

ITEM 2. INCREASED SUPPORT FOR ACCOMMODATION GRANT RECIPIENTS AFFECTED BY FUNDING CUTS**FILE NO: S123783****SUMMARY**

In May 2016, over 60 small-to-medium arts organisations lost core operational funding from the Australia Council for the Arts (Australia Council). These losses were attributed to the extensive cuts to the Australia Council's budget made as a result of the 2015-2016 Commonwealth budget.

Of those who lost funding, eight cultural organisations are located in the City of Sydney local government area. Three of these are tenants based in City-owned premises: anchor tenant of the William Street Creative Hub, the Australian Design Centre (ADC); PACT Centre for Contemporary Artists (PACT) and Music Council of Australia Pty. Limited (Music Australia), both located in Erskineville.

These three organisations occupy City-owned premises through the Accommodation Grant Program, which is one of 16 programs adopted as part of the City's Grants and Sponsorship Policy. The program supports community, cultural, economically and sustainability focused organisations by providing accommodation in City-owned buildings at nil or below market rent.

On 27 June 2016, Council resolved to support PACT, a celebrated contemporary arts institution with a 50 year history, by increasing their rental subsidy to 100 per cent over five years. This increase in support has afforded the organisation time and stability to evolve their strategic planning.

Like PACT, ADC and Music Australia are important longstanding cultural organisations and support the creative sector at a local and national scale. ADC and Music Australia's operational income was reduced by 18 per cent and 27 per cent respectively and, like PACT, they have requested an increase to their subsidy agreements in order to weather their funding transitions.

For 50 years, ADC has played a vital role in showcasing Australia's best designers. They are currently at the end of the second year of a three year lease agreement with an option to renew for a further three years. Under the program, they currently receive a 90 per cent subsidy of market value (plus GST) for their tenancy at 101 – 111 and 113 – 115 William Street, Darlinghurst. The subsidy will decrease to 80 per cent in year three. It is proposed ADC remain on a 90 per cent subsidy for the third year of their current lease.

Music Australia has a 33 year history and is the only peak body in Australia devoted to all genres of music from educational to commercial. They are on a new five-year lease agreement at a subsidy rate of 45 per cent of market value (plus GST) for their tenancy at 104 Erskineville Road, Erskineville. It is proposed Music Australia receive a subsidy that reduces each year from 100 per cent to 70 per cent over the remaining four years and nine months of their lease.

While it is possible for both ADC and Music Australia to cover their current subsidy level with cash reserves, this is not a sustainable solution or a recommended long term practice. These funds are not earmarked for rental expenses and are better used to fund shortfalls in service delivery and core programming. Both organisations have implemented measures such as staffing reductions and refocusing program delivery as a result of their funding situation.

RECOMMENDATION

It is resolved that:

- (A) Council approve an increase in the Accommodation Grant subsidy from 80 per cent to 90 per cent for Australian Design Centre's tenancy at 101 – 111 William Street and 113 – 115 William Street, Darlinghurst to the value of \$247,853 from 23 March 2017, requiring Australian Design Centre to pay \$27,539 (plus GST) in total rent until the lease ends on 22 March 2018; and
- (B) Council an increase in the Accommodation Grant subsidy for Music Council of Australia Pty. Limited's tenancy at 104 Erskineville Road, Erskineville to the value of \$72,087 from 1 April 2017, requiring Music Australia to pay \$17,333 (plus GST) in total rent until the lease ends on 31 December 2021 as detailed below:

Year	Market Rent	Current Subsidy	Proposed Subsidy	Proposed Rent Payable	Proposed Grant Value
1 Apr – 31 Dec 2017	\$13,256	45%	100%	\$0	\$13,256
1 Jan – 31 Dec 2018	\$18,205	45%	90%	\$1,821	\$16,385
1 Jan – 31 Dec 2019	\$18,751	45%	80%	\$3,750	\$15,001
1 Jan – 31 Dec 2020	\$19,314	45%	70%	\$5,794	\$13,520
1 Jan – 31 Dec 2021	\$19,893	45%	70%	\$5,968	\$13,925
				Total Rent Payable: \$17,333	Total Proposed Grant Value: \$72,087

- (C) authority be delegated to the Chief Executive Officer to negotiate, execute and administer agreements with each organisation approved for an Accommodation Grant on terms consistent with this resolution and in accordance with the Grants and Sponsorship Policy.

