



**14.6 AUSTRALIAN NATIONAL ACADEMY OF MUSIC - LEASE PROPOSAL FOR SOUTH MELBOURNE TOWN HALL**

**EXECUTIVE MEMBER: CHRIS CARROLL, GENERAL MANAGER, CUSTOMER AND CORPORATE SERVICES**

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**1. PURPOSE**

- 1.1 To outline an assessment of a proposal from the Australian National Academy of Music (ANAM) to lease the South Melbourne Town Hall, and to recommend a response to that proposal.

**2. EXECUTIVE SUMMARY**

- 2.1 The Town Hall is an extraordinarily significant building – a grand architectural presence that shapes the character of Emerald Hill, helps tell the story of the City’s history, and provides a focal point for community gatherings and events, including musical concerts. It is an irreplaceable asset.
- 2.2 Due to its limited functionality, the local government reforms of the 1990s, and the subsequent expansion and upgrading of the St Kilda Town Hall, the South Melbourne Town Hall serves a far more limited civic role than it once did – at least in the sense of a home for government and public services.
- 2.3 The most fundamental way to ensure its ongoing place in the community is for it to be used sustainably and to its potential. This is irrespective of who manages it.
- 2.4 Sustainable uses of the building are limited. For a tenant it has many positive features and attributes – such as its large total floorspace and architectural appeal. Countering this however, are its archaic and inefficient layout, high operating costs, poor natural light, limited views, no off-street parking, and its location outside the suburb’s central activity areas (of Clarendon Street, South Melbourne Market).
- 2.5 This is reflected in its potential market rent. Market rent is a useful measure of the amenity and services delivered by a building to a tenant – whether that tenant is a commercial one or otherwise. The market rent of the Town Hall is equivalent to that of a “C” grade office.
- 2.6 Though the utility of the building to a tenant is inferior, its costs to the owner is high. Largely this is because of design and age.
- 2.7 Concerningly, if full market rent was to be charged, the present value of the net income stream would be approximately zero, but still negative. That is, even if City of Port Phillip was hypothetically to lease out the property commercially, it would be no better off financially than if it did not own the property. Put simply, the building is financially obsolete – it perpetually costs more to keep than it makes.
- 2.8 The financial burden of owning the Town Hall is major - currently about \$1M (net of income) each year, assuming the building is to be renewed in perpetuity. That said, there are few calls from the community for Council to divest the asset, so perhaps the financial loss is offset by the social and cultural capital created.



- 2.9 Despite being 140 years old, the building structure is performing well. However, the building is only in fair condition overall, and requires immediate and short term repair and maintenance of approximately \$3M. This will only deliver a minimal, like for like result. To bring the whole Town Hall to compliance and market functionality will require at least several million dollars of additional short term spending.
- 2.10 The Town Hall has twenty eight cousins – Melbourne’s other purpose built, historic town halls. Most of these are used as spaces/venues for hire. Some are positioned as arts exhibition/performance hire spaces, and most offer discounted rates for not-for-profit and community organisations. Overall, they do not appear to be well utilised – reinforcing that availability of space does not equate to utilisation. Nor does it necessarily deliver financial sustainability – none of the Melbourne town halls with spaces available for public hire are known or estimated to be breaking even.
- 2.11 In May 2019 Council received an unsolicited proposal from tenant ANAM, for a lease that would increase their term of tenure by decades, and their area of tenure to all/most of the Town Hall.
- 2.12 At the 12 June 2019 Councillor Briefing, Councillors requested the proposal be assessed, and be compared with other options available to Council for the long-term management of the Town Hall.
- 2.13 The options identified for consideration were:-
- Option 1 – Decline the offer, (maintaining the status quo).
  - Option 2 – Negotiations for a new long term lease.
  - Option 3 – Offer the Town Hall for lease on the open market.
- 2.14 Option 3 can only be exercised upon the expiry (in 2032) or earlier ending of the existing lease with ANAM – for instance, by agreement with ANAM. Such agreement is unlikely.
- 2.15 Selling the Town Hall is a fourth Option. Unlike most similar town halls, it is freehold rather than Crown land. However, this option is considered politically unrealistic. Even to the prospect of a long term lease there is some vocal opposition.
- 2.16 ANAM’s proposal has been assessed against Council plans, strategies and policies. The proposal is considered to align well with their relevant objectives.
- 2.17 A *Have Your Say* survey has been undertaken to clarify the significance of the Town Hall, and to receive perspectives on uses for that building/place that support its significance. Over three hundred responses were received. In terms of significance, the themes most commonly raised were: a place for music/concerts; architectural, aesthetic and historical value; community use (including the existing community/advocacy groups); a landmark; and a place for meeting/gathering. On their ideas for the future use of the Town Hall a majority of responses put forward ANAM’s continued use of the building, a significant portion of those also including other tenants. A strong theme was also community use and access generally.
- 2.18 Simultaneously, ANAM has undertaken community consultation and engagement activities.
- 2.19 Once ANAM’s proposed contribution of rent *and* up-front capital contribution *and* ongoing maintenance/renewal is taken into account, the ANAM preliminary proposal is nearing the realm of market rent. Though, as ANAM’s preliminary proposal has



evolved, it has become less financially favourable. Specifically, it currently seeks not to pay Council rates, and a \$7M up front contribution from Council. (That up-front landlord investment is required, as a minimum, irrespective of who may lease the building).

