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| Report to | - | Cabinet |
| Date | - | 5 November 2018 |
| Report of the | - | Executive Director |
| Subject | - | The Colonnade Bexhill Ltd |

Recommendation: It be **RESOLVED:** That:

- 1) the conditions affecting the operation of The Colonnade Bexhill Ltd and the subsequent impact on financial performance of the company be noted; and
 - 2) subject to the Colonnade restaurant building being leased out to a new operator, Colonnade Bexhill Ltd ceases trading and is closed and any losses accruing to the Council be written off, which will be subject to a further report.
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Head of Service: Ben Hook

Lead Cabinet Member: Councillor Lord Ampthill

Background

1. Members are referred to the earlier Cabinet report and decision of 2 October 2017 and the subsequent report and decision/recommendation of 15 January 2018 regarding the re-letting of the Colonnade (Minutes CB17/32 and CB17/59 refer). In October 2017, Cabinet had approved to enter into a lease with a new operator for the Colonnade restaurant, however, it was reported in January 2018 that the preferred operator had subsequently withdrawn in late November 2017 on financial grounds and a new approach was required.
2. Following consultation with the Members' Panel who had considered the initial expressions of interest and business cases, it was concluded that the best option would be to increase the commercial offer and income streams derived at the Colonnade by partially subdividing the western half to create four additional retail kiosks as well as retaining a sizeable food and drink facility. It was considered that this facility could either then be leased out externally, operated by the Council in-house, or run in partnership with a third party.
3. It was considered important to ensure that the Colonnade would be open for business during the summer; and there was a potential commercial benefit to the Council by operating the restaurant as a profit-making enterprise. Accordingly, Cabinet resolved to proceed with the establishment of an in-house café/restaurant offer at the Colonnade with the future operation to be kept under review. Council had previously agreed a capital contribution of £100,000 to a prospective tenant towards the cost of fitting-out works and in January it was recommended and subsequently approved that this be increased to £260,000 to meet the entirety of fit-out costs on the basis of the Council operating the restaurant.

Capital Works and Fit-Out

4. A complete fit-out and equipping of the Colonnade restaurant was undertaken. Broadly this comprised:
 - Stripping out previous tenant's fixtures and fittings and disposal of waste left in back of house.
 - Floor finishes (including screed to the back of house area), partition walls, ceilings.
 - All joinery and carpentry, including fabrication of bespoke items such as bar counter etc.
 - All heating, plumbing and drainage works.
 - All electrical work including lighting, heating and ventilation; alarms, CCTV and IT systems.
 - All decorations.
 - Installation of kitchen equipment including extraction/ventilation.
 - Professional fees in relation to the above.
 - Purchase of all furniture, equipment, utensils, crockery, cutlery etc.
5. The design and specification of the fit-out was intended to give an informal, contemporary feel, whilst reflecting the setting of the Colonnade in relation to the sea in front and the De La Warr Pavilion behind. Due to the shape and layout of the space, certain items, such as the bar counter and seating were of necessity, bespoke. The Council employed an independent catering consultant to advise on the business plan and design, including the specification of the kitchen. The kitchen was designed to enable the provision of a wide ranging food offer encompassing full meals and light menu options, with sufficient flexibility to adapt to demand and seasonal variation; as well as ensuring compliance with food hygiene standards. The extraction equipment is specified to minimise noise and odours to the surrounding area. The fit-out works have been fully inspected and certified by Building Control, and the kitchen equipment is fully commissioned and a gas safety certificate issued.

Delays in securing a gas supply

6. As part of the seafront improvement works commenced in 2010, a gas supply pipe was installed to service the Colonnade. This supply was not utilised by the first tenant 'Tea Beside The Sea' and consequently a gas meter was never installed.
7. On 24 May 2018, a request was made to Rother District Council's contracted energy management company, Laser, to have a gas meter fitted. Laser and Southern Gas Networks (SGN) were unable to identify the unique reference number (MPR) for the feed pipe. On 21 June 2018, officers were advised that following extensive efforts on the part of Laser and SGN, as no record of the Colonnade could be found, the Council would need to register for a new MPR number and that this process could take up to four weeks. An application was immediately filed and regular updates were requested.
8. On 26 July 2018, five days after the opening of the Colonnade restaurant the recorded MPR for the existing pipe was identified as having been mis-registered to an address in Western Road. With the identification of the MPR the process for the installation of the new meter could begin. As this would be a new feed that had never previously been used, the process included a

number of actions that would be undertaken by different parties, each with their own lead in times. This included:

- A Live/Dead Check for the pipe, to ensure that it had a gas feed from the network – SMS local meter installers.
 - Pressure and capacity checks on the feed – Southern Gas Networks.
 - Installation of the gas meter - SMS local meter installers.
 - Connection and testing of the kitchen equipment.
9. These actions were completed on 9 October 2018 and a gas safety certificate has now been received.
10. Whilst all delays that were incurred were outside the control of the Council and within the published lead-in times for suppliers, regular complaints were filed with Laser, Total (supplier), SMS, and SGN. The Council has also written to the Energy Ombudsman to complain about the delays in the process and continues to be seeking legal advice to explore avenues for redress.

