

**CITY OF MARION
GENERAL COUNCIL MEETING
23 AUGUST 2011**

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

Originating Officer: Abby Dickson, Manager Libraries and Cultural Development

Director: Kathy Jarrett, Acting Director Corporate & Community Services

Subject: Commercial Arrangements

Ref No: GC230811F02

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 it relates to commercial information of a confidential nature the disclosure of which could reasonably be expected to prejudice the commercial position of the person who supplied the information, or to confer a commercial advantage to a third party.

Jeff Rittberger
Acting Chief Executive Officer

1. 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 Jeff Rittberger, Acting Chief Executive Officer, Adrian Skull, Director City Development, Kathy Jarrett, Acting Director Corporate and Community Development, Vincent Mifsud, Acting Director Governance, Abby Dickson, Manager Library and Cultural Development, Kate McKenzie, Acting Manager Governance, Jaimie Thwaites, Acting Executive Officer Council Business, Richard Watson, Acting Unit Manager Communications, Marg Edgecombe, Unit Manager Arts & Cultural Development, David Barrett, Marion Cultural Centre Coordinator be excluded from the meeting as the Council receives and considers a report in relation to proposed Commercial Arrangements 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 the receipt / discussion / consideration of the matter confidential as disclosure of which could reasonably be expected to prejudice the commercial position of the person who supplied the information, or to confer a commercial advantage to a third party.

STRATEGIC OBJECTIVES:

CV3.1 Develop unique and vibrant public places that express local identity and meet local needs

CV3.2 Provide and support opportunities to celebrate and express community identity

DE1 A supportive business environment

DE2 A strong adaptable and diversified economy

CWSP1 further develop the Marion Regional centre as a Focal Point of Southern Adelaide

REPORT OBJECTIVE AND EXECUTIVE SUMMARY:

This report seeks Council's endorsement to outsource the management of Signatures Café to a private operator using the method outlined in the body of this report. The opening of the South Australian Aquatic and Leisure Centre (SAALC) and GP Plus have significantly changed the commercial environment within the Domain Precinct making it timely for Council to attract a quality private operator to manage the Café. The recommended management model for Signatures Café, whereby a commercial lease is entered into between Council and a commercial operator, will deliver the following benefits: maximise operations of the Marion Cultural Centre with a vibrant, complementary café operation; financial sustainability; eliminate the risk associated with Council staff unfamiliar with hospitality practices to manage food and beverage operations; improve customer service and menu standards; and free up City of Marion staff to focus on the management of cultural and community services within the Centre.

RECOMMENDATIONS:

That Council endorse:

- 1. that the management of Signatures Café be outsourced to a private operator**
- 2. the proposed method of outsourcing Signatures Café to a private operator being Expression of Interest followed by a closed tender**
- 3. that a report be brought back to Council at the conclusion of the tender process for consideration of the recommended operator and final terms and conditions of the lease**

DUE DATES

Recommendation 1	23 August 2011
Recommendation 2	23 August 2011
Recommendation 3	25 October 2011

DISCUSSION:

Background

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

Signatures Café has been operated by Council since 2004. 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. At this time the Café operated in the underdeveloped Domain Precinct where the customer base was limited to patrons of the relatively new Cultural Centre which had been operating for just over two and a half years.

The decision to bring the management of the Café in-house was made with a commitment to revisit the management model in the future (GC220604). 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 makes a review of the management model timely, providing Council with an opportunity to attract a quality operator to manage the Café.

Review of current operations

An examination of the Café's operations has been undertaken to review the viability of the business, the capacity of Council to manage the Café and the investment opportunities if operations were to be outsourced to a private operator. The review has incorporated independent advice from external hospitality industry consultants. It is noted that the Café has continued to operate at a loss while being managed in-house and this has been reported to Council in the half yearly Marion Cultural Centre performance reports.

Commercial Opportunities

Despite the current operating deficit, income sales have remained healthy across the years confirming that the business is an attractive investment opportunity which supplies over 30,000 meals per annum.

The commercial environment in which the Café operates has significantly changed since 2004 when it was last operated by a private operator. The opportunity exists for Council to attract a quality operator to manage the Café.

The Café is situated in a high use and well established cultural facility which attracts, on average, between 900 and 1000 people a day with the theatre and functions rooms taking up to 50 bookings per month. The Theatre, which seats up to 260 persons, regularly has sell-out events. The Café will have first right to cater for all events held at the Centre (excluding Gallery M hosted events).

The opening of the SAALC and GP Plus have enlivened the Domain Precinct and significantly improved the Café's commercial opportunities. On a daily basis GP Plus has 450 visitors and staff on site and the SAALC peaks to 610 customers and staff at 6pm. When hosting state-wide, national and international events, the SAALC will have up to 5500 spectators and participants on site.

The above statistics highlight the opportunities for the operator of Signatures Café to explore catering opportunities which reach beyond customers of the Cultural Centre, marketing the Café to staff and visitors within the Domain Precinct.

Recommendation to outsource to a private operator and associated benefits

A commercial operation is recommended for the management of Signatures Café, whereby a commercial lease is entered into between Council and a commercial operator. This recommendation is based on the analysis of the current environment which demonstrates that:

- the changed commercial environment of the Domain Precinct makes it timely for Council to attract a quality private operator
- the Café is a viable business opportunity;

This recommendation has been supported by external hospitality consultants which have been engaged to provide independent advice on Signatures Café.

Leasing the Café to a private operator will deliver the following benefits to Council and the community:

- Improved financial returns
- Eliminate the need for Council staff unfamiliar with hospitality practices to manage food and beverage operations
- Improve customer service and menu standards through the engagement of a quality operator
- Free up City of Marion staff to focus on the management of cultural and community services within the Centre

The commercial operator will be required to work closely with Council staff and Gallery M staff to ensure a coordinated service across the Cultural Centre as a whole and that the Café compliments the operations of the Centre.