- 2.20 ANAM proposes very significant improvements to the functionality and amenity of the building. This is likely to improve community bookings, visitation and the visit experience. ANAM budget on attracting non-classical music entertainment events, for example.
- 2.21 Under the ANAM proposal (Option 2) and a market rental option (Option 3), there remains a shortfall in funding over the long term and Council will be required to set aside monies for future capital renewal.
- 2.22 As part of considering Option 3, Officers have used leasing to the market as a proxy to assess the proposal. This included obtaining an independent valuation of market value. From this it is known that the Town Hall will have appeal to the broader market. Potential uses could include for instance, office, boutique hotel, conference centre.
- 2.23 Other uses – for instance a “hub” for micro businesses in the visual arts, such as electronic games development, are considered speculative, especially at the scale of the Town Hall, and would be highly contingent on major investment from government. It would likely require ongoing curation and management by Council directly, or through a Council funded body.
- 2.24 Major investment would likewise be required for the Town Hall to have a major role for civic uses and municipal administration, and this would never fully overcome the functional challenges. Further, it not within Council’s strategy to decentralise staff away from the St Kilda Town Hall – a purpose built facility.
- 2.25 Changes of use may also require a planning permit for the new use, potentially triggering Planning Scheme provisions for carparking.
- 2.26 The Town Hall cannot readily or cheaply be broken up into multiple tenancies, and doing so will intensify the management and administration burden.
- 2.27 Aside from this there are a couple key issues with broad-scale community use of the building. The first is that it doesn’t address the underlying and chronic financial underperformance of the asset. The second is that the mediocre utility of the space undermines the potential for community service users to operate efficiently and effectively at the Town Hall – eroding the potential value of their community service. From a perspective of maximising overall community benefit and public value, it seems most effective to attempt to extract the financial value and asset utilisation available through the ANAM proposal, to apply it to creating/improving other community facilities.
- 2.28 ANAM requires a facility like the Town Hall. It is a very good fit with its operation, functional needs, and “brand”. The other lessees/licensees could operate just as effectively, or more so, from other spaces.
- 2.29 Officers therefore recommend proceeding with negotiation, but not on the terms proposed by ANAM.
- 2.30 Specifically, it is recommended that the term of fifty years be considered only if ANAM substantially improves their financial offer, and that the right of first refusal on a subsequent term be rejected. These aspects on the ANAM offer unduly impact long term optionality for City of Port Phillip, and likely lessen community acceptability.



- 2.31 It also recommended to introduce a negotiation deadline – allowing a year to formally put a negotiated deal to the public for feedback. Among other things, this is intended to mitigate the risk of protracted negotiations.
- 2.32 Several other recommendations are made to create incentives for performance, mitigate risk, and support broader community outcomes. These are listed in Section 10. If these are not acceptable to ANAM, ANAM may prematurely end their current lease, and City of Port Phillip would need to then consider Option 3.
- 2.33 Risks have been identified for Council, primarily reputational and financial in nature. ANAM's capacity to manage and deliver the project is also considered to be a risk, given the lack of track record.
- 2.34 Importantly, ANAM has not yet secured sufficient funding – including from State government - to proceed with what it has proposed.
- 2.35 If the ANAM proposal proceeds, consideration will need to be given to future operation and location.

### 3. RECOMMENDATION

That Council:

- 3.1 Authorise relevant Officers to enter negotiations with ANAM for a new long term lease of the South Melbourne Town Hall.
- 3.2 Allow a maximum of one year for such negotiations, the outcome of which to subsequently be reported publicly to Council.
- 3.3 Any potential agreement reported to Council is to address the Principle Items of Negotiation identified in the table in section 10 of this report.
- 3.4 Notes that should a potential agreement for a new long term lease be reached, Council is to give public notice of its intention to lease, and hear and consider any submissions under section 223 of the *Local Government Act* before determining whether to lease.

### 4. KEY POINTS/ISSUES

#### The Asset

- 4.1 The Town Hall is a remarkable 1880 building, embodied with architectural, social, historical, artistic and political values. It makes an outsized contribution to the quality of the local built environment and helps tell the story of our City.
- 4.2 It is prominently sited on Emerald Hill, on Council freehold land.
- 4.3 The building is insured for \$22.5M.
- 4.4 The cost of owning the building, including maintenance and renewal, is approximately one million dollars yearly, assuming it is to be renewed in perpetuity.
- 4.5 The building is in fair condition overall. It requires \$3M of investment in the immediate/short term to address condition issues (Red Zebra building advisory, December 2019), and at least several million dollars further to bring to a market lettable standard.
- 4.6 In October 2018, a portion of the ceiling on the first floor of the Town Hall collapsed in an area then occupied by ANAM – likely due to undetectable water damage leading to



a structural failure. This has temporarily reduced the floorspace of the building, whilst rectification works and general works are planned and executed.

**Use**

- 4.7 The building – or more accurately, the building complex – was constructed to house the Emerald Hill Council, Post and Telegraph Office, Mechanics Institute and Library, Fire Brigade, Police Department, and Court House.
- 4.8 It is redundant for most of those uses, arguably all.
- 4.9 To survive a building requires continued use. Otherwise it tends to be neglected, so deteriorates rapidly.
- 4.10 For a use to survive it needs to be relevant and sustainable in that space, and for there to be no compelling higher and better uses.
- 4.11 In that way, adapting buildings to relevant and sustainable uses provides for their future.
- 4.12 The table over the page lists the current uses of the building, besides ANAM.

