

Item 3.

Grants and Sponsorship - Accommodation Grants Program Lease Renewals for 2021

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 and sustainability focused organisations by providing accommodation in City-owned buildings within the community property portfolio at an approved subsidised rent which results in Grant tenants paying 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 300 organisations currently listed on a notification list for properties that become available to lease in the future.

Currently, there are 76 leases held by 67 organisations located across 49 City properties managed under the Program. These tenancies were approved by Council as Accommodation Grants. Recipients of Accommodation Grants enter leases or licences with the City for a fixed term of appropriate length, usually three years, subject to annual review.

Of the 76 current leases/licences, 57 are due for renewal on 1 July 2021 and 55 are recommended for renewal in this report.

There are 19 tenants on leases/licences that are not due for renewal and these tenants will continue on their current arrangement.

The 55 leases/licence renewals recommended in this report are for a period of up to five years based on the outcomes of the 2015 Accommodation Grant Program review, providing greater stability for tenants, service continuity for the community and reduced costs, time and resources required by both parties to renew these agreements.

Lease subsidy levels are based on the current market rental value of the property. In 2020 all spaces accommodating tenants due for lease/licence renewal in 2021 were reviewed and valuations provided for the properties managed under the Accommodation Grant Program. The valuer used comparable rentals in areas within the City of Sydney Local Government Area (LGA) to assess the market rent.

This report includes two other recommendations:

1. An increase in the subsidy level for Australian Design Centre for the five-year lease from 23 March 2021 to 22 March 2026 approved by Council in December 2019.
2. An increase in subsidy level for Readymade Works for the period 1 April 2021 until the end of their current lease in 30 June 2021. The lease renewal for Readymade Works from 1 July 2021 is included in the 57 tenancies mentioned above.

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

Recommendation

It is resolved that:

- (A) Council approve the renewal of 55 Accommodation Grant leases/licences and grants for tenants who hold leases/licences expiring on 30 June 2021 and who have met the Key Performance Criteria of their Accommodation Grant, for a period of up to five years to 30 June 2026;
- (B) Council approve the subsidy level and grant value of the 55 tenants listed in Attachment A to the subject report, with annual increases of three per cent in grant value and rent to be paid for the financial years 2021/22, 2022/23, 2023/24, 2024/25 and 2025/26 in accordance with the City's minimal fixed increase percentage;
- (C) Council approve a three per cent fixed rent increase in alignment with the three per cent market value increase on commencement of any holdover and any anniversary of the commencement of the holdover period;
- (D) Council approve the new subsidy and grant level for the Australian Design Centre at 101-111 and 113-115 William Street, Darlinghurst for their previously approved five-year lease from 23 March 2021 to 22 March 2026 on the following rental subsidy:

	Market Rental Value	Grant Subsidy	Grant Amount	Rent payable
Year 1	\$190,962	68.86%	\$131,502	\$59,460
Year 2	\$196,691	68.28%	\$134,310	\$62,381
Year 3	\$202,592	68.28%	\$138,340	\$64,252
Year 4	\$208,669	68.28%	\$142,489	\$66,180
Year 5	\$214,929	68.28%	\$146,764	\$68,165

- (E) Council approve a new subsidy and grant level subsidy for Readymade Works at Level 1, 47-257 Bulwara Road, Ultimo for the remainder of their current lease period from 1 April to 30 June 2021 on the following rental subsidy:

Year 5	Market Rental Value	Grant Subsidy	Grant Amount	Rent payable
April - June	\$10,192	100%	\$10,192	\$0

- (F) authority be delegated to the Chief Executive Officer to negotiate, execute and administer all terms of the leases (other than the subsidy approved by Council) in accordance with the Grants and Sponsorship Policy, noting that:
- (i) all changes will be made in accordance with the Grants and Sponsorship Policy; and
 - (ii) any change to the details of the recipient set out in this report must be reported back to Council by CEO Update.

Attachments

Attachment A. Tenancies Requiring a Lease Renewal as of 30 June 2021

Background

1. The Accommodation Grant Program (the Program) presently makes available spaces for 67 organisations in 49 buildings. The total cost of the Program in revenue forgone for the 2020/21 financial year is \$5.7 million.
2. On 30 March 2020, in response to the Covid-19 economic impact Council approved the provision of additional rental support for Accommodation Grant Program tenants by waiving all rent for six months until 30 September 2020. On 21 September 2020, through financial support of the Community Recovery Plan, Council approved the continued support for Accommodation Grant Program tenants by waiving all rent until 31 March 2021.
3. The terms and conditions of the agreement between each tenant and the City are detailed in a lease or licence, which also includes specific Key Performance Criteria and performance measures.
4. Excluding childcare centres, City staff have met with tenants to discuss their current financial situation, request for subsidy and ability to pay rent. Of the 55 tenants renewing in this report, five cultural tenants and one community tenant noted the impact of the Covid-19 pandemic on their operations and their ability to pay rent. These organisations have requested continued relief and this is reflected in the increased subsidies to support organisations to financially recover.
5. All Accommodation Grant tenancy rental rates are currently subject to three per cent annual rental increases to reflect the City's minimal fixed increase percentage. Specific grant values and rental subsidy rates are outlined in attachment A to this report.

