

Accommodation Grant Program – Annual Performance Review and Lease Renewals 2018

File No: S117676

Summary

The Accommodation Grant Program (the Program) is one of 17 programs adopted as part of the City's Grants and Sponsorship Policy. The Program supports community, cultural, economic and sustainability focused organisations by providing accommodation in Council-owned buildings within the property portfolio at nil or below market rent.

Accommodation Grant recipients are organisations that provide services that meet the needs identified in Sustainable Sydney 2030 and the City's strategic plans and policies. In this way, the City and the community act collaboratively to bring the City of Villages to life. Demand for properties remains strong, with more than 460 organisations currently listed on a notification list for future properties.

Currently, there are 80 leases held by 74 organisations located across 53 City properties managed under the Program. These tenancies were approved by Council as Accommodation Grants. Recipients of Accommodation Grants enter into leases or licences with the City for a fixed term of appropriate length, usually five years, subject to the annual performance review.

Each year, the City coordinates the annual performance review with the Accommodation Grant recipients (tenants) to review their performance against the criteria in their lease or licence agreements. A rating system is used to evaluate the information received and to assess the performance of the organisations against the criteria set, in return for subsidised accommodation. All tenants that were in a property for six months or more in the assessment period (the 2017 calendar year), were requested to complete an annual performance review. This report outlines the outcomes of this annual performance review and provides recommendations for leases due for renewal.

For the 2017 assessment period, 75 lease holders were requested to complete an annual performance review. There were seven tenants that were not requested to complete an annual performance review as they have not held an Accommodation Grant lease/licence for a period of more than six months during the assessment period. Australian Marriage Equality vacated its two spaces in December 2017, however it did complete an annual performance review.

This report recommends the continuation of all 73 tenancies continuing under the Program, who completed an annual performance review.

In approving the renewal of a lease, Council approves a grant which is a subsidy based on the market rental value of the property.

In 2017, the City completed the review of lease arrangements with child care operators and informed Council of the outcome in December 2017. The City is now in the process of completing leases for 13 child care facilities and a management agreement with Rosebery Child Care Centre. The leases will have an end date of 30 June 2021. The leases and management agreement contain updated rental amounts and specific performance criteria that outline the social benefit to be delivered by each service.

Of the 66 remaining leases/licences, a total of five leases for Junction Neighbourhood Centre Inc (formerly known as Neighbour Connections Inc), Kil.n.it Experimental Ceramic Studio Inc, Mardi Gras Arts Ltd, Milk Crate Theatre and Weave Youth Family Community Inc are due for renewal in 2018. These five lease/licence renewals are recommended for renewal for a period of up to 3 or 5 years based on the outcomes of the 2015 Accommodation Grant Program review to provide greater stability for tenants, and reduced costs, time and resources required by both parties. The lease renewal for Kil.n.it Experimental Ceramic Studio Inc will align with its second lease at the Glebe Nurses Quarters and streamline administration for the tenant.

It is recommended that Council approve a further one (1) year lease for Mardi Gras Arts Ltd for Suites 6-8/94 Oxford Street at the reduced rental value of \$72,400 per annum plus GST. The current market valuation for the leased area on this property is \$106,000 per annum plus GST. The reduced rent represents \$31,800 per annum in forgone revenue to the City and represents a 30 percent reduction in rent.

This report also notes properties that have been vacated.

All figures in this report and its attachments are exclusive of GST.

Recommendation

It is resolved that:

- (A) Council note the continuation of the current Accommodation Grant leases/licences for the 73 tenants that have met the performance criteria of their Accommodation Grant and are continuing in the program;
- (B) Council approve a renewal of the Accommodation Grant for Junction Neighbourhood Centre Inc (formerly known as Neighbour Connections Inc) for Ground floor, St Helens Community Centre, 184 Glebe Point Road, Glebe, for five years, up to 29 March 2023, as outlined below, noting that all amounts are per annum;

	Market Rental Value	Grant Subsidy	Grant Amount	Rent to be paid
Year 1	\$28,500.00	40%	\$11,400.00	\$17,100.00
Year 2	\$29,355.00	40%	\$11,742.00	\$17,613.00
Year 3	\$30,235.65	40%	\$12,094.00	\$18,141.65
Year 4	\$31,142.72	40%	\$12,457.00	\$18,685.72
Year 5	\$32,077.00	40%	\$12,830.00	\$19,247.00

- (C) Council approve a renewal of the Accommodation Grant for Kil.n.it Experimental Ceramic Studio Inc for Glebe Town Hall Classroom, 160 St John Road, Glebe from 30 November 2018 for two years and seven months up to 30 June 2021 as outlined below noting that all amounts are per annum and that Year 3 figures are pro-rated;

	Market Rental Value	Grant Subsidy	Grant Amount	Rent to be paid
Year 1	\$11,600.00	87%	\$10,092.00	\$1,508.00
Year 2	\$11,948.00	87%	\$10,394.76	\$1,553.24
Year 3 (7 months)	\$7,178.76	87%	\$6,245.52	\$933.24

