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**REPORT 2**  
*(1215/53/IM)*

## **GRANTING OF LEASES TO EARLY CHILDHOOD CENTRES IN ACCORDANCE WITH THE EARLY CHILDHOOD CENTRES POLICY**

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### **1. Purpose of Report**

The purpose of this report is to obtain approval to grant leases to three early childhood centres in accordance with the Early Childhood Centres Policy.

### **2. Executive Summary**

The Early Childhood Centres Policy (Policy) was adopted by Council on 27 May 2009 (appendix 1) and sets out the Council's role regarding early childhood centres. The Policy provides guidance on how and when the Council may offer support to early childhood centres and for managing their leases.

On 16 June 2010, Council officers obtained approval from the Regulatory Processes Committee to grant leases to ten of the twenty early childhood centres in accordance with the Policy.

This report seeks approval to implement new leases for three of the early childhood centres the Council leases land and/or buildings to (refer to Appendix 2 & 3). The remaining seven will be covered in a later report.

### **3. Recommendations**

Officers recommend that the Regulatory Processes Committee:

- 1. Receive the information.*
- 2. Agree to grant a new premises lease relating to Fee Simple land to the Wellington Playcentre Association as set out in Appendix 2, in accordance with the Early Childhood Centres Policy and subject to the Local Government Act 2002.*
- 3. Agree to grant a new ground lease relating to Local Purpose Reserve land to Te Kohanga Reo National Trust Board as set out in Appendix 2, in accordance with the Early Childhood Centres Policy and subject to the Reserves Act 1977.*

4. *Agree to grant a new premises lease relating to Local Purpose Reserve land to the Karori Childcare Centre Incorporated in accordance with the Early Childhood Centres Policy, with a reduction in rental to 2% of their income for the first 10 years of their new premises lease as set out in Appendix 2.*
5. *Note that unless specified differently within the recommendations, the terms of the ground lease and premises leases are as follows:*  
**Commencement Date:** 1 July 2010  
**Term:** 10 years plus a 10 year right of renewal  
**Ground Lease Rental:** 1% of the revenue of each early childhood centre  
**Premises Lease Rental:** 4% of the revenue attributable to each early childhood centre  
**Incremental Rental:** Where a centre has a rental increase greater than \$500.00 per annum the new rent will be phased in over a period of three years (as shown in Appendix 2).
6. *Note any approval to grant a lease for Fee Simple land is conditional on:*
  - (i) *appropriate consultation in accordance with section 138 of the Local Government Act 2002;*
  - (ii) *there being no sustained objections resulting from the abovementioned consultation or notification; and*
  - (iii) *the legal and advertising costs associated with preparing the leases are met by the Lessee.*
7. *Note that any approval to grant premises leases and ground leases for Local Purpose land is conditional on:*
  - (i) *the leases being publicly notified in accordance with section 119 and 120 of the Reserves Act 1977;*
  - (ii) *there being no sustained objections resulting from the abovementioned consultation or notification; and*
  - (iii) *the legal and advertising costs associated with preparing the leases are met by the Lessee.*
8. *Agree that the Chief Executive will finalise and negotiate the lease details.*

#### **4. Background**

On 27 May 2009, the Strategy and Policy Committee agreed to adopt the Early Childhood Centres Policy. The key change to the majority of the centres related to the rent they would pay under the new Policy.

On 16 June 2010 Council officers obtained the Regulatory Processes Committee's approval to implement the Policy to ten early childhood centres who lease land and/or buildings from Council.

This report deals with three of the early childhood centres. There are four remaining centres where the underlying status of the land requires reclassification to permit early childhood centre use. Officers have not completed negotiations with the remaining three centres.

## **5. Discussion**

The Policy sets out standard provisions for rental determination and management provisions that apply to all centres that have a lease with the Council. These standard provisions are as follows:

### **5.1 Term**

All centres will be granted a ten year term with a ten year right of renewal.

### **5.2 Rental**

Rentals are calculated on the basis of the current year's income for the centres. Payments throughout the year are made on the basis of the previous year's income and reconciliation is undertaken at the end of the year. A payment or refund may be due.

Rental for ground leases will be based on 1% and rental for premises leases and licences will be based on 4% of the revenue attributable to each centre. Revenue is defined in the Policy as being Ministry of Education (MOE) payments (excluding equity grants) and income received by each centre that constitutes payment for childcare services (including fees, donations and subsidies from Work and Income New Zealand).

