

Rother District Council

Report to	-	Overview & Scrutiny
Date	-	22 July 2019
Report of the	-	Executive Director
Subject	-	The Colonnade, Bexhill

Recommendation: It be **RESOLVED:** That: the report be noted

Head of Service: Ben Hook

Introduction

1. Members are referred to the Cabinet report of November 2018 which reported on the Colonnade Bexhill Ltd and which resolved that the Overview and Scrutiny Committee be requested to include a review of the Colonnade within their Work Programme under “Items for Consideration” and report back at a future meeting (Minute CB18/34 refers). This was put on the agenda for the July 2019 Overview and Scrutiny Committee meeting.

Background

2. The Colonnade was built in 1911 to commemorate the coronation of King George V and was designed as a sheltered structure from which to enjoy open-air beachfront concerts and performances. It was originally situated in front of a coastguard station, which was replaced in 1936 by the De La Warr Pavilion.
3. Part of the Colonnade was subsequently enclosed and housed a small area for a café until the refurbishment of the seafront under the Next Wave programme in 2010-11. At that time the structure was extended to form a number of kiosks along the flanks of the structure, and extended to the rear to form a back-of-house area capable of accommodating a kitchen, stores and toilets. The adjoining new rowing club building was also constructed at the same time. The building was completed to a ‘shell’ finish only at that time, although subsequently a floor screed was laid in the main semi-circular area.
4. The intention at that time was to let the Colonnade as a café/restaurant to a suitable operator, offering a long lease to allow an operator to offset their capital costs required to fit out the premises to their requirements.
5. In the years following the refurbishment under the Next Wave programme, the Council marketed the Colonnade on several occasions, and whilst the marketing resulted in offers coming forward, for various reasons these did not proceed. On two occasions offers were accepted by the Council but the operators subsequently withdrew, and on one occasion a proposal was rejected by Cabinet at the time, due to the exclusivity conditions required by the operator. During the majority of this period the Colonnade was occupied under a succession of short-term leases by ‘Tea Beside The Sea’, with a minimal level of fit-out and at a modest rent.

6. During 2016/7 a Members' panel oversaw a review of the Council's options for the Colonnade. A study of the possible uses of the Colonnade was undertaken through the "Leisure Consultancy", drawing on examples of similar operations elsewhere in the UK. The conclusion from that study was that whilst other potential uses could be considered, a café/restaurant remained the most likely viable use for the property. Where alternative examples existed elsewhere, such as gallery or museum spaces, these were either wholly run by the public sector or heavily subsidised.
7. Further marketing was undertaken in 2017 through commercial agents as well as direct follow-up of previous contacts and approaches to local entrepreneurs. Three expressions of interest were received; these were considered by the Members' panel who concluded that only one proposal was worth pursuing further. The panel subsequently met with this party and was recommended to Cabinet in October 2017. Regrettably however, due to a change in financial circumstances, the proposed tenant was subsequently unable to secure the capital needed to proceed. Advice was sought through Let's Do Business Group, who operate Business East Sussex, the business support and advisory service for East Sussex. They appointed a specialist consultant to advise and to assist in seeking alternative finance arrangements; however no solution could be found and in December 2017 the party withdrew.
8. Following further consultation with the Members' panel 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, while 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.
9. Due to the cost and level of fit-out required it was considered unlikely that an alternative third party operator would be found that met the Council's requirements. It was also considered important to ensure that the Colonnade was open for business during the summer. Accordingly, Cabinet resolved in January 2018 to proceed with the establishment of a temporary in-house café/restaurant offer at the Colonnade, with the future operation to be kept under review.
10. A list of the relevant Cabinet minutes and dates is attached as Appendix 1.

Business Planning

11. Council had previously approved a capital contribution of up to £100,000 to a prospective tenant towards the cost of fitting-out works and in January 2018 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 premises. The Council embarked on the recruitment of a Catering Manager to oversee the set-up and operation of a trading company and the business and they started in April 2018.
12. An initial business plan was drafted prior to appointment of the Catering Manager and this was shared with the Members' panel in April 2018. This was produced with the support of the specialist catering consultant who had

been retained by the Council to advise on the business plan, and who also advised on the design and specification of the kitchen. Following the appointment of the Catering Manager the business plan was subsequently revised and adapted as the project developed. The final version of the business plan by the Company projected a trading profit of £18,500 in the first year.