Valuations

6. In 2020, Colliers International Valuation and Advisory Services were engaged to assess the market rent of all premises due for lease renewal. The timing of market rental assessments ensured the volume of assessments were completed prior to this report to Council. The valuer used comparable rentals in areas within the City's Local Government Area to assess the market rent.
7. Colliers International advise that due to the impact of the pandemic, they have adopted zero rental growth for the Office, Retail and Childcare markets for the calendar years of 2020 and 2021. Therefore, the rental assessments undertaken in 2020 are reflective of current market conditions.

Lease Term - Five Years

8. In 2015, an internal review of the Accommodation Grant Program (AGP) was undertaken as part of the City's commitment to ongoing improvement. This review included a review of internal Program processes. A key consideration in this report was the lengthening of the term of AGP leases. It was decided a five-year lease term was beneficial for the City as well as providing greater stability for tenants. Most notably, the five-year lease term compared to a three-year lease term would reduce costs, time and resources required by both parties to administer these leases.

Cultural Tenants

9. The majority of cultural tenants renewing in 2021 noted the impact of the Covid-19 pandemic on their operations and, in many cases, their ability to pay rent due to loss of income through hires, visitation, events, sales and bar takings. This impact is reflected in the subsidies and grant levels recommended to support organisations to financially recover.
10. While it is recommended some tenants are renewed with similar, manageable rent levels, new subsidy and grant levels are recommended for the following tenants:
 - (a) It is recommended 4A Centre for Contemporary Asian Art at Corporation Building, Shop 3 and First Floor, 181 Hay Street, Haymarket, receive a 100 per cent subsidy for year one of the five-year lease period to support the organisation to financially recover. This results in an increase from rent payable pre Covid-19 of \$8,458 per annum to \$8,497.50 per annum from year two. Due to essential construction work at Corporation Building 4A Gallery have been temporarily relocated to two premises at 113-115 William Street, Darlinghurst and Shop 2, 181 Hay Street, Haymarket until 31 August 2021.
 - (b) It is recommended that Kil.n.it receive a 100 per cent subsidy for year one of their leases to support their financial recovery. This results in:
 - (i) an increase from rent payable pre Covid-19 of \$657 per annum to \$1,000 per annum from year two for Glebe Nurses Quarters, 184 Glebe Point Rd, Glebe
 - (ii) a decrease from rent payable pre Covid-19 of \$2,084 per annum to \$400 for Glebe Town Hall Classroom, 160 St Johns Street, Glebe.
 - (c) It is recommended Tom Bass Sculpture Studio School at 1a Clara Street, Erskineville receive a 100 per cent subsidy for year one of the five-year lease, followed by a greater subsidy in year two, to support the tenant to financially recover. This results in a decreased from rent payable pre Covid-19 of \$5,474 per annum to \$2,700 per annum in year two and \$5,400 in year three
 - (d) It is recommended Big Fag Press at Archway 4, Jubilee Park Oval, Annandale receive a greater subsidy over the five-year lease period. This results in a decrease from rent payable pre Covid-19 of \$6,768 per annum to \$350 in the first year of the lease. The tenant has reported the Covid-19 pandemic has impacted their operations and income. Big Fag Press is a not-for-profit volunteer run organisation that has previously devoted significant time to generating income through hires, workshops and events. Reducing the rent level relieves the organisation of financial strain and allows them to continue to operate the space as community focused and accessible.
 - (e) It is recommended First Draft at 13-17 Riley Street, Woollahroo receive a 100 per cent subsidy over the five years of the new lease period. This results in a decrease from rent payable pre-Covid of \$14,110 per annum. The Covid-19 pandemic has impacted the tenant's income from bar, visitation and sales. This subsidy would support the organisation to financially recover as well as allow them greater investment in artists fees, longer presentation opportunities and improved accessibility.

Child Care Tenants

11. Child Care tenants participated in a thorough review in 2017, which resulted in updating specific performance criteria and changes to rental subsidies. The rental increases will now be subject to a three per cent annual rental increase to reflect the City's minimal fixed increase percentage.

