

Item 6.**Accommodation Grants Program Lease Renewals - Australian Design Centre and Darlinghurst Theatre Company****File No: S123796****Summary**

The Accommodation Grants 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 City 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 to life the City of Villages. Demand for properties remains strong, with more than 520 organisations currently on a notification list for future properties.

Currently there are 78 leases held by 69 organisations located across 52 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 an annual performance review. The outcomes of the annual review as well as any leases due for renewal are generally reported to Council mid-year.

Program tenants Australian Design Centre and Darlinghurst Theatre Company hold leases that expire in 2021 and have requested early consideration of their renewal in order to make alternative plans if their request for renewal is not granted. This report recommends approving the renewal of the leases in advance to provide stability and assist tenants with planning and certainty for funding applications.

Market values given below are based on new market valuations for 2021 and all amounts are excluding GST.

Recommendation

It is resolved that:

- (A) Council approve a renewal of the Accommodation Grant for Australian Design Centre, 101-111 and 113-115 William Street, Darlinghurst for up to five years from March 2021 to March 2026, using a non-commercial tenancy rent structure on a rental level as outlined below noting all amounts are per annum:

| | Market rent | Subsidy level | Subsidy amount | Rent to be paid |
|---------------|--------------------|----------------------|-----------------------|------------------------|
| Year 1 | \$288,400 | 65% | \$187,460 | \$100,940 |
| Year 2 | \$297,052 | 64% | \$190,113 | \$106,939 |
| Year 3 | \$305,964 | 63% | \$192,757 | \$113,207 |
| Year 4 | \$315,142 | 62% | \$195,388 | \$119,754 |
| Year 5 | \$324,597 | 60% | \$194,758 | \$129,839 |

- (B) Council approve a renewal of the Accommodation Grant for Darlinghurst Theatre Company, Eternity Playhouse, 39 Burton Street, Darlinghurst for up to five years from July 2021 to June 2026 on a rental level as outlined below noting all amounts are per annum:

| | Market rent | Subsidy level | Subsidy amount | Rent to be paid |
|---------------|--------------------|----------------------|-----------------------|------------------------|
| Year 1 | \$190,962 | 63% | \$120,306 | \$70,656 |
| Year 2 | \$196,691 | 63% | \$123,915 | \$72,776 |
| Year 3 | \$202,592 | 63% | \$127,633 | \$74,959 |
| Year 4 | \$208,669 | 63% | \$131,462 | \$77,208 |
| Year 5 | \$214,929 | 63% | \$135,406 | \$79,524 |

- (C) authority be delegated to the Chief Executive Officer 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.

Background

1. The Accommodation Grants Program (AGP) presently makes available 78 spaces for 69 organisations in 52 buildings. The total cost of the Program in revenue forgone for the 2019/20 financial year is estimated as \$4.23 million.
2. The terms and conditions of the agreement between each lease holder and the City are detailed in a lease or licence, which also sets out specific key performance criteria and performance measures. Lease holders are reviewed every 12 months against these criteria and measures through the annual review and are given a rating.
3. Australian Design Centre and Darlinghurst Theatre Company have consistently been rated 'A' during the annual reviews and are valuable tenants to the cultural and creative sector.
4. The usual process for lease renewals under the Program is to seek Council approval in the year of the lease expiry. In this case, renewals for Australian Design Centre and Darlinghurst Theatre Company are sought ahead of 2021. These tenants have requested early consideration of their renewal in order to make alternative plans if their request for renewal is not granted. Providing confirmation of support through the Accommodation Grants Program in advance also provides stability and assists tenants with forward planning and certainty for funding applications.
5. In order to facilitate renewals, new market valuations were undertaken for both properties for leases commencing in 2021. Market values given in this report refer to these valuations. The values include the standard 3 per cent annual increase which is applied to all Accommodation Grants Program tenancies.
6. Leases will be issued to Australian Design Centre and Darlinghurst Theatre Company in early 2021 ahead of lease expiry.

Australian Design Centre, 101-111 and 113-115 William Street, Darlinghurst

7. For fifty years the Australian Design Centre (ADC) has played a vital role in showcasing Australia's best designers. Australian Design Centre 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.
8. Australian Design Centre commenced their AGP tenancy with the City in March 2015, establishing a storefront gallery and office space at 101 – 111 and 113 – 115 William Street, Darlinghurst. Australian Design Centre are the anchor creative 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 Australian Design Centre's office and gallery on William Street.

