

### 3. CHILDCARE CENTRE LEASES

<b>General Manager responsible:</b>	General Manager Community Services DDI 941-8607
<b>Officer responsible:</b>	Community Support Unit Manager
<b>Author:</b>	Kathy Jarden, Leasing Consultant

#### PURPOSE OF REPORT

The purpose of this report is to provide information on the lease renewal process for 11 Council owned independently operated childcare facilities and seek recommendations from the relevant Community Boards to the Council for a resolution providing a delegation to staff to conclude new leases for each of them.

#### EXECUTIVE SUMMARY

1. The Council currently owns 11 childcare facilities independently operated under leases as detailed in the **attached** schedule. Two of the 11 centres are on land designated as reserve with the balance on fee simple land.
2. The properties are spread across six wards within the city. Therefore, to ensure consistent decision making and processes by Council, this matter is being reported in this one generic report submitted to the relevant Boards for their recommendations to the Council for a single consideration and decision.
3. The leases for the 11 properties all expire on 30 June 2010. Negotiations have commenced with the existing individual lessees for a new lease. The rationale for dealing unilaterally with the existing lessees on expiry is set out in this report.
4. The proposed lease term is six years with one right of renewal for a further six years in the form of Council's generic lease. This would result in a final expiry date of 30 June 2022 if the right of renewal is exercised.
5. The proposed rents are based on independent current market valuations. The decision to use market based rent was established by the Council in 2002 in response to a report on the setting of rents for childcare facilities.
6. This report recommends proceeding with the grant of new leases to the existing operators on the terms and conditions set out in the report and seeks a delegation to staff to finalise those leases.

#### FINANCIAL IMPLICATIONS

7. Independent valuation advice has been sought and the valuation for each childcare facility has taken a commercial view of the rental. Simes Limited has assessed each of these centres acknowledging the improvements the centre has funded.
8. Each childcare centre currently receives an operating grant from the Council to cover the annual rent charged under the lease. For the period from 1 July 2010 the centres can apply for funding assistance using the Council's Strengthening Communities Grants process.
9. There have been substantial increases in funding from central government over recent years which has changed the financial circumstances of each centre and may mean they do not have the same reliance on Council support. The Ministry of Education has advised the Council in its submission to the Council's LTCCP process in 2009 that most pre schools now operate with a healthy surplus. This will now more appropriately be taken into account as part of the Council's grant process, rather than being a factor in settling rent.
10. The proposed rents will ensure that Council properly manages its assets.

#### **Do the Recommendations of this Report Align with 2009-19 LTCCP budgets?**

11. Yes.

## LEGAL CONSIDERATIONS

12. The Community Boards do not have the delegated authority to authorise the granting of the proposed leases on fee simple land; that decision needs to be made by the full Council. The Community Board does have powers to make recommendations to the Council.
13. The Fendalton/Waimairi and Shirley/Papanui Community Boards do have delegated authority to enter into leases for the Bishopdale Community Crèche at 129 Farrington Avenue and Redwood Early Childhood Centre Incorporated at 339 Main North Road respectively, as these two are on reserve land. However, for the purposes of consistent decision making and process, staff are recommending that these two Community Boards attend to those two leases in a similar manner as the other nine leases on fee simple land and do not exercise their delegation; thus leaving all 11 lease renewals for a single decision by the Council.
14. On 13 May 2002 a report to the Strategy and Finance Committee was tabled that recommended *“that the Council confirm its requirement that a system of grants and leases as outlined in the report be put in place.”* That report stipulated that the rent for *“each building is assessed at a market rental level in accordance with current Council policy”*. The recommendation was adopted by the Council on 23 May 2002. The method of rent subsidy for the childcare centres in Council-owned buildings was by an internal transfer of funds. This method has subsequently been made more transparent with the childcare centres making application for funding through the Strengthening Communities fund.

### **Have you considered the legal implications of the issue under consideration?**

15. The Council’s Legal Services Unit have advised on all aspects of the leases and associated issues.
16. The Council’s generic lease for early education childcare facilities will form the lease document.