- (D) Council approve a renewal of the Accommodation Grant for Milk Crate Theatre for the Ground Floor Office Space at Alexandria Town Hall, 73 Garden Street, Alexandria for five years up to 28 April 2023 as outlined below noting that all amounts are per annum;

	Market Rental Value	Grant Subsidy	Grant Amount	Rent to be paid
Year 1	\$19,960.00	70%	\$13,972.00	\$5,988.00
Year 2	\$20,558.80	70%	\$14,391.16	\$6,167.64
Year 3	\$21,175.56	70%	\$14,822.89	\$6,352.67
Year 4	\$21,810.83	70%	\$15,267.58	\$6,543.25
Year 5	\$22,465.15	70%	\$15,725.61	\$6,739.55

- (E) Council approve a renewal of the Accommodation Grant for Weave Youth & Community Services Inc for the Space 1 and 2, Waterloo Town Hall, 770 Elizabeth Street, Waterloo for five years up to 8 November 2023 as outlined below noting that all amounts are per annum;

	Market Rental Value	Grant Subsidy	Grant Amount	Rent to be paid
Year 1	\$19,600.00	80%	\$15,680.00	\$3,920.00
Year 2	\$20,188.00	80%	\$16,150.40	\$4,037.60
Year 3	\$20,793.64	80%	\$16,634.90	\$4,158.74
Year 4	\$21,417.45	80%	\$17,133.96	\$4,283.49
Year 5	\$22,059.97	80%	\$17,647.97	\$4,412.00

- (F) Council approve a further one year lease for Mardi Gras Arts Ltd for Suites 6-8/94 Oxford Street at the reduced rental value of \$74,200 per annum. The current market valuation for the leased area is \$106,000 per annum, representing \$31,800 per annum in revenue forgone. This represents a thirty percent reduction in rent; and
- (G) 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 in accordance with the Grants and Sponsorship Policy.

Attachments

Attachment A. Accommodation Grant Program - Annual Performance Review Ratings

Background

1. The Accommodation Grant Program presently makes available 80 spaces for 74 organisations in 53 buildings. The total cost of the Program in revenue forgone for the 2018/19 financial year is estimated as \$4.34 million.
2. The terms and conditions of the agreement between each tenant and the City are detailed in a lease or licence, which also sets out specific key performance criteria and performance measures. Tenants are reviewed every 12 months against these criteria and measures. Based on these reviews, the following options exist: continuation; improvement; termination; or a variation to the terms of the existing lease or licence.

2017 Annual Performance Review

3. The annual performance review of Accommodation Grant recipients was undertaken between January 2018 and March 2018 and is based on the 2017 calendar year. Seventy-five tenants were requested to undertake this year's annual performance review. Additionally, seven tenants were not required to undertake the self-assessment. These tenants are outlined in Attachment A.
4. Tenants submitted their annual performance reviews online. City staff members evaluated the submissions provided and the tenants' overall performance in 2017 against the criteria contained in their respective lease/licence. Final evaluations were agreed upon during assessment meetings using the following ratings:
 - A - meeting or exceeding performance criteria;
 - A/B - meeting the majority of performance criteria;
 - B - not meeting performance criteria, on notice (one year to improve performance); or
 - C - not meeting expectations after one year, leases to be terminated.
5. All 75 tenants participating in the annual review have met their performance criteria and have been rated 'A' or 'A/B' (see Attachment A).
6. It is noted that City staff will continue to work closely with four tenants rated A/B - Sydney Local Health District occupied by Glebe Early Childhood Centre, Glebe Junior Australian Football Club, South Eastern Community Connect and Wrap with Love - over the next 12 months. City staff have noted that there are a number of improvements that have been identified with these tenants such as proactive and regular communication, establishing expectations around reporting, and updating performance criteria. Tenants and City staff will continue to work together to ensure that performance criteria are met and these organisations continue to meet the diverse needs of our community.

Lease Renewals and Tenants on Hold Over

7. Five leases/licences are recommended for renewal for up to three or five years. These lease/licence renewals relate to Junction Neighbourhood Centre Inc (formerly known as Neighbour Connections Inc), Kil.n.it Experimental Ceramics Studio, Mardi Gras Arts Ltd, Milk Crate Theatre and Weave Youth Family Community Inc.

Kil.n.it - Glebe Town Hall Classroom, Glebe

8. Kil.n.it Experimental Ceramics Studio Inc (Kil.n.it) commenced in the property in 2015 on a three year lease based on a market rental value of the property at \$9,824 per annum and an 80 percent subsidy valued at \$8,338.
9. Kil.n.it also currently hold a lease for the Glebe Nurses Quarters at 184 Glebe Point Road up to 30 June 2021.
10. The lease for the Glebe Town Hall Classroom is due to expire November 2018. It is recommended that Kil.n.it be awarded a grant with a new end date of 30 June 2021 to align with the Glebe Nurses Quarters lease and streamline administration for the tenant.
11. Kil.n.it are operating well at the Glebe Town Hall classroom space. While there is steady demand for classes and programs, and the organisation meets projected income targets for these, this activity is cost-neutral at this stage, after staff resourcing and materials are accounted for. Continued support with a subsidy of a similar level to what the tenant is currently receiving will ensure Kil.n.it can continue to offer its current classes and programs.
12. As part of the renewal process, a valuation of the space has been undertaken to provide an up to date market value. The new market value for the space is \$11,600 per annum. Based on this figure, it is recommended that the grant for Kil.n.it Experimental Ceramic Studio Inc at Glebe Town Hall Classroom, 160 St Johns Road, Glebe be renewed up to 30 June 2021 on an 87 percent subsidy.

