

Report to - Cabinet  
Date - 15 January 2018  
Report of the - Executive Director of Business Operations  
Subject - The Colonnade, Bexhill-on-Sea

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**Recommendation to COUNCIL:** That:

- 1) the Capital Programme be increased to £260,000 for the internal fit-out of the Colonnade café/restaurant and kiosks funded from the Medium Term Financial Strategy Earmarked Reserve; and

It be **RESOLVED** That:

- 2) officers be authorised to proceed with the establishment of an in-house café/restaurant offer at the Colonnade with the future operation to be kept under review.
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**Service Manager: Brenda Mason**

**Lead Cabinet Member: Councillor Lord Ampthill**

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**Introduction**

1. Members may recall that on 2 October 2017 Cabinet resolved to enter into a lease with a preferred operator for the Colonnade restaurant on Bexhill promenade, with approval also for a capital contribution of £100,000 towards the cost of fitting-out works (Minute CB17/32). The approval of the preferred operator was the result of an open process of selection. This report updates Members on activity since the last report and, in light of the withdrawal of the preferred operator, proposes a new approach.

**Preferred Operator Withdrawal**

2. On receiving Cabinet approval, officers worked with the preferred operator to enter into the necessary legal documentation. Officers also took the necessary steps to secure lawful possession of the premises from the previous tenant on 31 October 2017 on expiry of the non-secure lease. Obtaining vacant possession was essential not only to enable the new operator to take occupation but also to undertake the necessary building works to address water ingress at the premises. Officers have also been working to put arrangements in place to carry out fitting-out works at the property, with a view to enabling the new business to be trading by Easter 2018.
3. However, due to a withdrawal of loan finance, regrettably the Council's preferred operator had to withdraw their offer in late November 2017. This change in the operator's circumstances since the earlier Cabinet resolution has meant that the preferred operator cannot now raise sufficient finance to cover the costs to get the new business started at the Colonnade. During

this period attempts to secure finance through alternative sources, including Locate East Sussex and Let's Do Business Group, have regrettably proved unsuccessful.

## Way Forward

4. Officers have therefore given urgent consideration to the options open to the Council, having regard to the vision set out in the report of 2 October 2017, as follows:

*“The Council’s vision for the Colonnade is that it should make a positive contribution to Bexhill’s commercial scene and contribute towards re-positioning the town as a desirable place to live, work and visit.*

*The commercial activity at the Colonnade should therefore achieve the following objectives:*

- *Collectively act as a destination and generate footfall in its own right, contributing to Bexhill’s overall product ‘offer’ – i.e. its high quality seafront, cultural icon and distinctive retail and leisure.*
  - *Complement other local businesses that also contribute positively to that product offer.*
  - *Complement the quality of the surrounding public realm to add to its overall appeal.*
  - *Offer a high quality customer experience while providing value for money (not necessarily ‘high end’).”*
5. The Colonnade is very well placed to benefit from passing trade along the promenade throughout the year, but especially during the summer months. However, it has proved difficult to secure a tenant capable of meeting the Council’s vision. There may be a number of reasons for this with the most difficult obstacle being access to start-up and working capital. The setting of the Colonnade on the seafront means that the trade is likely to have some seasonal element, contributing to financial risk in comparison with a town centre setting.
  6. Officers met with the Members’ panel (Councillors Azad, Earl, Oliver and Stevens (Councillor Lord Amptill sent his apologies for this meeting)) in December to discuss the best way forward given the change in circumstances. A number of possible options were considered, including re-advertising the premises in the hope of further interest from commercial operators. It was the panel’s view that the best option would be to increase the breadth of the commercial offer and the number of income streams derived from the property. This would avoid reliance on a single rental stream. This would be achieved by partially subdividing the western half of the Colonnade to create four additional retail kiosks as well as retaining a sizeable food and drink facility. This latter facility could then be either leased out externally, operated by the Council in-house or run in partnership with a third party.
  7. Under an in house operation, the Council would be taking on more or all of the commercial risk but would also benefit from potential financial surpluses from the catering operation, whilst also receiving a rental income from the additional kiosks. If Members were minded to avoid the risk of greater

financial outlay then the option remains of continuing to offer the premises to a leaseholder/operator. However, this option runs the risk of the Colonnade remaining empty for an extended period of time.

8. In order to explore all options officers have also continued to engage with other potential operators / partners to ascertain their interest; although these discussions have not yielded any alternative proposals to date.