Table: Current use of South Melbourne Town Hall (other than ANAM)

Use	User
Licensed desk space & meeting rooms	ABC Friends Port Phillip Citizens for Reconciliation Save Albert Park Sputnik Russian Cultural & Television Association
Regular room hire	Hare Krishna Meditation South Melbourne Symphony Orchestra South Port Community Housing Group activities & meetings Toastmaster
Casual room hire	Arts Access Inc Australian & Victorian Electrical Commissions Conventions Healing seminars Product launches Tai Chi Yoga
Council uses	Community Ball Community consultations – focus groups Council meetings Grant information sessions Immunisations Placemaking meetings South Melbourne Market meetings
Backdrop	Film-making Wedding photography

4.13 Many uses are listed in this table. However, *utilisation* of the overall space is moderate at best, and relies heavily on the 25,000 visits to the site across the 180 plus events hosted each year by ANAM.

#### ANAM

4.14 ANAM is one of the eight national elite performing arts training organisations funded by the Australian government to support Australia’s creative economy. It was established in 1994 under the Federal government’s Creative Nations cultural initiative.

4.15 ANAM’s vision:

*“ANAM inspires to be the place in which exceptional young classical musicians may fulfil their potential as music leaders, distinguished by their skill, imagination and courage, and by their determined contribution to a vibrant Australian music culture”.*

4.16 ANAM objectives, as prescribed in its Constitution, are to:



*“be a national institution, celebrated for the achievements of our musicians and alumni, and regarded as one of the world’s premiere classical music performance preparation institutions;*

*maintain a focus on training through performance, enabling musicians to discover and strengthen their musical voice;*

*be distinguished by the expertise of our artists, the quality and intensity of our programs and our innovative public performances;*

*continue to nourish the precious relationship between performer and listener, audience and community; and*

*secure the vibrancy of Australia’s music culture by drawing in the finest musicians, and sending out into the world polished artists with musical expertise, wisdom and determination”.*

4.17 ANAM has several stated values, one of particular relevance to this assessment:-

*“ANAM believes that:*

*The act of performance is by definition an inclusive and interactive one, with composers, performers and listeners being essential to the creation of the live experience.*

*The quality of our relationships with our stakeholders is founded on the quality of those with our neighbours: we act ‘locally’ as we think ‘globally’.*

*All partners – students, faculty and guest artists, audiences and community, funders supporters, administration staff and directors – are collectively engaged in the shared responsibility of training our musicians”.*

#### **ANAM’s preliminary offer**

4.18 ANAM became the major tenant of the Town Hall twenty four years ago. It remains so today, under a different lease agreement. Its current lease is due to expire in 2032.

4.19 Under its lease ANAM occupies about 58% of the Town Hall, (though it doesn’t have exclusive use of the Main Hall for the whole year).

4.20 ANAM pays consideration of \$121,000 each year, structured as \$1,000 rent, and \$120,000 towards future renewal and upgrade of the building. Additionally, it pays all building outgoings proportional for the portion of the building it occupies – equating to about \$100,000 each year.

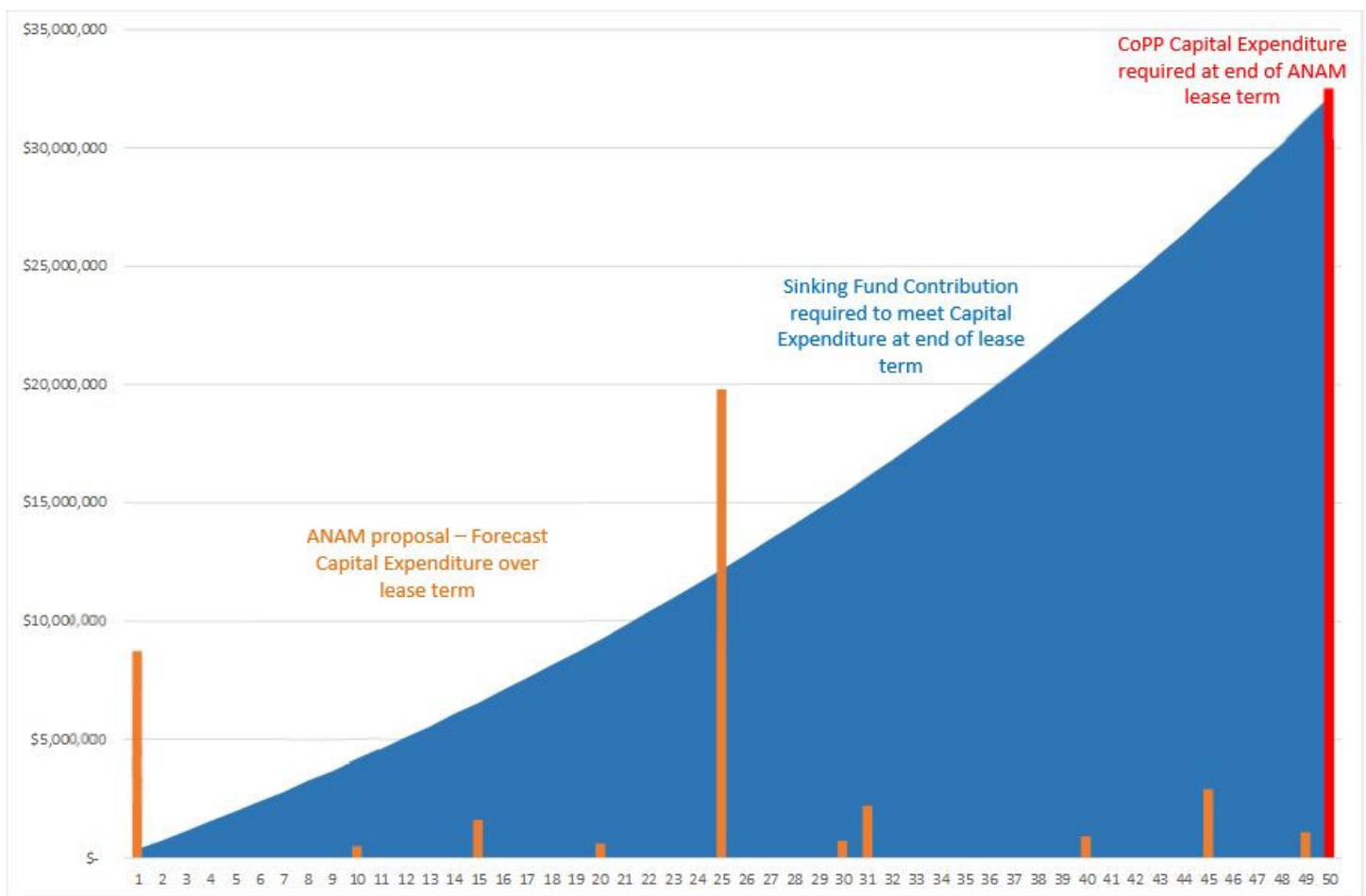
4.21 In May 2019 ANAM made an unsolicited proposal to Council to lease the entire Town Hall.