Method of lease and timeline

It is recommended that an Expression of Interest (EOI) method followed by a closed tender is adopted for the lease of Signatures Café. This process has a closing date and allows interested parties to submit their offer subject to finalisation of terms and conditions. Parties are then shortlisted and requested to submit their final offers by a set date. Marketing material will be developed which invites operators to submit their EOI. (Please see appendix 1: Information Memorandum)

The services of Savills will be engaged to act as an agent for the City of Marion.

The advice of Savills indicates the commercial opportunities offered by the site will attract viable prospective operators.

If Council adopts the recommendation provided in this report the successful operator would commence management of the Café no later than January 2012. The table below provides a summary of the process to be followed.

Task	Time Required (weeks)
Appointment of agency	
Preparation of marketing material and property Information Package (includes a draft lease)	2 weeks
Undertake Marketing Campaign	4 weeks
Close of EOI	
Go to select tender	4 weeks
Undertake Negotiations with successful tender	1-3 weeks
Settlement period	1-3 months

Council will be kept informed throughout the EOI and tender process.

Signatures Café Lease

The following lease options will be offered as part of the EOI.

Option 1: Purchase existing plant and equipment and enter into a lease agreement with a term of 5+5 years.

Option 2: Take over existing plant and equipment with maintenance and replacement obligations and enter into a lease agreement with a fixed term of 5 years.

The terms of the lease will include:

- Minimum hours of operation (to meet existing opening hours)
- Annual rental review subject to CPI and market testing
- Lessee to have first right to cater for events (excluding Gallery M events) with the right of Council to engage an external caterer if the lessee declines catering offer
- Right of access to the leased café seating area by City of Marion Staff, Gallery M staff and customers of the Centre
- Requirement to meet with City of Marion staff and Precinct on a six weekly basis
- Regular reporting on café performance and an annual review
- A requirement for healthy eating options on the menu to align with Council's Healthy City objectives
- Council's right to terminate the lease and retain the business name
- Clearly defined maintenance responsibilities which ensure quality building and property standards are maintained and risks to Council are minimised

Expected income

On average, food and beverage operations can afford to pay 5%-7% of turnover as net rental and remain profitable. Based on the current café sales information the following rental return is anticipated:

- Annual Rental income: \$20,000 - \$25,000*
- Annual Services and Property Maintenance Charges: \$37,000
- Once off purchase of Plant & Equipment \$25,000 – \$50,000 **If an operator chooses not to purchase the plant and equipment then a higher rental sum will apply.*

The anticipated annual rental income will not be disclosed as part of the EOI. Interested parties will be required to put forward a proposed rental income which will form part of the EOI negotiations.

Selection Criteria

The following selection criteria will be used in selecting the successful operator

- Relevant Experience of the operator
- Capacity (financial, staffing resources)
- Commitment to and understanding of customer service
- Demonstrated understanding of the opportunities presented by the Domain Precinct
- Willingness to work with City of Marion and other Precinct stakeholders
- Marketing Strategies
- Alignment with Council objectives
- Financial Offer

INTERNAL ANALYSIS:

Organisational Culture Impact:

Discussions regarding the outsourcing of the Café have been treated as confidential given the sensitivity to staff currently employed at Signatures Café and the MCC. If Council adopts the recommendation to outsource the Café to a private operator a change management strategy will be deployed to support all staff impacted by this change.

Legal / Legislative and Risk Management:

Legal advice is being sought in devising the terms of the lease agreement. The final agreement will meet all legal requirements, and will mitigate and or transfer any risks to ensure business continuity.

Financial Implications:

The costs associated with outsourcing the Café to a private operator will be covered by the current operational budget of the MCC.

A commercial operation of the Café will ensure an annual rental income to Council with all costs of operations being the responsibility of the commercial operator.

EXTERNAL ANALYSIS:

Consultation

The Café is not classed as community land and therefore no public consultation is required regarding leasing the property.

Dynamic Economy

The engagement of an experienced and successful café operator supports Council's strategic objectives to work in collaboration with the business community and to support a supportive business environment.

The selection of a qualified and experienced café operator will contribute towards the overall vibrancy of the Domain Precinct attracting local residents and visitors into the MCC to experience a high quality café experience.

Social / Cultural Impact:

Quality cafés and restaurants are part of the Adelaide metropolitan lifestyle. They are not only places people enjoy good food, wine and coffee but are also important meeting places which connect people and places. Migrants from all over the world have helped to shape South Australia's vibrant and diverse café culture. The delivery of a quality café will contribute to the overall ambience of the Centre drawing visitors to the Domain Precinct into the Cultural Centre.

The engagement of a commercial operator to manage the Café will better support the Marion Cultural Centre Coordinator position by freeing up their time to focus on the community and cultural outcomes of the Centre.

Environmental (Green) Implications:

As a tenant of a Council facility the commercial operator will be required to adhere to Council's Environmental Management System in its day to day operations.

CONCLUSION:

It is an exciting time for the Marion Cultural Centre with the opening of the SAALC and GP Plus. The outsourcing of Signatures Café to a commercial operator will ensure that the Café is well placed to meet the expanding commercial opportunities within the newly developed Domain Precinct. It is a financially sustainable model for the delivery of café services from a Council owned facility. The appointment of a suitably qualified café operator will achieve a higher standard of customer service, contributing the overall vibrancy of the Marion Cultural Centre and Domain Precinct.

Appendix 1 Signatures Café Information Memorandum