009/10	Council		\$ 101,897
2008/09	Council		\$ 143,568
2007/08	Council		\$ 111,079
2006/07	Council		\$ 86,368
2005/06	Council		\$ 68,264
2004/05	Council		\$ 112,659
January 2005	Council		
April 2004 – August 2004	Spotless		\$ 41,865
March – April 2004	Council		
March 2003	Badenoch Pty Ltd	\$ 28,800	
February 2003	Council		
November 2001	Badenoch Pty Ltd		

LEASE – APPENDIX C

COUNCIL OBJECTIVES**1. KEY OBJECTIVES**

Signatures Café is located within the Marion Cultural Centre which is a City of Marion facility. The Lessee will acknowledge and embrace the philosophies, objectives and practices of a number of key City of Marion initiatives.

Commitment to Customer Service

The City of Marion is committed to providing its Customers with a consistently professional, friendly and high-quality service. Our aim is to anticipate and, where possible, exceed our Customers' needs and expectations.

As an organisation we understand that constructive leadership, management and teamwork are critical to maximizing community benefit and employee satisfaction. Corporate Values that are important to the success of the Organisation include:

- Being open, ethical and accountable.
- Valuing the customer.
- Being committed and enjoying getting the job done.
- Working together in partnership.
- Respecting the views, opinions and capabilities of others.
- Continuing to learn and improve.
- Embracing sustainability.

Cooperation across the Marion Cultural Centre Services and the Domain precinct

The City of Marion is committed to providing a Cultural Centre that is a thriving, regional hub of community arts and culture; a place to learn, meet, gather, participate and communicate. Signatures Café plays a vital role in delivering on this vision. The Café is a community meeting place and services patrons of the Marion Library, Domain Theatre and functions rooms and Gallery M.

The Lessee will be required to work closely with City of Marion staff and Gallery M staff to ensure a coordinated service across the Cultural Centre as a whole. This dynamic relationship will recognise the commercial imperatives of the café operator balanced with the community and cultural deliverables of the Cultural Centre as a community facility.

The City of Marion is also committed to positive relationships with services across the Domain precinct including the South Australian Aquatic and Leisure Centre, GP Plus, Westfield Marion and other nearby agencies such as Centrelink, Service SA, the Domain Medical Centre and the RAA. The Lessee will be required to attend regular facility and precinct meetings to contribute to positive relationships and coordinated planning both within the building and the surrounding precinct and to ensure that programming and business needs are compatible.

2. KEY OUTCOMES

It is envisaged in delivery of the key objectives the following key outcomes will be achieved:

1. Maximising broad community use and acceptance of Signatures Café;
2. Maximising the customer satisfaction of Signatures Café;
3. Maximising the operations and efficiency of Signatures Café, and;
4. Maximising the financial performance.