4.22 That proposal is included as Attachment 1. Its key aspects are:-

- Term: 50 years, with a first right of refusal on subsequent lease.
- Consideration: rental of \$1,000 yearly,  
plus ~\$7.5M up front repair, restoration and upgrade works,  
plus ~\$35M of up front tenant fitout/upgrades,  
plus ~\$30M of repair, maintenance and renewal over the term.
- Encouraging community access: through building upgrades, continued subsidised community access, and continued booking management of the public hire of the hire spaces.

- 4.23 A term of twelve years remains on ANAM's current lease.
- 4.24 ANAM has been working to firm up their offer, and has subsequently amended it to require an up-front commitment of Council of \$7M, to building repair and improvement.
- 4.25 ANAM have also adjusted the timing of contributions to building renewal, the effect of which is to reduce the residual condition of the building (and by extension, increasing the costs to City of Port Phillip to renew the building on reversion).
- 4.26 The cumulative financial burden of building renewal, not funded by the preliminary ANAM proposal is illustrated on the chart on the following page.

*Chart: unfunded capital expenditure required to ensure the condition and physical lifespan of the building at the end of a nominal 50 year lease is the same as after year one.*



Note: in addition to the upfront initial investment shown (by the orange bar) in year zero, ANAM's proposal includes a further \$35M of tenant fit-out/upgrades.

**Context**

- 4.27 ANAM has been working to firm up their offer, and has subsequently amended it to require an up-front commitment of Council of \$7M, to building repair and improvement.





Table: Key contextual considerations

<p>Historical</p>	<ul style="list-style-type: none"> <li>• In Aboriginal societies, prominences were often used as camp places to engage in ceremonies, conciliation and exchange. Emerald Hill was such a site.</li> <li>• The Town Hall was the first successful example in Victoria of multi-purpose government complexes constructed during the 1800s.</li> <li>• A grand building in Victorian Academic Classical style with French Second Empire features, by prominent architect Charles Webb. It reflects the prosperity and confidence of the South Melbourne area during the 1800s.</li> <li>• The Jubilee Fountain in the building's forecourt was constructed in 1905 to celebrate the jubilee of the foundation of Emerald Hill Town Council (which became City of South Melbourne in 1883), and to honour the 140 South Melbourne soldiers who fought in the South African Boer War, including the eight who died.</li> <li>• In June 1994 Port Phillip became a municipality with three town halls – when the Cities of South Melbourne, Port Melbourne and St Kilda were merged to form the current City of Port Phillip – part of the State-wide transformation of local Councils under the Kennett Liberal government. St Kilda became the operational centre for City of Port Phillip.</li> <li>• The Town Hall is identified in <i>the Port Phillip Planning Scheme</i> Schedule to the Heritage Overlay (HO28) and is on the Victorian Heritage Register (Item H0217).</li> </ul>
<p>Strategic</p>	<ul style="list-style-type: none"> <li>• <i>Council Plan 2017-2027</i> includes several relevant strategic directions, specifically: <ul style="list-style-type: none"> <li>4.2 – <i>A City of diverse and distinctive neighbourhoods and places.</i></li> <li>5.3 – <i>A City where arts, culture and creative expression is part of everyday life.</i></li> <li>6 – <i>A financially sustainable... organisation that puts that puts the community first.</i></li> </ul> </li> <li>• The South Melbourne Town Hall Restoration Project (\$7.1M) is identified in <i>Council Plan</i>, and due to be undertaken now.</li> <li>• The <i>Emerald Hill Master Plan</i> was endorsed by Council in 2012, and articulates Council's vision for the precinct: <p><i>“to create a vibrant arts and community hub to reinvigorate the precinct around South Melbourne Town Hall and to re-establish it as a cultural and civic heart of South Melbourne”.</i></p> </li> <li>• The vision re-affirmed the principles developed after extensive community consultation for the <i>South Melbourne Central Structure Plan, South Melbourne Shopping Precinct Streetscape Master Plan</i> in 2007 and reinforced by targeted stakeholder consultation in November 2010.</li> <li>• The <i>Emerald Hill Master Plan 2012</i> outlines the importance of developing suitable ways to celebrate and preserve indigenous history.</li> <li>• The Town Hall is of strategically relevant to the delivery of several outcomes and actions in <i>City of Port Phillip's Art and Soul: Creative and Prosperous City Strategy 2018-2022</i>. These include: enhancing South Melbourne as a creative industries cluster and innovation district; developing strategic partnerships with organisations whose charters address inclusion and diversity across the arts and creative</li> </ul>



