



Reigate & Banstead
BOROUGH COUNCIL
Banstead | Horley | Redhill | Reigate

SIGNED OFF BY	Chief Finance Officer
AUTHOR	Daniel Jones, Property Services Manager
TELEPHONE	Tel: 01737276872
EMAIL	Daniel.Jones@reigate-banstead.gov.uk
TO	Commercial Ventures Executive Sub Committee
DATE	17 November 2022
EXECUTIVE MEMBER	Portfolio Holder for Investment and Companies

KEY DECISION REQUIRED	N
WARDS AFFECTED	Banstead Village, Reigate, Redhill East & Redhill West.

SUBJECT	Future operation of Council-owned café premises.
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RECOMMENDATIONS
(i) That the Commercial Ventures Executive Sub-Committee approve a phased programme of marketing and re-letting of the three Council-owned cafe premises at Priory Park, Reigate, Memorial Park in Redhill and the Lady Neville Recreation Ground in Banstead in order to secure a more sustainable income stream.
REASONS FOR RECOMMENDATIONS
The Council owns three café premises at Priory Park in Reigate, Memorial Park in Redhill and at the Lady Neville Recreation Ground in Banstead that have been operating on a catering contract basis since 2014. Whilst there are some potential advantages to operating them on a contract basis, as compared to leasing out the premises, the originally expected benefits of the contract are not being achieved. It is now considered that a move to operating them on a lease basis to align them with the Council's financial and corporate objectives.
EXECUTIVE SUMMARY
This report seeks approval to enter into a phased programme of marketing and re-letting for the café premises at Priory Park in Reigate, Memorial Park in Redhill, and the Lady Neville Recreation Ground in Banstead.

The Commercial Ventures Executive Sub-Committee has authority to approve the above recommendations.

STATUTORY POWERS

1. Section 1 of the Localism Act 2011 gives local authorities a general power of competence that enables them to do anything that a private individual is entitled to do, as long as it is not expressly prohibited by other legislation.

BACKGROUND

2. In 2014 the Council let a catering contract to Pistachios in the Park, who currently operate the cafés in Priory Park in Reigate, the Memorial Park in Redhill, and the Lady Neville Recreation Ground in Banstead. That contract ended in October 2021.
3. It was originally intended to re-tender the contract allowing a period of closedown between contracts to carry out necessary works to the premises. However, it was not feasible to undertake the retendering during the COVID-19 pandemic and the existing contracts remain in place.
4. Pistachios in the Park is, currently in occupation of the cafés under short leases pending a decision about their future operation.
5. This report sets out options and recommendations for the future operation of the three cafés.

KEY INFORMATION

Priory Park Pavilion Café

6. This is the most well used and popular of the three cafés due to its location adjacent to the play area in the Council's largest and busiest park. It generates significantly more turnover, and therefore more income to the Council, than the other two cafés.
7. However, the café has continuously suffered from operational issues since its original opening. These are in part due to the layout of the kitchen area and a lack of stock storage, both of which are unsuitable to cater for the volume of customers that this popular and busy café generates.
8. Now that the previous contract has come to an end, there is an opportunity to carry out internal alterations to address these issues along with associated maintenance and improvement work that could not be carried out while the café was trading.
9. It will be important to obtain advice and input from either a sector specialist consultant or other food business operator to ensure that the alterations to the kitchen and storage areas are suitable and fit for purpose.
10. It is important that the future tenant at Priory Park is an experienced food business operator. Preferably, they will have experience of operating in parks, where footfall and product-type demand are much more volatile and weather-related than high street locations. These factors may require the operator to operate with varying staff levels at relatively short notice and also to adapt their food and beverage offer according to the weather.

Redhill Memorial Park and Lady Neville Recreation Ground

11. These premises are smaller buildings and also less busy, consequently producing less income than the Priory Park premises.
12. Whilst both of these cafés are subject to the same weather-related volatility issues, these are on a much smaller scale than at Priory Park.
13. Redhill Memorial Park café is a relatively new building that is in good condition and requires no significant work.
14. The conversion of the Lady Neville pavilion to a café was completed in 2010 and those premises now require some maintenance prior to re-letting.