## ALIGNMENT WITH LTCCP AND ACTIVITY MANAGEMENT PLANS

17. Yes.

### **Do the recommendations of this report support a level of service or project in the 2009-19 LTCCP?**

18. Yes.

## ALIGNMENT WITH STRATEGIES

19. The Council’s support for the provision of childcare centres is highlighted in the Early Childhood Education Strategy (2001). The Council provides support to early childhood education through a variety of means. In these instances assistance is provided through the provision of a Council-owned building and a Council funded operating grant. As part of the Council’s approved process for entering into formal lease arrangements with early childhood education providers the rent for the Council-owned building is assessed at a market rental. As part of a separate process, early childhood education providers are entitled to apply for financial assistance. Funding requests are assessed against a range of criteria including the location’s socio-economic status and whether or not the provider may be able to pay rent. Funding requests are made through the Council’s Strengthening Communities fund.

### **Do the recommendations align with the Council’s strategies?**

20. Yes.

## CONSULTATION FULFILMENT

21. Not applicable.

## **STAFF RECOMMENDATION**

Staff recommend that the Community Boards recommend to the Council that the Council adopts a resolution in the following form:

- (a) That the existing lessees for the childcare centres as listed in the attached schedule be offered a new lease upon expiry of their existing lease terms on 30 June 2010.
- (b) That the new leases be generally on the Council's generic lease terms and conditions.
- (c) That the initial term of the leases be six years with one right of renewal for a further six years, which provides for a final expiry date of 30 June 2022, if the right of renewal is exercised.
- (d) That the market rentals as set out in the attached schedule be adopted from lease commencement, with market related rent reviews at three yearly intervals.
- (e) That the Corporate Support Unit Manager be granted delegated authority to conclude and administer the leases, as generally set out in the above resolutions.

## **BACKGROUND**

### **Burwood/Pegasus**

22. The *Canterbury Westland Free Kindergarten Association Incorporated* is a not-for-profit society operating the Kidsfirst Early Learning Centre at 284 Breezes Road, Aranui. The land is described in Certificate of Title 11K/595 as being Lot 1 DP 27621 and was vested in the Christchurch City Council for the purpose of a crèche. The property is a 1940s bungalow that was converted by the Council. The childcare facility is currently licensed for 33 children.
23. The *New Brighton Community Preschool and Nursery Incorporated* is a not-for-profit society operating the New Brighton Community Preschool at 109 Beresford Street, New Brighton. The land is described in Certificate of Title CB26B/643 as Lot 25 DP 100 and held as fee simple for crèche purposes. The property is a traditional pre-war bungalow that has been extensively extended and converted by the tenant. The childcare facility is currently licensed for 39 children.
24. *North Beach Community Childcare Centre Incorporated* is a not-for-profit society operating the North Beach Community Childcare Centre at 102 Marriotts Road, North Beach. The land is described in Certificate of Title CB375/138 as Lot 3 DP 6151 and held as fee simple for crèche purposes. The building is a former church hall which has been converted to a childcare centre by the Council. The tenant has been responsible for the establishment of the outdoor play area. The childcare facility is currently licensed for 34 children.

### **Fendalton/Waimairi**

25. *Bishopdale Community Preschool Association Incorporated* is a not-for-profit society operating the Bishopdale Community Crèche at 129 Farrington Avenue (13 Bishopdale Courts), Bishopdale. The land is described in Certificate of Title CB20F/1396 as Lot 10 DP 42896 and held as local purpose (community centre) reserve. The building is a 1970's concrete block building originally used as library storage. The tenant converted the building into a pre-school and it is licensed for 50 children.

### **Hagley/Ferrymead**

26. *New Beginnings Preschool Incorporated* is a not-for-profit society operating the New Beginnings Preschool at 136 Aldwins Road, Linwood. The land is described in Certificate of Title CB245/193 as being Part Rural Section 347. The building is a modern, purpose-built pre-school constructed by the Council. The centre is currently licensed for 36 children.
27. *Woolston Preschool Incorporated* is a not-for-profit society operating the Woolston Community Child Care Centre at 52 Glenroy Street, Woolston. The land is described in Certificate of Title CB37B/959 as being Lot 1 DP 63343. The building is a purpose built preschool constructed by the Council. The centre is currently licensed for 39 children.