	<p>industries; developing and implementing a four year action plan addressing affordability and availability of diverse space for entrepreneurs and start-ups.</p>
<p>Social</p>	<ul style="list-style-type: none"> <li>• As at 2018, 54% of ANAM's members, and 23% of its ticket purchasers, are residents of City of Port Phillip, (as reported in the South Melbourne Town Hall Restoration Cost Benefit Analysis, prepared for ANAM by Sustainable East, 2019).</li> <li>• Recent placemaking activities undertaken for South Melbourne over four workshops and intercept surveys identified the following key theme for Emerald Hill precinct: <ul style="list-style-type: none"> <li><i>“Stunning historic architecture, welcoming community spaces and an array of artistic activities that appeals to all. Shaped by its origins as a meeting place for our first peoples, Emerald Hill is the cultural and creative heart of South Melbourne”.</i></li> </ul> </li> <li>• In the workshops and intercept surveys 14.2% of respondents were most likely to recommend in South Melbourne “engaging in art, music or cultural experiences”, though only 2.4% visited South Melbourne for that reason. This compares with for example, 63.3% that recommended visiting for “visiting restaurants, cafes and bars” and 43.8% who visited for that reason. Participants agreed that the Emerald Hill area was not busy with people.</li> <li>• Council's ASSIST customer service kiosk at the Town Hall provides an operational interface with the local community. It is a limited function service desk – no Planning or Building transactions are conducted there. The majority of customer interactions are phone calls and walk-ins associated with the Port Phillip Community Group, a tenant of the building. As more customer interactions are now conducted online, there is less reliance by customers on face to face interaction with Council. For example, customer interactions at the Town Hall ASSIST kiosk decreased from 3151 in 2016-2017 to 1140 in 2018-2019.</li> <li>• An online community survey was undertaken in November 2019 seeking to clarify the community significance of the building and uses compatible with that significance. The feedback from that survey is considered on the following pages.</li> <li>• Emerald Hill has importance as an Aboriginal place.</li> </ul>
<p>Financial</p>	<ul style="list-style-type: none"> <li>• Council's valuation advice is that the property could attract market rent. The market however, would be a niche one.</li> <li>• The building is costly to own and operate.</li> </ul>
<p>Economic</p>	<ul style="list-style-type: none"> <li>• Relative to other activity areas in the suburb, foot traffic in the Precinct is low. There is little natural draw to linger in the immediate vicinity of the Town Hall – it is exposed, heavily shaded, and in front of a police station.</li> <li>• South Melbourne is a creative cluster within Port Phillip, with an estimated 25% share of total employment. The neighbourhood hosts 170 known creative businesses. The top four creative industries are design, music, film and television, and photography.</li> <li>• The neighbourhood benefits from its proximity to the central Melbourne, good public transport access, desirable “lifestyle” amenity, and a relatively high proportion of commercial and industrial building stock.</li> <li>• Leading educational institutions are an attractor for the clustering of relevant industries.</li> </ul>



	<ul style="list-style-type: none"> <li>Where subsidised rents are offered to stimulate or activate properties or precincts, a potential unintended consequence can be reduced demand and thereby price deflation for private rental properties.</li> </ul>
Physical	<ul style="list-style-type: none"> <li>The Town Hall is situated in a charming historic precinct.</li> <li>It is throwing distance from two significant civic buildings – the South Melbourne Library and the South Melbourne Police Station.</li> <li>Its forecourt is exposed and south facing, limiting the attraction of congregating there.</li> <li>In contrast to the bustling Clarendon Street retail strip two blocks away, the immediate surrounds are far less trafficked – both by pedestrians and motor vehicles.</li> <li>South Melbourne Town Hall is a twenty minute walk from Port Melbourne Town Hall.</li> <li>It is only about 1km from City of Melbourne’s Art’s Precinct.</li> </ul>
Political	<ul style="list-style-type: none"> <li>Council Plan calls for “a City where arts, culture and creative expression are part of everyday life”. Some however, may consider classical music as a highbrow pursuit, of low relevance to the broader community.</li> <li>There is a vocal subsection of the community passionately opposed to the use of the Town Hall for not civic uses.</li> <li>In 2007, Council considered the future use of Town Hall as a result of receipt of an ANAM proposal for additional space within the Town Hall. Council established a Site Assessment Panel to make recommendations regarding the future use of the Town Hall - in particular, whether ANAM should be granted a lease of additional space within the Town Hall. Whilst the Panel recommended that ANAM not be granted a lease for additional space, Council rejected its recommendation and authorised the CEO to grant a first right of refusal for ANAM to occupy the first floor of the west wing, in addition to the area that it already occupied in the east wing. The Panel report can be read here: <a href="http://www.portphillip.vic.gov.au/default/meeting_agenda_archive/o24743.pdf">http://www.portphillip.vic.gov.au/default/meeting_agenda_archive/o24743.pdf</a>.</li> </ul>

