

ITEM 8. REVIEW OF CHILDCARE LEASE AGREEMENTS**FILE NO: X008316****SUMMARY**

The City currently provides subsidised accommodation to six operators of 17 childcare centres. For 14 of these centres (five operators), the level of subsidy was set some time ago, and varies from centre to centre, according to the needs and circumstances of the operators at the time. Through the review, City staff have met with the five operators to discuss their current subsidies and their proposals about future subsidy levels. This report recommends a new level of subsidy according to each operator's proposal. The recommended changes will not result in increases in fees to families.

The Accommodation Grants Program (the Program) is one of 16 programs adopted as part of the City's Grants and Sponsorship Policy. The Program supports community, cultural and sustainability-focused organisations by providing accommodation in City-owned buildings at nil or below market rent.

In total, the City has 17 childcare facilities to six operators under this program. This includes three new facilities which have been leased in the last 12 months to a single operator who is able to pay full market rental. The other 14 facilities have been under long-term arrangements, some in place for more than 40 years.

At its meeting in June 2016, Council approved the renewal of these 14 grants for five years from July 2016 to June 2021, noting that the City will review grants and update terms and conditions after the first two years.

The City has worked with the five operators to review the terms and conditions of the grant. The purpose of this review has been to:

- implement consistent, updated specific performance criteria; and
- establish a basis for the rent paid by tenants with consideration of the social benefits offered to the community, especially in regard to targeted priority groups.

Operators were provided with updated specific performance criteria for comment. The criteria have been updated to require that all childcare supported through the Program is high quality and compliant with legislative and regulatory requirements for the provision of childcare. The operators did not identify any concerns with the updated criteria.

Operators were also invited to provide submissions to the City proposing the amount of rent that their service could pay and the level of subsidy requested from the City. Operators were required to include in their proposals, a rationale for their requested subsidy, supported by financial and operational information, as well as information about the social benefits that each service is able to deliver as a result of receiving a rental subsidy.

A panel of City staff assessed the proposals against set criteria. Based on this assessment and through negotiation with operators, the panel has recommended rental subsidies for each of the 14 childcare services for the remaining three years of their five year grant. Each agreement will also include additional specific performance criteria that detail the social benefits that each individual service will continue to deliver to the community as a result of receiving the subsidy.

All figures in this report and its attachments are exclusive of GST. All market rental values in this report are calculated with an annual increase of three per cent per annum and exclude GST.

RECOMMENDATION

It is resolved that:

- (A) Council approve the subsidy level and grant value of the 14 tenants listed in the table below, with annual increase of three per cent in grant value and rent to be paid for years three to five of the existing agreements, that is, the financial years 2018/19, 2019/20 and 2020/21, in accordance with the City's minimal fixed increase percentage:

Organisation	Address	Recommended Grant Amount and subsidy	Rent to be paid Years 3-5
KU James Cahill Pre-school	1-7 Ragan Street Waterloo	\$101,592 on 95 per cent subsidy in year 3 \$93,625 on 85 per cent subsidy in year 4 \$85,088 on 75 per cent subsidy in year 5	\$5,347 \$16,522 \$28,363
KU John J Carroll Preschool	2-14 Phelps Street Surry Hills	\$44,558 on 50 per cent subsidy in year 3 \$45,895 on 50 per cent subsidy in year 4 \$47,271 on 50 per cent subsidy in year 5	\$44,558 \$45,895 \$47,271
KU Lance Childcare Centre	37 High Street Millers Point	\$158,260 on 90 per cent subsidy in year 3 \$153,952 on 85 per cent subsidy in year 4 \$139,915 on 75 per cent subsidy in year 5	\$17,584 \$27,168 \$46,638
KU Maybanke Preschool	99 Harris Street Pymont	\$50,128 on 90 per cent subsidy in year 3 \$45,895 on 80 per cent subsidy in year 4 \$38,408 on 65 per cent subsidy in year 5	\$5,570 \$11,474 \$20,681
KU Phillip Park Childcare Centre	Phillip Park Community & Children's Centre, 2-10 Yurong Parkway Sydney	\$58,615 on 25 per cent subsidy in year 3 \$60,373 on 25 per cent subsidy in year 4 \$62,184 on 25 per cent subsidy in year 5	\$175,844 \$181,120 \$186,533
KU Rushcutters Bay Preschool	Rushcutters Bay Park Waratah Street Rushcutters Bay Park	\$63,654 on 50 per cent subsidy in year 3 \$65,564 on 50 per cent subsidy in year 4 \$67,531 on 50 per cent subsidy in year 5	\$63,654 \$65,564 \$67,531
KU Sunbeam Kindergarten	8 Lynne Street Alexandria	\$78,507 on 100 per cent subsidy in year 3 \$76,819 on 95 per cent subsidy in year 4 \$74,959 on 90 per cent subsidy in year 5	\$0 \$4,043 \$8,329
KU Ultimo Childcare	247-257 Bulwara Road Ultimo	\$229,287 on 95 per cent subsidy in year 3 \$211,306 on 85 per cent subsidy in year 4 \$192,040 on 75 per cent subsidy in year 5	\$12,068 \$37,289 \$64,013
SDN Surry Hills Childcare	443 Riley Street Surry Hills	\$214,832 on 90 per cent subsidy in year 3 \$221,277 on 90 per cent subsidy in year 4 \$227,916 on 90 per cent subsidy in year 5	\$23,870 \$24,586 \$25,324
SDN Lois Barker Childcare	102 Wellington Street Waterloo	\$105,981 on 90 per cent subsidy in year 3 \$109,160 on 90 per cent subsidy in year 4 \$112,435 on 90 per cent subsidy in year 5	\$11,776 \$12,129 \$12,493