### **Capital fitting-out works**

9. Irrespective of which route the Council now takes in managing the operation, it is clearly necessary to carry out further works to the interior of the premises to make it ready for occupation. So far no prospective tenant has been able to raise sufficient capital to do this themselves and this work is therefore seen as a necessary long term investment into the property.
10. A detailed schedule of works is currently being prepared in readiness for competitive quotes; which will encompass the following elements:
  - Lay floor screed to the rear back-of-house area
  - Lay floor finishes throughout
  - Installation of customer toilets for café/restaurant
  - Installation of staff welfare & toilet for café/restaurant
  - Kitchen fit-out including power, water & drainage and extraction (but excluding kitchen equipment itself)
  - Internal wall finishes and decoration throughout
  - Electrical works including power points and lighting
  - Heating
  - Internal partitioning (for separation of kiosks)
11. Depending on the final specification, the cost of these works could be in the region of £200,000. Therefore in meeting the total cost of fitting-out, including all elements such as decorative finishes, heating, ventilation and lighting, etc. as well as fees for design and contract supervision, an additional capital provision of £100,000 is required in addition to the £100,000 previously approved.
12. Clearly this increased expenditure impacts upon the net benefit realised from the property and will need to be amortised over a longer period than previously envisaged. However, the strategic location of the property and its significant contribution to the seafront as a visitor destination make this a potentially worthwhile investment for the medium to longer term.

### **Proposed Council-run café/restaurant**

13. Within the context of the Council's Rother 2020 plans and medium term financial strategy, it is timely to consider running the Colonnade café/restaurant as an in-house operation affording the potential for a quality offer returning a trading surplus to the Council. Clearly a robust commercial approach will need to be taken to running the business as a profit-making enterprise. It would not be appropriate that the public purse pick up any trading losses for the establishment.

14. In addition to the fit out costs referred to above, it is estimated that the costs for setting up the restaurant operation including all equipment, furniture, fixtures and fittings for kitchen, restaurant and bar is likely to be in the region of £60,000 and would form part of the overall Capital Programme provision for the project.
15. In order to deliver this commercial proposition, it is proposed that a catering manager be appointed with strong management direction to run the business as a going concern from the outset. Confident commercial decision making and a strong track record of achievement in a catering context will determine the successful candidate for this new position. The post-holder would be charged with employing catering staff, setting menus and controlling stock and suppliers. They would be involved from set-up with the design and character of the offer, focusing on a simple, affordable, quality offering that carries a strong appeal with the seafront audience.
16. In order to better understand the feasibility of an in-house operation, officers have been working with an experienced catering consultant to draw up a cashflow for three years assuming a start date of June 2018. The forecast indicates that the Council should see an annual income of over £200,000 per annum, gross profit of around 70% of turnover and net profit of around 10% of turnover. In addition, there will be rental income from the new units in the western half of the Colonnade, expected to be approximately £14,000 per year. The overall net income is therefore broadly similar to the previous rental expectations for the Colonnade.
17. The above takes account of the costs for wages, stock and consumables, business rates and other overheads. It should be borne in mind that the estimates are high level projections at this stage and will be subject to change once trading commences.
18. The performance of the café/restaurant will be monitored closely with the objective of returning a surplus over costs being paramount. In the medium term, when the facility is established on a successful trading footing, it may be appropriate that an independent operator is found and the business sold as a going concern with a long lease on the property. This would reduce the operational and financial risk to the Council and allow officers to concentrate on the strategic development of the seafront and town centre.
19. Alternatively, if a stable trading surplus can be achieved, it may provide a useful long term source of income with potential for growth to be put towards the aspirations of the Rother 2020 plan. If Members are minded adopt the in-house route, an in-depth review of options following three years of trading would be sensible.

## **Repair works**

20. Further to the Cabinet report of 2 October 2017, works have now commenced above the Colonnade to address water ingress following successful partial works last year. This is expected to be complete by the end of February 2018.

## **Conclusion**

21. Whilst it is disappointing that the proposal from the preferred operator has had to be withdrawn, there remain viable options open to the Council to achieve its strategic objectives for the location and to generate a financial return.
22. The recommended approach, subdividing the Colonnade into kiosks for let in order to generate a rental income whilst setting up the café/restaurant as a Council-run operation, offers a viable way forward. Members however need to be mindful that there are risks to the Council, both financial and reputational, if the operation is not successful. Doing nothing is not an option and a significant advantage offered by taking the operation in-house is to maintain the continuity of the seafront offer and to provide a café/restaurant facility for the summer of 2018.
23. If approved, it is recommended that the arrangement be subject to an in depth review in three years' time, with options to continue operating as part of the Council's income generation strategy, or to offer as a going concern to an arms' length operator by way of a sale of the goodwill and long term lease. Officers will continue to maintain a dialogue with potential commercial partners, although any partnership arrangement would need to be subject to a formal procurement process. This will be better informed once there is an established trading history from the premises.
24. With the relevant approvals in place, it is expected that the café/restaurant should be open for business by the summer and the lettings of kiosk spaces achievable in a shorter timescale.

Dr Anthony Leonard  
Executive Director of Business Operations

## **Risk Assessment Statement**

There are financial, management and audit considerations to take into account when operating a council-run business. The Council has no recent experience in this type of operation, although it has done so in the past. The appointment of a suitably experienced catering manager to lead this project will be critical to its success.

The financial projections are high-level estimates at this stage and may be subject to change as the project develops.