**5. COMMUNITY SURVEY**

- 5.1 Community feedback was recently sought through the online survey *Have Your Say: South Melbourne Town Hall future use*. It was carried out from 12 November 2019 to 1 December 2019, and advertised on Council’s website, social media, posters at ASSIST counters, the *Have Your Say newsletter*, and email blasts to recipients on our customer databases for placemaking, arts, community facilities and library users.
- 5.2 The survey was not intended as a referendum on ANAM’s preliminary proposal. Rather, its aim was to help understand the significance of the building to members of the community, and to elicit ideas on uses compatible with that significance.
- 5.3 The survey received 822 unique visits, with the survey completed 321 times by 295 of those visitors.
- 5.4 In nominating their relationship to the Town Hall, 35% of those described themselves as local residents, 3% as working or owning a local business, 41% as visitors to the Town Hall for ANAM events, and 2% as visitors for Council business, 6% as visitors for community events, and 6% as primarily visitors to South Melbourne who has at some



stage been to the Town Hall. Only 2% responded that they had never visited the Town Hall or had no relationship to it. 5% selected "Other".

- 5.5 Sixty three percent of the respondents reported hearing about the survey through email, twenty five percent by word of mouth, ten percent by *Have Your Say newsletter*, five percent through social media, and the remainder through posters, flyers or "Other".
- 5.6 A selection of responses to the three substantive survey questions are provided on the following pages.
- 5.7 Additionally, many respondents took the opportunity to express support or disfavour for ANAM's ongoing use of the Town Hall, and/or their support for the other existing lessees/licensees of the building.
- 5.8 The full set of responses is included as Attachment 2, (with personal information redacted).
- 5.9

*Table: Sample responses to the first substantive survey question*

***What does the South Melbourne Town Hall mean to you?***

"The town hall has an amazing history and the clock has told me the time (always a minute or two slow but that is part of the charm!) since the early 80's."

"A nice old building but it means nothing to me."

"My dad grew up in South Melbourne in the 1950's and 60's, and the town hall was an important part of his and my grandparent's life. In a way I think it is a symbol of my heritage. I am fortunate enough to start my studies at ANAM in 2020 and can't wait to be in the town hall every day for music."

"The building and its precinct is one of the finest, if not the finest in Victoria."

"It means I pay more rates than I should be... Stop trying to find excuses to keep it".

"I grew up in South Melbourne and joined the South Melbourne Symphony Orchestra when I was 14 years old (1994). I have attended Monday night rehearsals every week and performed in 4 concerts per year since, which is now 25 years. It is a place for community and music and is a wonderful asset to South Melbourne".

"It represents my community. It's a spectacular rendition of civic architecture that celebrates the strength of its community".

"A link in the chain of Melbourne's 'collection' of 19<sup>th</sup> century town halls..."

"Firstly, its position at the top of Emerald Hill and its sacred to the Kulin nation. Secondly, it's a particularly fine heritage building and a place of historic pride. Thirdly, it's the home of the ANAM school of music, which not only is internationally recognised, and unique and valuable for its training and performances, but also in particular makes those performances free or discounted to Port Phillip residents, Fourthly in provides space for City exhibitions and for community groups.

"It belongs to all of Melbourne. It is no longer a local facility."



## ORDINARY MEETING OF COUNCIL 18 MARCH 2020

“It has been the centre of governance, and was taken from the people, without consultation, but with much protest, by an unelected body of Commissioners and given to the State and Federal Governments for a peppercorn rent.”

5.10 A range of themes were raised in response to the survey question. The frequency of the most common are represented visually in the treemap below – where the size of a block represents relative frequency, and the number within the block is the count