Organisation	Address	Recommended Grant Amount and subsidy	Rent to be paid Years 3-5
SDN Pymont Childcare	79a John Street Pymont	\$143,222 on 90per cent subsidy in year 3 \$147,518 on 90 per cent subsidy in year 4 \$151,944 on 90 per cent subsidy in year 5	\$15,914 \$16,391 \$16,883
Surry Hills Neighbourhood Centre (SHNC) Childcare Centre	405 Crown Street Surry Hills	\$127,308 on 100 per cent subsidy in year 3 \$131,127 on 100 per cent subsidy in year 4 \$135,061 on 100 per cent subsidy in year 5	\$0 \$0 \$0
Rosebery Childcare Centre	1 Harcourt Parade Rosebery	\$137,917 on 100per cent subsidy in year 3 \$142,055 on 100 per cent subsidy in year 4 \$146,316 on 100 per cent subsidy in year 5	\$0 \$0 \$0
UTS Magic Pudding	1-15 McKee Streets Ultimo	\$209,676 on 90 per cent subsidy in year 3 \$215,967on 90 per cent subsidy in year 4 \$224,446 on 90 per cent subsidy in year 5	\$23,297 \$23,996 \$24,716

- (B) Council note that each agreement will include updated specific performance criteria, including details of social benefits to be delivered by each service; and
- (C) authority be delegated to the CEO to negotiate, execute and administer agreements with any organisation approved for an Accommodation Grant on terms consistent with this resolution and the Grants and Sponsorship Policy.

ATTACHMENTS

Attachment A: Confidential - Summary of Proposals

(As Attachment A is confidential, it will be circulated separately from the agenda paper and to Councillors and relevant senior staff only)

BACKGROUND

1. The City has a long history of supporting childcare by providing subsidised rental rates in its properties across the city. Traditionally, these agreements have been managed by the City's properties team, with leases and lease conditions negotiated directly with tenants.
2. In 2007, the City's portfolio of properties leased to childcare services was transferred to the Accommodation Grants Program (the Program). Through the Program the City leases community facilities or space within facilities at subsidised rates, to community groups, organisations and services who deliver benefits to the community that align with the City's strategic priorities. While the City continued to support the same childcare services, new lease agreements were developed to reflect specific performance criteria to align with priorities that had been identified in a Childcare Needs Analysis study undertaken for the City of Sydney in 2005:
 - (a) providing high quality and affordable early childhood education and care programs to children and families in the City of Sydney area;
 - (b) ensuring that the number of early education and care places available for children are maximised especially in the 0 - 2 year age group and locations of higher demand; and
 - (c) facilitating access for children and families in priority groups, including:
 - (i) children with additional needs;
 - (ii) children from Aboriginal and Torres Strait Islander backgrounds;
 - (iii) children who speak a language other than English; and
 - (iv) children from low income families.
3. The City currently has 17 childcare facilities offered under the Accommodation Grants Program. Of these, three are new leases that commenced in 2016/17. The operator (Good Start Early Learning) complies with the terms and conditions of the Accommodation Grants lease agreement, but pays full market rental for the three facilities. The remaining 14 are long-term arrangements, some of which have been in place for more than 40 years with:
 - (a) eight facilities operated by KU Children's Services;
 - (b) three facilities operated by SDN Children's Services; and
 - (c) one facility each operated by Surry Hills Neighbourhood Centre, Rosebery Childcare Inc and UTS Childcare Inc.
4. In June 2016, Council approved the extension of the 14 accommodation grants held by childcare operators for a five-year period up to 30 June 2021, noting that the City would review grants and update terms and conditions after the first two years.

5. The total value of the rental subsidies in 2016/17 was \$1.89M (value of rent foregone based on market rent). Only five of the 14 centres paid rent, with the remaining nine receiving a 100 per cent subsidy.
6. A review of existing terms and conditions for childcare operators was required as specific performance criteria did not appropriately reflect:
 - (a) legislative and regulatory standards that childcare services are required to comply with, or
 - (b) the level of quality the City expects childcare services to meet through the National Quality Standards.
7. The City has undertaken a review of the 14 existing arrangements, in collaboration with the five service operators. The purpose of this review has been to:
 - (a) implement consistent, updated specific performance criteria; and
 - (b) establish a basis for the rent paid by tenants with consideration of the social benefits offered to the community, especially in regard to targeted priority groups.