9. In 2018, Australian Design Centre received around 40,000 visitors and noted a particular growth in return visitation from the local community. Australian Design Centre also continued to offer opportunities for artists with 133 artists/designers exhibited in the space, 49 local artists/designers exhibited in their national touring program, 74 local artists/designers work sold in the store, plus over 250 artists participated in Craft Week.
10. Australian Design Centre's current lease commenced in the space in 2015. This is a three year lease term with a three year option expiring March 2021. During the term, Australian Design Centre have been granted the following subsidy:
 - (i) 100% per cent subsidy for the period March 2015 to March 2016, valued at \$259,584 per annum and \$0 rent payable
 - (ii) 90% per cent subsidy for the period March 2016 to March 2017, valued at \$240,635 per annum and \$26,372 rent payable
 - (iii) 80% per cent subsidy for the period March 2017 to March 2018, valued at \$220,314 per annum and \$55,079 rent payable
 - (iv) 90% per cent subsidy for the period March 2018 to March 2019, valued at \$265,500 per annum and \$29,500 rent payable
 - (v) 86% per cent subsidy for the period March 2019 to March 2020, valued at \$261,311 per annum and \$42,539 rent payable
 - (vi) 81% per cent subsidy for the period March 2020 to March 2021, valued at \$253,502 per annum and \$59,464 rent payable
11. The original Resolution of Council for this Accommodation Grant determined that under the terms of the lease Australian Design Centre should pay outgoings as well as the rent using a commercial tenancy rent structure. According to the current lease, outgoings include all rates and taxes, insurance premiums including insurance effected by the City in respect of its interest in the building and all costs and expenses payable to the City in respect of services supplied (including electricity, gas, oil and telephone), inspection and maintenance of services, cleaning of windows, removal or waste, maintenance, repair, renovation and upkeep, and management and security charges.
12. Usually, in the City's arrangements with commercial lessees outgoings are estimated for the year ahead and actuals are determined after the end of the year in which they have been incurred. For Australian Design Centre these were estimated at around \$40,000 plus GST per annum at the commencement of the lease.
13. In practice this method of estimation and retrospective billing meant a great deal of uncertainty for a non-commercial organisation with relatively static budgets from year to year. Australian Design Centre has advised it is difficult to plan for such a variable cost and they have limited capacity to meet large increases if they arise. Property Services have acknowledged this arrangement is not in line with any other AGP lease the City has with community tenants, and proposed an alternative arrangement which will be more manageable and equitable for community tenants.
14. For the lease renewal the City proposes a rent payable amount which is a substantial increase on the current lease amount but which includes a contribution to outgoings based on previous years' costs. Going forward Australian Design Centre will not be charged a separate amount for outgoings.

15. It is recommended Australian Design Centre's lease be renewed on a five year term from 23 March 2021 to 22 March 2026 as per the table in clause (A) of the recommendation.
16. This subsidy reflects an increase of 1-2 per cent per annum in rent payable in addition to the standard 3 per cent annual increase for AGP leases. The tenant is working towards future growth in income and this proposed increase reflects the tenant's core and self-generated income projections for upcoming years.

Darlinghurst Theatre Company, Eternity Playhouse, 39 Burton Street, Darlinghurst

17. Darlinghurst Theatre Company (DTC) are Accommodation Grants Program tenants at the Eternity Playhouse, Darlinghurst. In late 2013, they relocated to the Eternity Playhouse following a decade of accommodation at the Reginald Murphy Centre, Elizabeth Bay.
18. DTC is a not-for-profit professional theatre company that has developed a unique model for partnering with professional theatre artists. DTC collaborate with artists to produce their production idea from concept to stage, fully funding production costs and paying all artists. The company ensures professional artists and crew are remunerated at award and industry rates. The company has also adopted a gender parity policy for the employment of artists ensuring a minimum of 50% of all performers and artists employed are women.
19. In 2018, Darlinghurst Theatre Company staged 310 performances and events for over 42,000 audience members. Performances included drama, musicals, cabaret, live music and dance as well as partnering with organisations and companies to host festivals, industry events and forums. Darlinghurst Theatre Company also share the space with the community making it available for hire at a reduced rate. In 2018, Darlinghurst Theatre Company supported 30 not-for-profit events.
20. Darlinghurst Theatre Company commenced their tenancy at the Eternity Playhouse in 2013. The current lease is a five year term until June 2021. During the term, Darlinghurst Theatre Company have been granted the following subsidy:
 - (i) 70% per cent subsidy for the period 1 July 2016 to 30 June 2017, valued at \$93,320 per annum and \$39,994.00 rent payable
 - (ii) 67% per cent subsidy for the period 1 July 2017 to 30 June 2018, valued at \$92,000 per annum and \$45,313.42 rent payable
 - (iii) 64% per cent subsidy for the period 1 July 2018 to 30 June 2019, valued at \$90,517 per annum and \$50,915.82 rent payable
 - (iv) 60% per cent subsidy for the period 1 July 2019 to 30 June 2020, valued at \$87,405 per annum and \$58,270.81 rent payable
 - (v) 55% per cent subsidy for the period 1 July 2020 to 30 June 2021, valued at \$82,525 per annum and \$67,521.08 rent payable

21. In the following years, Darlinghurst Theatre Company plan to continue to diversify their program and reach new and broader audiences. Darlinghurst Theatre Company has had success with this strategy in 2019 and look to continue to grow audiences.. This would mean greater box office return for the company. Darlinghurst Theatre Company have requested this steady subsidy over the next five years to allow them to reinvest any increase in revenue back into their program and the payment of artists. In 2019, Darlinghurst Theatre Company have doubled the number of artists employed from 2018. This subsidy also supports the company's future sustainability, as State and Federal arts funding reduces and becomes increasingly competitive across the sector, greater box office returns can allow the company to remain sustainable.
22. It is recommended that Darlinghurst Theatre Company's lease be renewed for a five year term from July 2021 to June 2026 as per the table in clause (B) of the recommendation.

Key Implications

Strategic Alignment - Sustainable Sydney 2030

23. 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 grant 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

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

Budget Implications

25. The current market rental subsidy value of the Accommodation Grant Program is estimated at \$4.23 million in foregone revenue for the 2019/2020 financial year.
26. The grant value recommended in this report totals \$1,599,198 (inclusive of annual increase of 3 per cent per annum and exclusive of GST) across six financial years

27. \$46,865 of this will be reported in 2020/21, \$308,429 will be reported in 2021/22, \$314,689 will be reported in 2022/23, \$321,048 of this will be reported in 2023/24, \$326,692 will be reported in 2024/25 and \$281,474 will be reported in 2025/26.

Relevant Legislation

28. 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.

Critical Dates / Time Frames

29. Accommodation Grant tenants noted in this report hold leases/licences expiring 2021. Confirmation of support through the Accommodation Grants Program is sought to assist tenants by providing stability which will allow for forward planning and funding applications.

ANN HOBAN

Director City Life

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