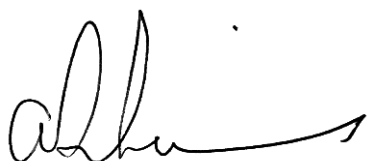


## CONFIDENTIAL REPORT

**Corporate Manager:** Carol Hampton, Manager City Property  
**General Manager:** Abby Dickson, General Manager City Development  
**Subject:** Signatures Café – Progress Report  
**Reference No:** GC260716F01  
**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.



**Tony Lines**  
Acting 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: Tony Lines, Acting Chief Executive Officer; Vincent Mifsud, General Manager Corporate Services; Abby Dickson, General Manager City Development; Carol Hampton, Manager City Property; Kate McKenzie, Manager Corporate Governance; 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 Council with a progress report regarding Signatures Café and provides Council with information on the process to source a new operator for the café.

### RECOMMENDATIONS (3)

### DUE DATES

#### That Council:

- |  |               |
|--|---------------|
| 1. Notes this progress report regarding Signatures Café business.  | 26 July 2016  |
| 2. Requires Administration to bring a report back to Council in February 2017 which reviews the operations of the café and provides options for the future management of the café for Council's consideration  | February 2017 |
| 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 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 2016. | December 2016 |

### EXECUTIVE SUMMARY

At the General Council meeting on 26 April 2016 (GC260416F01) Council considered a report on Signatures Café and resolved:

- to provide a further rent free period until July 2017;
- agreed to change operating hours; and
- to reduce the percentage of the Marion Cultural Centre (MCC) outgoings paid by the café operator to 3.15%.

These provisions are now in place.

The current operator of Signatures Café, Hoffwood Pty Ltd, has indicated that if the financial performance of the café cannot not be improved that he would work with Council to source a new operator for the business. Since the Council meeting in April 2016 the operator has reduced the opening hours to further minimise expenses and has also advised he would like to make further changes and will review the viability of the business in early 2017 before he makes any final decision on whether to exit the business.

Council at the 26 April 2016 Council meeting requested that Administration provide a report on the process and approach to source a new operator and this information is provided in the following report.

Administration will continue to work with the Operator to provide him with support to improve the performance of the business and monitor its financial performance. It is recommended that Council be provided with a report in February 2017 which reviews the operations of the café and provides options for Council's consideration regarding the future management of the cafe.

## 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 as a result of the operator being unable to meet its financial commitments.

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 and the lease included an initial 12 month rent free period to establish the business. 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.

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

The existing lease when all terms and conditions are applied in full 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.

In February 2015 the Hoffwood Pty Ltd advised the café was struggling to return enough to pay outstanding rent and contribution to outgoings. The Operator indicated that the current level of income was sufficient to cover the cost of goods and staff costs but insufficient to cover the additional rent and 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 of 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 the following:

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.*
2. *Delegates the power to the CEO to vary the conditions of the lease to change/reduce operating hours in negotiation with the lease and payment for outgoings is reduced from 7.14% to 3.15% up until 30 July 2017.*

3. *Requires Administration to report back to Council in April 2017 on the outcomes of the rent free period and recommendation for future rental return.*
4. *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.*
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 September 2016.*

As a result of this resolution Signatures Café has reduced trading hours in line with the lease. As from 8 May 2016 opening hours changed to 9am to 3pm Monday to Friday (now closed on weekends).

Administration has worked with the Operator to work through ways to make the business more viable. The Operator is planning to makes changes to the menu and to work closely with hirers and users of the facility to ensure costs for catering for functions is viable.

The Operator has also indicated he is considering exiting the business and would work with Council to source a new operator. Under the lease, the Lessee may assign or transfer its interest provided that the Lessee has obtained the Lessor 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. This report outlines the process Council may follow if it wishes to source a new operator for the business.

## **FINANCIAL PERFORMNACE OF THE CAFE**

Hoffwood Pty Ltd has been submitting full financial reports at the conclusion of each month to enable ongoing financial monitoring of the café's performance. At the time of writing this report, fifteen months of 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	6,825.84
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
<b>TOTALS</b>	<b>281,277.77</b>	<b>276,421.90</b>	<b>4,855.87</b>

The last fifteen months of café operations have delivered a profit of \$4,855.87 indicating the payment of rent at this point is not financially viable.

### **CURRENT POSITION OF THE OPERATOR**

In April 2016 the operator indicated that it would not be financially viable to continue to operate the café if a rent free period was not granted for next financial year. The operator also indicated that while committed to the café and the lease obligations it would not be viable for him to continue to make a loss so he would be seeking to work with Council to exit the business.

Since early May 2016 the operator has removed weekend trading to further reduce operating expenses and has indicated he has plans to implement further changes over the next few months. He has indicated at this stage it is too early to determine if the changes will be sufficient to improve performance. As a consequence, the operator would like to review the situation at the end of the 2016 before making any decision to exit the business.

Administration will continue to monitor the financial reports and work with the operator to implement changes. It is suggested that the situation be reviewed early 2017 which will align with reviewing the rent free period and the review of the viability of the business.

### **PROCESS AND APPROACH TO SOURCE A NEW OPERATOR FOR THE BUSINESS**

The following outlines the process and approach to source a new operator for the café:

1. Appoint a hospitality agent to assist with going to the market to seek a suitable operator. The fee structure can be based on a percentage of gross sales or rent or a minimum fee \$5k, it is anticipated the minimum fee would be applicable
2. Financial reports – obtain and provide reports to the agent
3. Expression of Interest – to be undertaken over 3 to 4 weeks by the agent
4. Reconciliation of equipment and out goings to be undertaken
5. Review existing lease terms
6. Negotiate terms and conditions of the new lease.

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

It is recommended that a hospitality agent be engaged for this process as they bring to the process expertise in the hospitality sector and have established networks which assists in the sourcing of potential operators.

### **CONCLUSION**

The intent of the rent free period until July 2017 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 operator has indicated that he wants to continue to manage the café and will review the viability of the business early 2017. A progress report will be provided to Council in February 2017 which includes consideration of future options for the café.