Item 17.

Write Off of Irrecoverable Debt - Former Tenant at 546- 552 George Street, Sydney

File No: X103787

Summary

The City of Sydney acquired 546–552 George Street in December 2019 as part of its plan to deliver Town Hall Square, a major civic space opposite Sydney Town Hall.

At the time the City of Sydney acquired the building, the existing tenants in the building became the tenants of the City of Sydney. One of these tenants, Evolution Systems for Training & Development Pty Ltd (ABN 73 114 531 636) (Evolution-Systems), provided training and education in hospitality in the leased premises at levels 1 to 4 and the basement of the building. Evolution Systems operated from 546–552 George Street, Sydney, under the previous landlord since 2006, and the lease was ultimately terminated in late 2024.

In early June 2025 Evolution-Systems for Training & Development Pty Ltd entered into voluntary administration and subsequently a deed of company arrangement. At the time, the former tenant owed the City of Sydney a significant amount in unpaid rent.

All reasonable attempts were made to support this education provider during Covid-19 and the recovery period and to recover the substantial debt. Following the second and final creditors meeting held by the administrators, the company entered into a deed of company arrangement which means that the majority of the debt is no longer recoverable and it is recommended that Council write off the debt owed to the City of Sydney.

Recommendation

It is resolved that:

(A) Council write off the debt of $2,390,102 (inclusive of GST) owed by former tenant Evolution-Systems for Training & Development Pty Ltd (ACN 114 531 636) of part of 546-552 George Street, Sydney on the basis that the full amount of the debt is not lawfully recoverable;

(B) authority be delegated to the Chief Executive Officer to reclaim the GST component of the debt, from the Australian Taxation Office for the amount $217,282; and

(C) Council note that this amount has previously been provided for in full in prior accounting periods. No further adverse impact on the City's financial position is expected.

Attachments

Nil.

Background

1. The City of Sydney acquired 546–552 George Street in December 2019 as part of its plan to deliver Town Hall Square - a major civic space opposite Sydney Town Hall. The building is earmarked for demolition by early 2028 to support the $150 million investment in revitalising the city centre.

2. At the time the City of Sydney acquired the building, the existing tenants in the building became the tenants of the City of Sydney. One of these tenants, Evolution Systems for Training & Development Pty Ltd (ACN 114 531 636) (Evolution-Systems), provided training and education in hospitality in the leased premises at levels 1 to 4 and the basement of the building.

3. Evolution-Systems operated for approximately 20 years, primarily under the trading name Evolution Hospitality Institute. It was registered as a training organisation in 2006 and delivered vocational education services across hospitality, cookery, tourism, and English language. The tenant operated from 546–552 George Street, Sydney, under the previous landlord since 2006.

4. The tenant was negatively impacted by the travel restrictions imposed during the Covid-19 pandemic and the Federal Government-imposed visa caps in the education sector. The City of Sydney provided support to the tenant during the Covid-19 pandemic and made concerted efforts to support the tenant during the recovery period and while the tenant sought to navigate the impact of the Federal Government's caps on international students.

5. The City provided Covid-19 relief to the tenant and the City made extensive efforts to resolve this matter through negotiation. This included several meetings between the City's Chief Operating Officer, Evolution's sole Director, and respective legal representatives. While a range of solutions were proposed, none provided the City with sufficient assurance of the business's financial sustainability.

6. Due to continued non-compliance with lease obligations and failure to address outstanding arrears, the City terminated the lease in October 2024. A drawdown was made on the security held under the lease, covering part of the debt. Evolution subsequently relocated its operations to Haymarket.

7. Despite further attempts to establish a repayment plan that would avoid negative impacts on students, Evolution did not present any viable proposals. The City then proceeded with formal debt recovery, issuing a Statutory Demand in May 2025. Evolution entered voluntary administration shortly thereafter in June 2025.

8. The company entered in voluntary administration in June 2025 and at that time owed the City of Sydney $2,390,102 (inclusive of GST) in unpaid rent. The City of Sydney lodged a formal proof of debt and participated as an unsecured creditor at the creditors' meetings held during the administration process.

9. Following the second and final creditors meeting held by the administrators, it was determined that the company would enter into a deed of company arrangement (DOCA)This was finalised mid-July 2025 and returned control of the company to its director. The DOCA has been lodged with ASIC and is legally binding on the company and all the creditors, including the City of Sydney. The administrators' report indicated an estimated dividend return of 3.5 cents to the dollar for unsecured creditors under the DOCA. This equates to an estimated $83,654. The City has no legal right to pursue recovery of the debt outside the DOCA terms. The administrator will oversee the implementation of the DOCA and arrange for the return of the dividend (if any) to unsecured creditors in due course.

Key Implications

Strategic Alignment - Sustainable Sydney 2030-2050 Continuing the Vision

10. Sustainable Sydney 2030-2050 Continuing the Vision renews the communities' vision for the sustainable development of the city to 2050. 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 1 - Responsible governance and stewardship - Reduce receivables to a realistic and manageable level, enabling more accurate financial forecasting and budgeting to support long-term planning and service delivery. Also, ensure that businesses operating in the Local Government Area comply with all relevant regulations, thereby contributing positively to local economy and community.

Organisational Impact

11. The organisational impact of this debt write-off is minimal, as sufficient financial provisions were established in prior years to account for the potential non-recovery. This approach ensured the City's financial position remained protected while appropriate recovery and support efforts were undertaken.

Risks

12. A cautious risk appetite has been maintained, both financially and socially. The full debt provision was made due to the clear financial difficulties faced by the former tenant. At the same time, the City made repeated efforts to negotiate an amicable debt resolution with the former tenant to minimise social impact and ensure that students were not displaced.

Economic

13. The reduction of students in the LGA impacts spend on housing and rent, groceries and dining, transportation, retail, entertainment and personal services.

Financial Implications

14. The debt has been provided for in full. A 'bad debt' expense was recognised in prior accounting periods with the resultant provision now held in the City's balance sheet pending the write off. There is no further impact to the Income Statement aside from the possible recovery of an estimated amount of around $83,654 noted above.

Relevant Legislation

15. Local Government General Regulations 2021 - Section 213 provides that a debt can be written off by Council if the debt is not lawfully recoverable, or as a result of a decision of a court, or if the Council or the Chief Executive Officer believes on reasonable grounds that an attempt to recover the debt would not be cost effective.

KIM WOODBURY

Chief Operating Officer