13. The timescale for commencing trading was very important as the financial forecasts included trading from the beginning of July. This required the appointed contractor to do the fitting out to work to a very tight timescale. The completion overran slightly by two weeks.

Trading Company

14. The Colonnade Bexhill Ltd was established by the Council as a trading company to manage operations at the Colonnade in April 2018. This company employed the staff and entered into the various arrangements needed to operate the business, including with suppliers, service contracts, till system, furniture, etc.
15. Council officers were appointed as Directors to get the company established and the administration of the company was supported by other officers of the Council.
16. The Council employed a Catering Manager to lead initially on refining the business plan, to set up the business operations and recruit the staff team while the fitting-out works were taking place, and to manage the business, once trading had commenced.

Capital Works and Fit-Out

17. A complete fit-out and equipping of the Colonnade was undertaken commencing on 7 June 2018 and due to finish on 5 July. 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.
18. 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 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 were inspected and certified by Building Control, and the kitchen equipment fully commissioned.

19. As previously reported, the Colonnade opened for trading on 21 July 2018.
20. At the same time works took place to subdivide the western half of the structure to form four additional retail kiosks; and works were also undertaken to address water ingress by excavating and waterproofing the rear of the original structure.
21. As reported to Cabinet in November 2018, there were delays in getting a gas meter installed at the property. Although a gas supply had been installed as part of the seafront improvement works commenced in 2010, this had not been used since.
22. 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.
23. 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.
24. These actions were completed on 9 October 2018 and a gas safety certificate issued. 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.

Staffing and Operations

25. There is no doubt that the delay to installing the gas meter was the major hindrance to the business as the café was not able to offer a full menu and capitalise on the good summer weather.

26. When the likely timescales for the installation of the gas became clear, the decision was taken by the trading company 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. During August and early September the Sous Chef and the Catering Manager resigned and were not replaced. The gas meter was connected in early October and the kitchen equipment was connected and commissioned on 9 October.
27. 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. By this time the Council was also in discussion with several third party operators who had seen the Colonnade's potential and had expressed an interest to take over the operation.
28. Had there been no third party interest the directors of the trading company would have re-recruited to the vacant key staff positions in time for the following summer season, once the gas supply issue had been resolved; with a view to making up losses during the following summer and in subsequent seasons. However, the interest from external operators offered an alternative approach and so for an interim period the business operated on a skeleton basis until the new tenant took occupation in December 2018.
29. Following the opening of the Colonnade in summer 2018 the Council was approached independently by several operators expressing interest in taking on the premises. Discussions took place with all of these, resulting in the report to Cabinet in October 2018 and the decision to let the premises to Wingrove House Ltd (Minute cb18/29 refers). Wingrove House Ltd had previously enquired as a potential tenant in 2016, but had withdrawn on that occasion due to other business commitments and the capital outlay required. The company operates other catering businesses in the area, including The Beach Deck and Treasure Island in Eastbourne and Wingrove House Hotel in Alfriston. In December 2018 Wingrove House Ltd completed a 25 year lease for the Colonnade, including two of the kiosk units, and took over operation of the premises.

Colonnade Retail Units

30. At the time when it was decided to fit out and operate the Colonnade in-house, the decision was also made to divide part of the space into four additional kiosk units for letting; thus providing 11 lettable kiosks in total. Currently all 11 kiosks are let, the majority on two-year non-secure leases on flexible terms. Two of the kiosks are included within the lease to Wingrove House Ltd under their 25 year lease. Rental income from the remaining 9 kiosks is currently £28,800 per annum.

Financial Position

31. The total investment in fitting out the café and new kiosks, including all building work, furniture, kitchen fit-out and professional fees, was £318,776. Offset against this is the sum of £12,000 received from sale of the furniture to the new operator.

32. A summary of the capital costs is shown at Appendix 2.
33. The company (The Colonnade Bexhill Ltd) has now ceased trading and the outstanding debt of £58,000 has been written off in the 2018/19 financial year. This excludes items of furniture and equipment that has been sold to the new operator.
34. Overall the company generated turnover of £53,015 and expenditure of £110,487 including cost of sales, staff and other costs. A summary of the trading account is shown at Appendix 3. The loss was principally due to the reduced sales as there was no gas supply available during the peak trading period.
35. As mentioned earlier, in December 2018 Wingrove House Ltd took over operation of the premises. Whilst expecting that business would be slow during the winter period the tenant reports good trading from Easter onwards and are committed to building up the business into the long term.
36. In total the rental income now generated from the Colonnade café and kiosks is £53,300 per annum, comprising £24,500 from the café (including 2 kiosks) plus £28,800 from the remaining 9 kiosks. This represents an increase of £36,900 p.a. from the previous income of £16,400, comprising £2,000 p.a. received from Tea Beside the Sea and £14,400 from 7 kiosks
37. Based on the uplift in rental income the outcome represents a return on investment of 9.54%, including write-offs from the trading operation. This compares favourably to the target figure of 6% for the Council's commercial property portfolio as a whole.
38. The asset was valued in March 2019 at £560,000, an uplift of £165,000 from the previous valuation.