ATTACHMENTS

Nil.

BACKGROUND

1. In the 2015-16 Federal Budget, the Australian Government announced that \$104.8M over four years was to be transferred to the Ministry for the Arts from the Australia Council for the Arts (Australia Council) to establish a National Program for Excellence in the Arts (NPEA).
2. In May 2016, the Australian Council announced successful applicants for the funding period of 2017 – 2020. Sixty two previously funded established organisations did not receive core operational funding. Of these, eight organisations are located within the City of Sydney local government area, and three are tenants based in City-owned premises: PACT Theatre (PACT) and Music Australia in Erskineville, and Australian Design Centre (ADC) in Darlinghurst.
3. On 27 June 2016, Council resolved to support PACT, a celebrated contemporary arts institution with a 50 year history, through their significant federal funding reduction (representing 40 per cent of total income) by increasing their rental subsidy to 100 per cent over five years. In addition, a Minute by the Lord Mayor was presented to Council affirming that the City stands with the arts by strongly supporting the 2016 “I Stand with the Arts” campaign championing Australia’s art and cultural life.

Rental subsidy for Australian Design Centre

4. For fifty years, the ADC has played a vital role in showcasing Australia’s best designers. ADC explores the world of design ideas and disciplines – from 3D printing to data visualisation and from sustainable architecture to the handmade, including glass, ceramics and jewellery.
5. In March 2015, ADC established a storefront gallery and office space at 101 – 111 and 113 – 115 William Street, Darlinghurst with a sliding subsidy of 100 per cent in year one, 90 per cent in year two and 80 per cent in year three. ADC’s lease has an option to renew for a further three years. ADC is the anchor tenant of the William Street Creative Hub – a diverse creative mix of six live/work artist apartments, 500sqm of affordable creative workspace, a co-working tenancy and ADC’s office and gallery on William Street.
6. In May 2016, ADC was advised they were not successful in their application for funding from the Australia Council for the period of 2017 – 2020. This reduction in funding represents 18 per cent of their operational income and 27 per cent of their government funding income, and presents a challenge for the organisation in the coming years.
7. City staff have met with ADC’s General Manager who has demonstrated sound management in consideration of how to adjust their operations to manage this unforeseen reduction in federal funding. Strategies to save money and increase income include a reduction of their workforce (from 11.5FTE to 7FTE), reducing their national touring program, and a renewed focus on developing a retail business to showcase and sell work by Australian artists.
8. ADC are at the end of year two of a three year lease, and are currently on a 90 per cent subsidy, paying \$26,737 per annum plus GST. ADC are due to pay \$55,079 per annum plus GST in their third year on an 80 per cent subsidy.

9. It is proposed that ADC remain on a 90 per cent subsidy for their third year to provide them with a steady level of venue support during this time while they develop new income streams. With a slight increase in market value of the property in the final year of their lease, this represents a total value of \$27,539 split across financial years 2016/2017 and 2017/2018 until their lease expires on 22 March 2018.

101-111 and 113-115 William Street, Darlinghurst			
Organisation	Market Rental Value	Current Rent Payable and Grant Subsidy	Recommended Rent Payable and Grant Subsidy
Australian Design Centre	\$275,393 per annum	\$55,079 rent per annum on an 80% subsidy of market rental value ending 22 March 2018 Grant value: \$220,314	\$27,539 rent per annum on a 90% subsidy of market rental value ending 22 March 2018 Grant value: \$247,853

10. City staff will work closely with ADC during 2017 to ensure they continue to meet their Key Performance Indicators (KPIs) for the Accommodation Grant Program and negotiate their option for a three year renewal.

Rental subsidy for Music Australia

11. Music Australia has been an Accommodation Grant tenant of 104 Erskineville Road, Erskineville since 2014. Established in 1994, Music Australia is the only peak body in Australia devoted to all genres of music from educational to commercial. They are a national umbrella body who advocate for the sector, conduct sector focused research and provide industry information. Their activities span music education, community and sector campaigns, and engagement and participation projects.
12. In May 2016, Music Australia was advised they were not successful in their application for funding from the Australia Council for the period of 2017 – 2020. This represents a 27 per cent reduction of their income and also presents a challenge for the organisation in the coming years.
13. City staff have met with Music Australia's CEO who has demonstrated sound management in consideration of how to adjust their operations to manage this unforeseen reduction in federal funding. Strategies to save money, diversify funding and increase revenue include:
- growing the Music Roundtable industry conference in the city to increase revenue and sponsorship opportunities;
 - leveraging their position in the sector to grow earned revenue through advertising, memberships and commercial partnerships;
 - growing their office as a hub for music organisations by offering hot desk and shared office space to aligned individuals and groups; and
 - seeking philanthropic support for their school music program.
14. Music Australia is in year one of a five year lease agreement, on a 45 per cent subsidy, paying \$9,721 (plus GST) with a 3 per cent CPI increase per annum.