Community Tenants

12. It is recommended all community tenants are renewed with similar, manageable rent levels, however, new subsidy and grant levels are recommended for the following tenant:
 - (a) It is recommended Pyrmont Ultimo Glebe (PUG) Men's Shed at 6 Chapman Road, Annandale in the Jubilee viaducts receive a greater subsidy over the five years of the new lease period. The tenant's operational costs have increased, creating financial hardship prior to Covid-19, however the pandemic has also severely hampered the ability to generate income to meet operational requirements. A 100 per cent rental subsidy in year one will provide continued relief to ensure the organisation can remain viable, with increasing rental contributions year on year as the organisation recovers. Subsequent subsidies will increase each year until the previous level of subsidy is met.

Australian Design Centre

13. Australian Design Centre's (ADC) current lease for 101-111 and 113-115 William Street, Darlinghurst expires 22 March 2021. To provide certainty for the organisation as they moved into their multi-year funding agreements with State and Federal bodies, a new five-year lease was approved by Council in advance in December 2019.
14. Since this time, Covid-19 has significantly impacted the Australian Design Centre's operations and income and so the terms of the lease approved in December 2019 have been reviewed. The Covid-19 pandemic has impacted the Australian Design Centre's operations in three main areas: reduced government funding; reduced opportunity for self-generated income; and a greater demand for their services and support. The Australian Design Centre has provided additional support for artists by forgoing sales commissions for a period, waiving stallholder fees and increasing digital promotions for artists.
15. Due to the current and expected ongoing impact of Covid-19, the subsidy previously approved for the Australian Design Centre has been reviewed and a higher grant level is recommended.

Readymade Works

16. Readymade Works are located at Level 1, 47-257 Bulwara Road, Ultimo and provide an artist led space for the independent dance sector in Sydney. They provide affordable rehearsal space, subsidised studio hire and host a comprehensive program of regular classes, workshops, artist residencies and performances.

17. Readymade Works, as with many Accommodation Grant Program tenants, has been significantly impacted by the Covid-19 pandemic. The organisation experienced a 75 per cent downturn in studio hire income after a period of closure followed by reduced capacity to ensure they offered the space safely. Readymade Works anticipate a continued downturn and impact in the short term as the sector recovers financially. The rental waiver given to AGP tenants as part of the City's Covid-19 relief support has been a significant and needed support for the tenant during this time and is due to conclude March 2021.
18. To continue to support the tenant, it is recommended that Readymade Works be awarded a 100 per cent subsidy from 1 April 2021 until the end of the current lease period in June 2021. Without this increased subsidy, they would return to a rental rate of \$8,166 per annum for the period, which would place financial strain on the organisation.
19. It is also recommended that Readymade Works be awarded a greater rental subsidy for the first two years of their new lease commencing 1 July 2021. This will support the organisation to recover as well as continue to deliver critical artistic programming to the arts sector. Readymade Works rental amounts will return to levels similar to those pre-Covid-19 from year three of the lease.

Key Implications

Strategic Alignment - Sustainable Sydney 2030

20. 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 tenants are cultural/arts organisation. These organisations support cultural development through the support of artists, and the delivery of culturally stimulating activities that engage our communities.

Social / Cultural / Community

21. 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 collaboratively bring to life the City of Villages

Financial Implications

22. Based on the current list of Accommodation Grant recipients, the total grant value of the program is estimated to be \$5.7 million in revenue foregone for the 2020/21 financial year. Revenue foregone has been included in the draft 2021/22 operating budget and future years forward estimates.

Relevant Legislation

23. 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 council, contribute money or otherwise grant financial assistance to persons for the purpose of exercising its functions.
24. 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 following programs:
 - (b) Accommodation Grant Program;
 - (c) the details of these programs have been included in Council's draft operation plan for financial year 2020/21; and
 - (d) the program's proposed budgets do not exceed five per cent of Council's proposed income from ordinary rates for financial year 2020/21.

Critical Dates / Time Frames

25. Accommodation Grant tenants noted in this report as requiring lease/licence renewals hold leases/licences expiring by June 2021. New leases/licences are therefore required to ensure tenants can remain in their properties as outlined above. The majority of the leases/licences are due to be renewed on 1 July 2021.

Public Consultation

26. City staff liaise with Accommodation Grant tenants throughout the year, and as part of the annual performance review process.
27. In accordance with the Local Government Act 1993 and Crown Lands Management Act 2009, the City is required to notify the public on upcoming leases on Community Land and Crown Land. Once Council endorsement has been received the City will publicly notify for a 28-day period the 14 leases on Crown and Community lands.

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