Conclusions

39. Members should note the performance of the Colonnade in the context of the external constraints placed upon the operation. The 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 number of interested parties to take over the premises on a tenancy basis.
40. Equally important, the Council's strategic objective has always been driven by regeneration objectives, to secure a good quality catering operation that adds value to the Colonnade in the longer term and enhances the attractiveness of Bexhill seafront to both residents and visitors. This process has been at times difficult and frustrating over a number of years. Whilst the easy option would have been to lower expectations and avoid risk, this would not have achieved the Council's strategic goals.

Lessons learned

41. It was evident from the marketing carried out over several years and discussions with potential tenants, that the property's unique attributes and location were attractive to operators, but the amount of investment required to fit out the property was a significant obstacle to securing a letting due to the

limited trading history. Only once the Council had invested in the fit out costs did the property become a viable option for occupiers who were then willing to make a long-term commitment to operate.

42. The delay in getting a gas meter connected was the single greatest setback to the operation of the café. Whilst with hindsight the application process could have commenced sooner, the supply was already physically present in the building and a significant part of the delay was due to the gas network provider having incorrect records.
43. When the trading company was established the options open to the Council for the appointment of directors were limited. Whilst officers of the Council stepped up to this role, this was in addition to their existing duties as employees of the Council, with other responsibilities and corporate service targets to meet. With the exception of the Catering Manager who was employed specifically for this purpose, no additional staff resource was available to support the management of the operation. This placed pressure on those individuals and on the other Council staff, particularly within the Council's finance team who supported the trading company.

Dr Anthony Leonard
Executive Director

Risk Assessment Statement

There are no risks arising from this report.

Relevant Cabinet decisions from 2016 onwards

CB16/17 4 July 2016

RESOLVED: That

- 1) the Colonnade be further offered to the market with an option of a capital contribution from the Council's Corporate Priority Project earmarked reserve;
- 2) the current tenant of the Colonnade be offered an extension of the existing lease until 31 October 2017, excluded from the security of tenure provisions of the Landlord & Tenant Act 1954, and on such other terms as the Executive Director of Business Operations may approve; and
- 3) if the current tenant declines to continue operating, the Director of Business Operations seeks to find an interim solution.

CB17/32 17 October 2017

RESOLVED: That:

- 1) a new tenancy be granted on the terms set out in Confidential Appendix 1, as submitted, and such other terms as the Executive Director of Business Operations considers appropriate; and
- 2) provision be made in the Capital Programme for up to £100,000 representing the Council's maximum contribution to the fit-out costs for the new tenant. To be funded from earmarked reserves for corporate priority projects.

CB17/59 15 January 2018

RECOMMENDED: 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

***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.

CB18/29 3 October 2018

RESOLVED: That:

- 1) the Colonnade be let with a contractual obligation to open during the winter season with an option for a rent-free period; and
- 2) the Executive Director be authorised to enter into a lease with the preferred operator for the Colonnade café/restaurant for a term of not less than 10 years on such other terms as deemed appropriate.

CB18/34 5 November 2018

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;
- 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; and
- 3) the Overview and Scrutiny Committee be requested to include a review of the Colonnade within their Work Programme under "Items for Consideration" and report back at a future meeting.

Capital Costs

Expenditure	Cost (£)
Kitchen fitting out	79,925.00
Restaurant fitting out & furniture	195,438.15
Kiosk Conversion	18,394.53
Professional Services	25,018.76
Total	318,776.44
Receipt from sale of furniture	(12,700.00)
Total Net Cost	306,076.44

The Colonnade Bexhill Ltd – Final Trading Accounts 21 July 2018 to 31 March 2019

		£
Sales		53,015
Cost of Sales		(22,424)
Gross Profit		30,591
Staff Costs		(38,390)
Operating Costs		(49,673)
Trade loss		(57,472)