Staffing and Operations

11. In preparation for opening a comprehensive menu was designed and a full complement of staff recruited, this included:
- Catering Manager
 - Assistant Manager
 - A Head Chef and a Sous Chef
 - Front of House team (Casual, seasonal contracts)
 - Kitchen Support staff (Casual, seasonal contracts)
12. The opening date of 21 July 2018 was to coincide with the Great Gatsby event on the seafront. However, due to the delays in the installation of the gas it was decided to launch a 'soft opening' with a limited menu offer, deliverable within the capacity of the limited facilities.
13. When the likely timescales for the installation of the gas became clear, the decision was taken to review the staffing levels in light of the available offer and likely income generation. As a result, the employment of the Head Chef was terminated and the hours on offer to the front of house team were significantly reduced.
14. Throughout August and early September the Sous Chef and the Catering Manager also left their posts and were not replaced. The seasonal contracts were all terminated on 5 September 2018, leaving a team of four to run the operation on a five day-a-week basis. These decisions were all taken to reduce the burden of outgoings whilst still offering the best possible service under the constraints outlined.

Colonnade Retail Units

15. Members will recall that the decision was made for the restaurant to only occupy half of the Colonnade building, the remaining half to be divided into four units for letting. The current position is that three units are let and a tenant has been found for the fourth with an expected occupancy in late

November. In total these units will generate £14,400 per annum. For this financial year it is estimated that the units will generate £8,700 in total.

Financial Position

16. The total investment in fitting out the new restaurant was £288,000, £28,000 above the pre-tender estimates. This excludes items of furniture and equipment that will be disposed of to the new operator. A summary of the capital costs is shown at Appendix A. The trading performance of the restaurant from opening until the end of September 2018 shows income of just under £34,000 (net of VAT) and expenditure of just over £90,000. Therefore over this short period of opening there has been a net trading loss of £56,000. However some of these losses will be recovered through the partial sale of stock to the incoming contractor. A summary of the trading account is shown at Appendix B.

The Trading Company

17. As the restaurant premises is in the process of being let to an operator, there is no need to continue operating the trading company, the Colonnade Bexhill Ltd, that was established earlier this year. By close of operations it is still expected to be showing a net trading loss and therefore there should be no tax liability. However, the final net loss will fall to the Council to meet. This final debt will need to be written off in the Council's accounts and will be included within a future irrecoverable debt report to Cabinet when the exact loss is known.

Conclusions and Recommendations

18. Members should note the performance of the restaurant in the context of the external constraints placed upon the operation. The high quality fit out within the building, the strong performance of the café and the goodwill generated with customers throughout this time, attracted offers from a range of interested parties to take over the restaurant on a tenancy basis.
19. On 1 October 2018, Cabinet approved that officers seek to enter into a lease with a potential operator to take over the running of the restaurant. Based on the level of offers made, it was agreed that the Executive Director be granted delegated authority to conclude negotiations with the preferred operator and on other terms appropriate to the premises and its location.
20. Following the conclusion of these negotiations and the agreement of a lease, it is recommended that Cabinet approve that the Colonnade Bexhill Ltd ceases trading and officers take the necessary steps to close the company. Any remaining loss will accrue to the Council and will need to be written off which will require authorisation by Cabinet in line with the Council's financial procedure rules in due course.

Dr Anthony Leonard
Executive Director

Risk Assessment Statement

There are no risks arising from this report.

Restaurant – Fitting out Costs

| Expenditure | Cost (£) |
|---|-------------------|
| Professional Services | 23,718.76 |
| Kitchen fitting out | 79,925.00 |
| Restaurant fitting out | 160,580.14 |
| Electrical works | 6,734.07 |
| In-house Maintenance team preliminary works | 17,066.00 |
| Total Cost | 288,023.97 |

| Items that can be disposed of | Cost (£) |
|--------------------------------------|------------------|
| Furniture | 35,078.00 |
| Other Equipment and inventory | 26,987.28 |
| Total Value | 62,065.28 |

The Colonnade Bexhill Ltd – Trading Accounts 21 July 2018 to 30 September 2018

| | | £ |
|---------------------------------|------------|--------------------|
| Sales | | 33,753.33 |
| Cost of Sales | 18,355.85 | |
| Less: Closing Stock | (4,000.00) | 14,355.85 |
| Gross Profit | | 19,397.48 |
| Staff Costs | 21,053.70 | |
| Operating Costs | 36,508.54 | |
| RDC Central Costs and Overheads | 18,621.17 | 76,183.41 |
| Net Loss | | (56,785.93) |