Review of specific performance criteria

8. Specific performance criteria were updated and provided to operators for comment. Operators did not identify any concerns with the updated criteria, and they will now be included in the existing leases with the 14 childcare services from 1 July 2018, as well as any future childcare agreements that the City makes through the Program. The specific performance criteria require:
 - (a) compliance with regulatory and legislative requirements pertaining to childcare and the terms and conditions of the lease agreement;
 - (b) achievement of a minimum result of "Meeting the National Quality Standards" through the Assessment and Rating process;
 - (c) priority of access to children with additional support needs, children from Aboriginal and Torres Strait Islander backgrounds, children who speak a language other than English and children from low income families; and
 - (d) implementation of programs and strategies which support the educational and social needs/outcomes of children in target groups identified above.

Review of social benefits and rental subsidy

9. The City invited each of the five organisations to make a submission to the City proposing an annual rent that each of its services would pay from 1 July 2018 for three years to 30 June 2021, based on the current market valuation. Each organisation was asked to demonstrate in its proposal a rationale for the subsidy that it was requesting from the City, supported by financial and operational information for the service, including previous operational budgets, fee structures, placement numbers, utilisation, and staff and resourcing requirements.

10. The organisations were also asked to identify the social and community benefits that each of their services are able to deliver as a result of receiving a rental subsidy, noting that these benefits could be included as additional specific performance criteria for individual services. To demonstrate the benefits that their service could deliver, they were asked to include information in their proposals about:
 - (a) demographics of the centre's users and the community it supports;
 - (b) strategies implemented to improve access and participation for the City's priority groups;
 - (c) strategies and programs implemented to enhance inclusiveness and outcomes to all services users in addition to identified priority groups; and
 - (d) opportunities for operation and staffing at a level to provide for the take-up of the maximum number of places, especially for children aged 0 - 2 years.
11. Organisations were also asked to consider how their operations would be impacted if the level of subsidy was changed, including their ability to deliver social outcomes.
12. A panel of City staff was established to assess each of the proposals and make recommendations regarding the level of rental subsidy and any additional specific performance criteria that individual services would be required to meet, reflecting the social benefits delivered by the service. The panel assessing the proposals was comprised of the Manager - Social Programs & Services, Manager - Child and Family Services, Manager - Grants, Project Manager - Childcare, Community Property Manager and representatives from the City's Legal Services and Finance Office.
13. The proposals were assessed against a set criteria, which included:
 - (a) the financial status of the service;
 - (b) the service's contribution to the maintenance of its property in accordance with lease requirements;
 - (c) the service's understanding of its community needs and strategies to meet these needs;
 - (d) the provision of competitive/affordable fees and fee reductions/offsets for low income families;
 - (e) services and programs offered to meet the needs of disadvantaged and vulnerable families; and
 - (f) the quality of the service as reflected through its Australian Children's Education and Care Quality Authority (ACECQA) rating and assessment.
14. Where necessary, further negotiations were carried out with the organisations to further understand the benefits provided to the community and the justification for rental subsidy level.

15. The panel has now made recommendations for the rental subsidy amount for each of the 14 services for the remaining three years of their grant, commencing from 1 July 2018. The report at Confidential Attachment A includes the details of the recommendations regarding each of the 14 services. None of the recommended proposals include changes to child care fees for families.

KEY IMPLICATIONS

Strategic Alignment - Sustainable Sydney 2030 Vision

16. *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 sponsorship is aligned with the following *Sustainable Sydney 2030* strategic directions and objectives:
 - (a) Direction 6 - Vibrant Local Communities and Economies – the provision of accommodation to childcare services helps provide access to quality care and education for children and supports the social and economic inclusion of families. Providing equitable access to childcare delivers long-term social and economic outcomes and benefits for vulnerable and disadvantaged children and families.

BUDGET IMPLICATIONS

17. As a result of this process, operators have agreed to increased rental payments, delivering increased rental income for the City of:
 - (a) \$340,756 in 2018/19;
 - (b) \$405,689 in 2019/20; and
 - (c) \$486,493 in 2020/21.
18. The total amount of additional rental income for the City over three years is \$1,232,938.

RELEVANT LEGISLATION

19. Section 356 (1) of the *Local Government Act 1993* states that a council may, in accordance with a resolution of the council, contribute money or otherwise grant financial assistance to persons for the purpose of exercising its functions.
20. Attachment A to the subject report contains confidential information which, if disclosed would:
 - (a) Confer a commercial advantage on a person with whom the Council is conducting business; and
 - (b) Prejudice the commercial position of the organisation who supplied it.
21. Discussion of the matter in an open meeting would, on balance, be contrary to the public interest because it would compromise Council's ability to negotiate fairly and commercially to achieve the best outcome for its ratepayers.

CRITICAL DATES / TIME FRAMES

22. Following successful endorsement by Council, the new terms and conditions of the Program leases come into effect as of 1 July 2018.

ANN HOBAN
Director City Life

Irene Fakas, Manager Child and Family Services