Review of Catering Contract Arrangement

15. One of the perceived original expected benefits of operating the cafés under contract, rather than leasing them to an operator to run their own business, was that the Council would have greater control over their operation, including the range and quality of the food and beverage offer.
16. However, insufficient consideration was given to the contract management implications. Monthly inspections, Key Performance Indicator (KPI) monitoring and contractor meetings are required to effectively manage the contract and achieve the necessary level of control.
17. In hindsight, it is clear that the Property team does not have sufficient resource or industry knowledge to undertake this monitoring and, as a consequence, operational problems arise that might have been anticipated and avoided with more effective contract management and monitoring.
18. It had also been expected that, as the cafés were operated under contract instead of as tenancies, the Council would have more control over customer service and quality issues. However, in practice, this has not been feasible.
19. Of the relatively few customer complaints dealt with by the Council during the contract, most were linked to the operator's difficulty in adapting to high levels of demand, exacerbated by the building-design issue, which led to queueing and delays in food production. Others were customer-service or occasional food-quality and hygiene issues that were related to the contractor's staff training and operational shortcomings, rather than contract management matters.
20. A further issue that was a known, but initially unquantifiable, consequence of the contract arrangement relates to the cost of building maintenance. The contractor occupies the café premises for the purpose of fulfilling the contract but is responsible for only limited premises maintenance costs, mainly in respect of equipment.
21. The Council is responsible for all significant building-maintenance costs and, at Priory Park, in particular, this has resulted in the Council incurring significant expenditure, in part due to the high levels of use of the building. These costs have significantly reduced the Council's annual net income from the contract.
22. For these reasons it is considered that the catering contract basis does not offer any significant benefits to the Council compared to a lease-out arrangement.

Proposed Future Approach

23. Whilst the oversight and control that might be enabled by a well-managed contract does have some benefits, in hindsight it is considered that these benefits no longer offer any significant advantages to the Council compared to a lease-out arrangement with more certainty of rental income.
24. A traditional full repairing and insuring (FRI) lease with an appropriate user clause and other provisions will offer sufficient control over the use of the property and has the additional benefit of transferring repair and maintenance liability to the tenant and is therefore likely to maximise the income potential.
25. The FRI lease arrangement does not require the Council to control operational decisions or practices, such as the food and beverage offer, but the food offer and quality could still form part of the tenant selection process. Environmental Health would be consulted regarding potential tenants to confirm their food safety performance.
26. Furthermore, the FRI lease arrangement allows the Council to maximise the income potential from all three cafés by offering them individually rather than as a package. Experience of the previous catering contract tender process was that some potential bidders were less interested in taking on all three cafés and therefore did not bid.
27. Letting individual leases will allow the Council to select the best offer, based on financial and quality factors, for each café.
28. It is therefore proposed to appoint GCW property consultants. GCW were approached because of their extensive experience in hospitality and catering. They are currently appointed to let the restaurant premises forming part of "The Rise" development in Redhill and are dealing with multiple local and national restaurant operators.
29. In order to minimise consecutive void periods and loss of rent/rent-free periods, it is proposed to stagger the lettings, beginning with the marketing, and letting of Priory Park café and continuing with the interim lease arrangements for the cafes at Memorial Park and Lady Neville Recreation Ground until that letting has been concluded.

OPTIONS

30. The options available are set out below:

Option 1: To undertake a phased programme of marketing and re-letting as proposed in this report. This is the recommended option as it is expected to maximise the income that the Council can generate from the premises, through a competitive open marketing exercise and minimise the Council's revenue expenditure obligations.

Option 2: To re-tender a catering contract opportunity for all three premises. This is not the recommended option, for the reasons set out in this report.

Option 3: Do nothing and allow the current temporary leases to be renewed with the existing tenant and former catering contractor. This is not the recommended option as it will not maximise the income-generating potential of the premises.

LEGAL IMPLICATIONS

31. As identified in the Statutory Powers section of this report, the Council has the power to act in the furtherance of the economic, social, or environmental wellbeing of the area.
32. There is no legal duty to consult the public on any commercial terms of the proposal. These are matters for the authority. The Council is entitled to determine them at its discretion.

FINANCIAL IMPLICATIONS

33. The financial implications of the proposals in this report are set out in the Exempt Part 2 report on this agenda.

COMMUNICATIONS IMPLICATIONS

34. Customer service, food quality, food hygiene, and cleanliness issues at restaurant and café premises owned by the Council have the potential to generate social media and press interest whether they are operated by a third party lessee or on behalf of the Council.

35. A change of operator will undoubtedly generate both positive and negative social media comments.

ENVIRONMENTAL SUSTAINABILITY IMPLICATIONS

36. The Council has set out a commitment in the Corporate Plan 2025 to seek to reduce waste and emissions (including carbon emissions) and use natural resources more efficiently across our own estate, assets, and activities.

37. There are no direct environmental sustainability implications as a result of the recommendations of this report.

RISK MANAGEMENT CONSIDERATIONS

38. All commercial activities carry an inherent level of risk, including non-payment of rent tenant insolvency and tenant failure to observe lease covenants such as repairing obligations.

39. However, all usual and appropriate due diligence will be carried out when selecting a tenant and the lease will include all of the standard clauses intended to protect the landlord from incurring unrecoverable costs as a result of tenant default.

40. The proposals and recommendations in respect of these three cafés do not carry any higher risk than other letting activity carried out by the Council.

CONSULTATION

41. At this stage, no consultation has been carried out.

POLICY FRAMEWORK

42. The recommendations of this report are consistent with the Council's Policy Framework and support the Council's 5 Year Plan objectives of deriving the continued economic prosperity of the borough, facilitating improved business infrastructure, and confirming the borough's reputation as a great place to do business; and of being a financially self-sustaining Council.

BACKGROUND PAPERS

43. None