15. It is proposed that Music Australia receive a reducing subsidy of:
- 100 per cent for the remaining nine months of the lease in year one;
 - 90 per cent in year two;
 - 80 per cent in year three; and
 - 70 per cent in years four and five.
16. This will provide Music Australia additional support while they adapt their business model and continue to deliver key community music projects and important sector events. This increased subsidy represents a total value of \$31,848 in the period from 1 April 2017 until their lease expires on 31 December 2021. City staff will continue to work closely with Music Australia to ensure they are meeting their KPIs and monitoring their progress through this funding transition.

Office 3, 104 Erskineville Road, Erskineville			
Organisation	Market Rental Value	Current Rent Payable and Grant Subsidy	Recommended Rent Payable and Grant Subsidy
Music Council of Australia Pty Ltd.	\$17,675 per annum plus 3% CPI per annum	Rent: \$9,721 per annum on a 45% subsidy plus 3% CPI per annum until 31 December 2021 Grant value: \$40,239* *Grant value as of 1 April 2017 – 31 Dec 2021	from 1 April 2017 – 31 December 2017: \$0 for the 9 month period on a 100% subsidy 2018 rent payable: \$1,821 on a 90% subsidy 2019 rent payable: \$3,750 on an 80% subsidy 2020 rent payable: \$5,794 on a 70% subsidy 2021 rent payable: \$5,968 on a 70% subsidy Grant Value: \$72,087 NB: rent payable includes 3% CPI per annum.

17. While it is possible for ADC and Music Australia to cover their current subsidy level with cash reserves, this is not a sustainable solution or a recommended long term practice. These funds are not earmarked for rental expenses and are better used to fund shortfalls in service delivery and core programming.
18. Tenants within the Accommodation Grant Program are required to pay all outgoings for their tenancy including power, water, garbage removal, public liability insurance and glass plate insurance, and maintenance and repair costs.

KEY IMPLICATIONS**Strategic Alignment - Sustainable Sydney 2030**

19. Sustainable Sydney 2030 is a vision for the sustainable development of the city to 2030 and beyond. It includes 10 strategic directions to guide the future of the city, as well as 10 targets against which to measure progress. This report is aligned with the following strategic directions and objectives:
- (a) Direction 6 - Vibrant Local Communities and Economies – the provision of accommodation to a varied group of community and cultural organisations contributes to the diverse range of services and support that the City provides for our community. The diversity of these groups contributes to the vibrancy of the city's villages and the communities within them.
 - (b) Direction 7 - A Cultural and Creative City – approximately one third of the Accommodation Grant Program tenants are cultural/arts organisations. These organisations support cultural development through the support of artists, and the delivery of culturally stimulating activities that engage our communities.

Social / Cultural / Community

20. The contribution of the community and cultural organisations that are part of the Accommodation Grant Program to support the development, coordination and management of the many services and activities available to our community is invaluable. In this way, the City and the community act collaboratively to bring to life the City of Villages.

BUDGET IMPLICATIONS

21. The current market rental subsidy value of the Accommodation Grant Program is \$3.84 million in foregone revenue for the 2016/17 financial year.
22. The total additional grant value recommended in this report is \$59,387 over five years:
- (a) in 2016/17, additional foregone revenue is \$10,050;
 - (b) in 2017/18, additional foregone revenue is \$28,876; and
 - (c) in 2018/19 through to 2021/22, additional foregone revenue is \$20,461.
23. This will be included in the draft 2017/18 operating budget and future year forward estimates.

RELEVANT LEGISLATION

24. Section 356 of the Local Government Act 1993.

CRITICAL DATES / TIME FRAMES

25. Accommodation Grant tenants noted in this report have experienced a substantial loss in federal government funding. New leases terms are required to provide venue support and security as they work to redevelop their business models accordingly.

ANN HOBAN

Director City Life

Sam Booth, A/Cultural Projects Manager