ORDINARY MEETING OF COUNCIL  
18 MARCH 2020

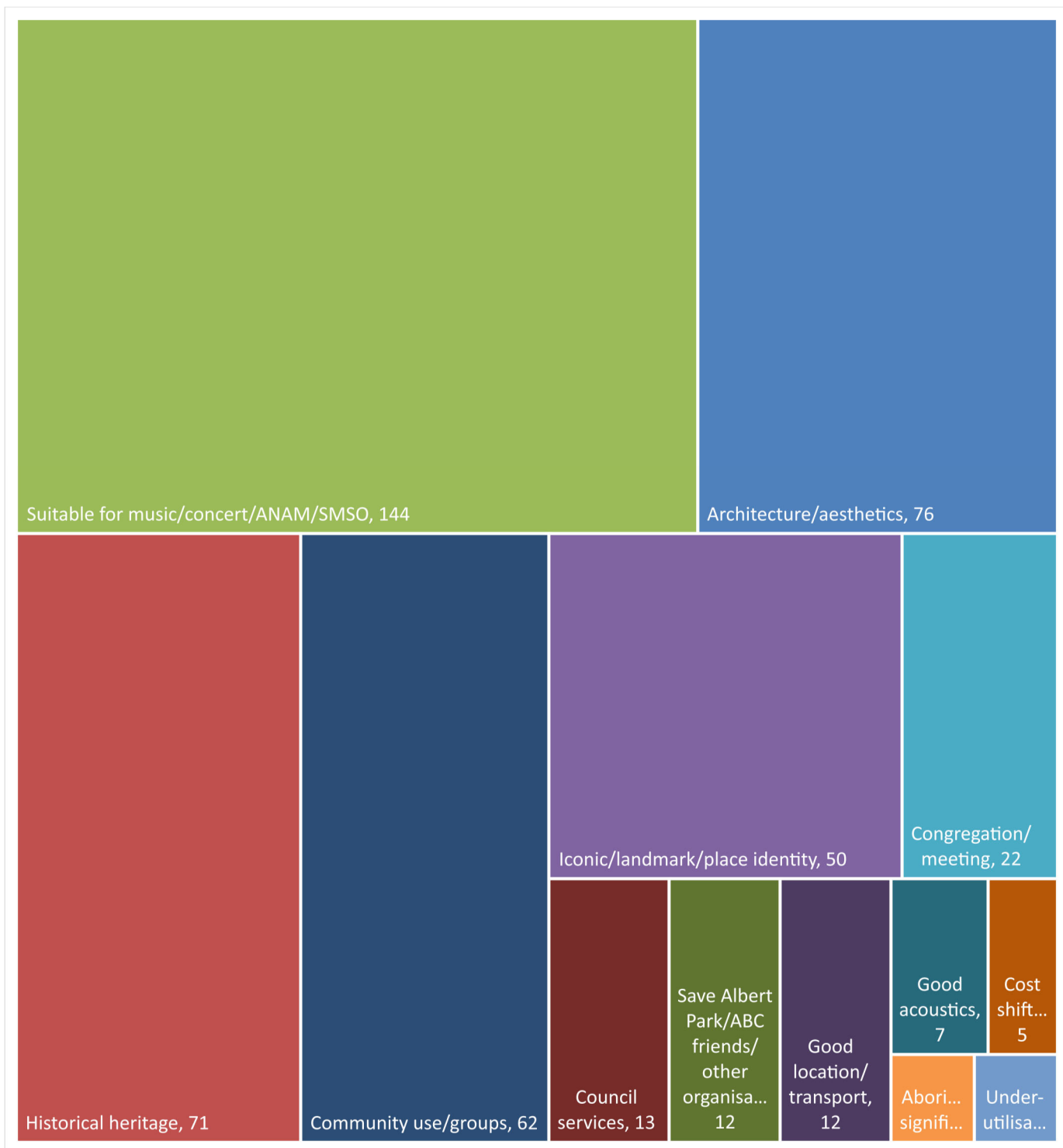




Table: Sample responses to the second and third substantive survey questions

<p><b>What vision or ideas do you have for the South Melbourne Town Hall?</b></p>	<p><b>How [will] your vision meet the needs of the community now and into the future?</b></p>
<p>“[T]he centre of community activities”.</p> <p>“Anything that will not damage it and keep it in good condition.”</p> <p>“Let ANAM keep doing what they are doing because they are setting a very high standard and offering something really special to the CoPP and all residents.”</p> <p>While I am not against ANAM's proposal to re-establish the building as a cultural hub, I worry about the consequences for other entities currently using the town hall - for example the SMSO who have a more than 70 years history with the town hall.</p> <p>“A great tenant will determine the vision for this, not the ‘landlord’.... The rental opportunity should be advertised broadly here and overseas to maximise optimum rental opportunities...not just handed over to the current tenant. Where are the rational questions re funding this building into the future?”</p> <p>“While I support the ANAM proposal, I wonder if Council have considered how the spaces could be used for a broad range of arts events, much like the Meat Market in North Melbourne.”</p> <p>“To hear the halls ring with music is a joy”.</p> <p>“Ideally that the City of South Melbourne was reinstated and the Town Hall revert to its former use. As that is unlikely I wish that the Town Hall continue to provide essential services...including provision of meeting spaces for local community groups.”</p> <p>“The CoPP should not be considering further non-commercial uses for this building that could be presented by charging a commercial rent”.</p>	<p>“The population of Port Phillip continues to grow so we must provide Council services that serve the people in all areas of the municipality, not just those at either end”.</p> <p>-</p> <p>“ANAM is a wonderful place for retired people who can meet for uplifting musical events in the day and continue their socialisation at cafes, parks and the library all close by. This keeps a "caring village feel" even though this group of people meet through music”.</p> <p>-</p> <p>“Council should at every opportunity, endeavour to operate in a business like manner in all these 'rental opportunity situations' as representatives of ratepayers best interests....and outsource legitimate organisations to assess these buildings...”</p> <p>-</p> <p>“The idea of a community space where people - locals and others - can come together and celebrate music, seems so important now in these times of conflict and change...”</p> <p>“A more cohesive and productive community”.</p> <p>“1. Allows rates relief for ratepayers; or 2. Further help fund the 'climate emergency”</p>

**6. ALTERNATIVE USES**

**Use of similar town halls**

# ORDINARY MEETING OF COUNCIL

## 18 MARCH 2020



- 6.1 The Town Hall is one of twenty-nine historic town halls in metropolitan Melbourne. As can be seen from the table below, the majority are no longer used for the purposes of municipal governance or administration.
- 6.2 The use of most is as rooms and halls for public hire. A few have been upgraded to also provide space for the display/performance/rehearsal of art, or to house a library.
- 6.3 Unsurprisingly, almost none of these town halls are still used as office space for staff, although some have a contemporary annexe that does.

Table: How are Melbourne's historic town halls being used?