Milk Crate Theatre – Ground Floor Office Space, Alexandria Town Hall

13. Milk Crate Theatre commenced in the property in 2015 on a three year lease based on a market rental value of the property at \$10,786 per annum and a 40 percent subsidy valued at \$4,577.
14. The lease for the Ground Floor Office Space expired in April 2018 and has been placed on hold over at the same subsidised rent, pending the grant renewal. It is recommended that Milk Crate Theatre be awarded a five year grant with a new end date of 28 April 2023.
15. Milk Crate Theatre has experienced changes to its funding and operations over the course of its tenure. The funding Milk Crate Theatre expected to receive from the Australia Council as a Key Producer for six years from 2014 – 2019 was reviewed in 2015 after budget cuts and reduced to three years, taking it up to 2016. In 2016, Milk Crate Theatre were not successful in securing four-year organisational funding, however, in recognition of its unique role, the Key Producer funding was extended until 2018. Unable to reapply for operational funding until 2020, Milk Crate Theatre will feel the effect of these changes in 2019.
16. In response to these changes, Milk Crate Theatre have developed a strategic plan toward financial sustainability. Key aspects of the plan include diversification of funding, increasing funding from private to corporate foundations, and targeted fundraising campaigns. The plan also includes business development of fee for services workshops. Through re-engagement with the philanthropic and corporate sector and cutting costs, Milk Crate Theatre has posted a surplus in 2017 for the first time in three years. An important part of its strategy to attract philanthropic funding has been to reduce administrative overheads, including rent, to no more than 10 per cent of operating costs.

17. Subsidy support has been recommended to support the strategic goals of the organisation and recognise that Milk Crate Theatre is at a critical point in its development.
18. As part of the renewal process, a valuation of the space has been undertaken to provide an up to date market value. The new market value for the space is \$19,960 per annum. Based on this figure, it is recommended that the grant for Milk Crate Theatre in the Ground Floor Office Space at Alexandria Town Hall, 73 Garden Street be renewed up to 28 April 2023 on a 70 percent subsidy.

Mardi Gras Arts Ltd – Suites 6-8, 94 Oxford Street

19. Since 2008, the City has provided Mardi Gras Arts Ltd with office suites located at 6-8/94 Oxford Street at a reduced rental rate. This support allows the organisation to maintain a visible presence in the Oxford Street community as a not for-profit organisation delivering a cultural, social and economic service to the LGBTIQ community. The lease provided a rental subsidy of \$29,482 per annum and represents a 30 percent reduction of the rental value. This lease expired in June 2018 and has remained on a monthly holdover basis at the same subsidised rent.
20. It is recommended that Council approve an additional one year lease under the Accommodation Grants Program commencing 1 July 2018 for the Oxford Street property at the reduced rental value of \$74,200 per annum. The current market valuation for the leased area is \$106,000 per annum, representing \$31,800 per annum in revenue forgone.

Tenants Vacating Properties

21. Australian Marriage Equality vacated two spaces at 122 Oxford Street, Darlinghurst and Level 10, 307 Pitt Street and left the Accommodation Grant Program in December 2017.

Key Implications

Strategic Alignment - Sustainable Sydney 2030 Vision

22. 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. The Accommodation Grant Program 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 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

23. The contribution of the community and cultural organisations that are part of the 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

24. Based on the current list of Accommodation Grant recipients the total grant value of the Accommodation Grant Program in the 2018/19 financial year is estimated at \$4.34 million in revenue foregone and allowance has been made in the 2018/19 operating budget.

Relevant Legislation

25. Section 356 of the Local Government Act 1993. Section 356 of the Local Government Act 1993 provides 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.
26. Section 356(3)(a) - (d) is satisfied for the purpose of providing grant funding to for-profit organisations because:
- (a) the funding is part of the Accommodation Grant Program;
 - (b) the details of these programs have been included in Council's operation plan for financial year 2018/19;
 - (c) the program's proposed budget does not exceed 5 per cent of Council's proposed income from ordinary rates for financial year 2018/19; and
 - (d) this program applies to a significant group of persons within the local government area.

Critical Dates / Time Frames

27. Accommodation Grant tenants noted in this report as requiring lease/licence renewals hold leases/licences expiring between 29 March 2018 and 8 November 2018. New leases/licences are therefore required to ensure tenants can remain in the properties as outlined above.

ANN HOBAN

Director City Life

Phoebe Arthur, Grants Program Coordinator