Where a centre faces a rental increase greater than \$500 per annum as a result of renewing its lease, the new rent will be phased in over a period of three years as shown in Appendix 2 attached.

#### **5.2.1 Karori Child Care Centre Incorporated**

The Policy makes provision for Council officers to consider a reduction in rental for those early childhood centres where asset investment has been made or maintenance costs incurred that add value to the premises.

As part of the Karori Town Centre Redevelopment Project which was undertaken by Council approximately ten years ago, the building that was initially occupied by the Karori Childcare Centre Incorporated (Centre) needed to be demolished. The Council arranged to relocate the Centre to their current location being 47 Beauchamp Street Karori in 2003.

The Council contributed \$50,000 towards relocation and redevelopment costs. The Centre paid for the remaining relocation and redevelopment costs through obtaining a grant from the MOE and fundraising which amounted to \$277,314.

The Council entered into a premises lease with the Centre from 1 November 2003 at a subsidised rental and a longer lease term than was usually given to early childhood centres in consideration of the asset investment made. The

Centre's rental under this lease is \$590.00 plus GST per annum. The lease is for a ten year term with a ten year right of renewal. The lease allows for the rent to be reviewed every three years. No rent reviews have been undertaken by Council to date.

In order to implement the Policy, the existing premises lease will be surrendered and a new lease granted with a ten year term with a ten year right of renewal commencing on 1 July 2010.

Officers believe that the Centre should receive a rental reduction for their premises lease from 4% of their income to 2% of their income for the first ten years of their new premises lease. After the initial ten years, the Centre will be charged at 4% of their income like all other centres with a premises lease.

If the Centre was to be charged rental at 4% of their income, the Centre would be paying approximately \$15,296.30 plus GST per annum once the phase in period had ended. If the Centre is given a reduction in rental at 2% of their income, the Centre would be paying approximately \$7,648.20 plus GST per annum at the end of the phase in period. Accordingly, officers recommend that that the Centre is granted a reduction in rental to 2% of their income for the first ten years of their new lease. Refer to Appendix 2 for rental details at 2%.

### **5.3 Maintenance Obligations**

Where a centre has a ground lease, the centre is responsible for all maintenance and compliance costs associated with the building.

Where a centre has a premises lease, the Council is responsible for all exterior and deferred maintenance, compliance costs to meet requirements of the Building Act 2004 and building insurance. The centre is also responsible for all interior maintenance.

Centres with leases are responsible for electricity, water rates and the legal and advertising costs for preparing a new lease when the lease expires or is varied, whether the centre owns the building or not.

## **6. Conclusion**

Council officers recommend that the Regulatory Processes Committee give their approval to proceed with implementing the Policy to three early childhood centres who lease land and/or buildings from the Council.

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## Supporting Information

### **1) Strategic Fit / Strategic Outcome**

*The Early Childhood Centres Policy supports Council activities as a provider of social infrastructure and community properties. The Policy contributes to the Council meeting the following outcomes:*

- *Improving liveability*
- *Building capability and capacity to support social infrastructure*
- *Promoting and enhancing community participation*
- *Attracting and retaining a highly skilled productive population base.*

### **2) LTCCP/Annual Plan reference and long term financial impact**

*The project is contained in the Council Plan A468 and C524. The changes indicated here will lead to an increase in revenue for the remainder of the LTCCP period through the revised rentals effective 1 July 2010. Details of these fee adjustments are contained within Appendix 2.*

### **3) Treaty of Waitangi considerations**

*No Treaty implications have been identified.*

### **4) Decision-Making**

*This is not considered a significant decision in terms of the Council's Significance Policy.*

### **5) Consultation**

#### **a) General Consultation**

*Council officers have met with all early childhood centres that are subject to this report and discussed the implications of the Early Childhood Centres Policy in relation to each centre.*

#### **b) Consultation with Maori**

*Not Applicable – The Early Childhood Centres Policy was reviewed by the Manager of Treaty Relations before being adopted by Council.*

### **6) Legal Implications**

*Legal advice has been obtained.*

### **7) Consistency with existing policy**

*This report is consistent with the Early Childhood Centres Policy.*