### **Riccarton/Wigram**

28. *Springs Community Early Learning Centre Incorporated (SCELC)* became registered as a not-for-profit society in November 2009.
29. The land is described in Certificate of Title 18A/1036 as being Lot 1 DP 25336 and Part Lot 1 DP 23275 and is the site of a childcare centre and social housing complex.
30. The current lease is with Affinity Child and Family Services who operate the Springs Community Preschool at 10 Weaver Place, Sockburn through Springs Community Preschool. The preschool operations were handed over to SCELC as a "going concern" in December 2009.
31. Springs Community Pre-School has operated for 21 years under the management of voluntary trusts and committees and church groups. The centre is currently licensed for 35 children.

32. SCEL has not been able to provide financial information for the previous three years as that was filed by Affinity Child and Family Services. They have however provided a five-year cash flow projection and projected registrations. As this group, in various forms, has operated the childcare centre, it is believed they have the practical experience to carry forward but it would be recommended that their financial position and business plan are reviewed on a regular basis to ensure they can continue to operate.

### **Shirley/Papanui**

33. *Redwood Early Childhood Centre Incorporated* is a not-for-profit society operating the childcare centre at 339 Main North Road, Redwood. The land is described in Certificate of Title CB244/204 as Rural Section 41271, Rural Section 41272 and Rural Section 42037 and held as recreation reserve. Rural Section 41271 is classified by way of Gazette Notice as a local purpose (community centre) reserve. The property is a 1970's building originally constructed as a hall and converted by the Council into a childcare centre. The centre is currently licensed for 40 children.
34. *St. Albans Edu-Care Centre Incorporated* is a not-for-profit society operating the childcare centre at 3 Thames Place, St Albans. The land is described in Certificate of Title CB293/37 as Part Lot 63-64 DP 3115 and held for crèche purposes. The property is a 1940's bungalow that was converted and extended by the Council in 1985. The childcare centre is currently licensed for 35 children.

### **Spreydon/Heathcote**

35. *Hoon Hay Community Crèche Incorporated Society* is a not-for-profit society operating the Hoon Hay Community Preschool at 113 Mathers Road, Hoon Hay. The land is described in Certificate of Title CB17K/1312 as being Lot 2 DP 20805. The property is a 1970's community hall that was converted by the current tenant into a childcare centre. The centre is licensed for 36 children.
36. *The Sydenham Community Pre-school Incorporated* is a not-for-profit society operating the Sydenham Community Preschool at 113 Huxley Street, Sydenham. The land is described in Certificate of Title CB42A/668 as being Lot 1 DP 72739 for the purpose of a crèche. The property is a 1960's house that was converted into a childcare centre by the Council. The centre is licensed for 30 children.

### **THE OPTIONS**

37. To enter into a new lease with the existing tenants as detailed in Schedule A.
38. Not enter into a new lease with the existing tenants and call for expressions of interest for the future use of these facilities.

### **THE PREFERRED OPTION**

39. To enter into a new lease with each of the existing tenants who have maintained the building and land and are fulfilling an important community service.
40. The Council's normal practice is to deal in an open and transparent public manner, with the opportunity to lease the property made available to the general market through tender on expiry of any lease. The Council made a commitment in the Long Term Council Community Plan (LTCCP) to continue the provision of the early childhood facilities. To achieve this, the preferred option, for the reasons set out below, is to deal unilaterally with the childcare centres to negotiate a new lease and set a fair market rental for the property.
41. The Council has purpose-built some of the facilities and contributed to the upgrade of other facilities in conjunction with significant financial contributions made by the incumbent tenant and the Ministry of Education.
42. The current tenants are meeting the requirements of the Ministry of Education to maintain their childcare licence. The childcare centres own the business as the licences are specific to those organisations.

43. The Council is satisfied with the current operators and recent experience has shown that there is a limited market available if the Council were to seek expressions of interest for the 11 facilities.