<b>Melbourne Metro Town Hall</b>	<b>Built</b>	<b>Council admin?</b>	<b>Customer service centre?</b>	<b>Other key uses</b>
Box Hill Town Hall	1935	x	✓	<ul style="list-style-type: none"> <li>- Hub for community based services &amp; programmes.</li> <li>- Arts collection/exhibition.</li> <li>- Historical collection.</li> <li>- Venue/room hire.</li> </ul>
Brighton Town Hall	1885	x	x	<ul style="list-style-type: none"> <li>- Arts collection/exhibition.</li> <li>- Venue hire.</li> <li>- Historical collection, heritage society.</li> </ul>
Broadmeadows Town Hall	1964	x	x	<ul style="list-style-type: none"> <li>- Venue/room hire.</li> </ul>
Brunswick Town Hall	1876	✓ (as secondary offices)	✓	<ul style="list-style-type: none"> <li>- Arts exhibition.</li> <li>- Venue/room hire.</li> </ul>
Camberwell Town Hall	1891	x	x	<ul style="list-style-type: none"> <li>- Venue hire.</li> </ul>
Clocktower Centre (formerly Essendon Town Hall)	1886	x	x	<ul style="list-style-type: none"> <li>- Theatre, podcast studio, writing studio.</li> <li>- Venue/room hire.</li> </ul>
Coburg Town Hall	1922	x	x	<ul style="list-style-type: none"> <li>- Arts exhibition.</li> <li>- Indoor markets.</li> <li>- Venue/room hire.</li> </ul>



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Table continued....

<b>Melbourne Metro Town Hall</b>	<b>Built</b>	<b>Council admin?</b>	<b>Customer service centre?</b>	<b>Other key uses</b>
Collingwood Town Hall	1887	✓ (as secondary offices)	✓	- Exhibition space. - Venue hire.
Dandenong Town Hall	1890	✗	✗	- Theatre and performing arts venue. - Venue/room hire.
Fitzroy Town Hall	1873	✓ (as secondary offices)	✓	- Exhibition space. - Library. - Venue/room hire.
Footscray Town Hall	1936	✓ (but mostly in the abutting civic building)	✓	- Council chambers.
Glen Eira Town Hall (formerly Caulfield City Town Hall)	1885	✗ (In the contemporary extension)	✗ (In the contemporary extension)	- Council chambers. - Library (including abutting contemporary extension). - Theatrette. - Venue/room hire.
Hawthorn Town Hall	1888	✗	✗	- Venue/room hire.
Heidelberg Town Hall	1937	✗	✗	- Venue/room hire. - A contemporary extension (under construction) to house a library, arts gallery, parental & child health suites, theatrette, café.
Kensington Town Hall	1901	✗	✗	- "Hot desk" space for community organisations and micro-businesses. - Safe spaces for young people. - Venue/room hire.
Kew City Hall	1960	✗	✗	- Library

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Table continued....

<b>Melbourne Metro Town Hall</b>	<b>Built</b>	<b>Council admin?</b>	<b>Customer service centre?</b>	<b>Other key uses</b>
Melbourne Town Hall	1870	✘ (In the adjoining administrative block).	✘ (In the adjoining administrative block).	- Venue/room hire.
Moorabbin Town Hall	1963	✘	✘	- (Mooted) performing arts facility. - Venue/room hire.
Northcote Town Hall	1887	✘	✘	- Performing arts spaces. - Venue/room hire.
North Melbourne Town Hall (formerly Hotham Town Hall)	1876	✘	✘	- Performing arts centre. - Venue/room hire.
Oakleigh Town Hall	1886	✘	✘	- Venue/room hire.
Port Melbourne Town Hall	1882	✘	✓	- Library. - (Secondary) Council chambers. - Toy library. - Venue/room hire.
Prahran Town Hall	From 1860s	✘	✓ (planned)	Currently being redeveloped into a: - library - customer service centre - function and venue spaces - venue/room hire.
Preston Town Hall	1895 & 1935 extension	✘ (In the extension)	✘ (In the extension)	- Venue/room hire.
Richmond Town Hall	1871	✘	✓	- Venue/room hire.
St Kilda City Hall	1890	✘ (In the contemporary extension)	✘ (In the contemporary extension)	- Exhibition space. - Council chambers. - Venue/room hire.

Table continued....

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<i>Melbourne Metro Town Hall</i>	<i>Built</i>	<i>Council admin?</i>	<i>Customer service centre?</i>	<i>Other key uses</i>
Malvern Town Hall	1886	✘ (recently relocated to the contemporary building across the road)	✘ (recently relocated to the contemporary building across the road)	- Venue/room hire.
Williamstown Town Hall	1920	✘	✘	- Library (in modern annexe) - Venue/room hire.

- 6.4 The utilisation of these heritage assets broadly appears similar or worse than that of the Town Hall.
- 6.5 Even where the facility is used entirely for space hire, it appears very unlikely that any of the operations are breaking even once full costs are considered.
- 6.6 Officers have also considered examples of other efforts of government to transform and activate significant former civic buildings – for example Renew Newcastle, Collingwood Arts Precinct, the Abbotsford Convent, Battersea Arts Centre in the former Town Hall in South London, the Shoreditch Town Hall in East London, and the National Gallery in Singapore, also a former town hall.
- 6.7 These highlight that activation of a significant site can often take several years, and their success as financially self-sustaining initiatives tends to be elusive or short lived. They also highlight that the success of the new use is highly dependent on local needs and circumstances – not necessarily translatable to the subject situation.
- 6.8 Adapting the Town Hall to a new use is considered capital intensive, risky, and speculative.



**SWOT**

6.9 The table below outlines the key strengths, weaknesses, opportunities and threats of the site and the immediate surrounds.

<p><b>STRENGTHS</b></p> <ul style="list-style-type: none"> <li>A visually prominent building that dominates the Precinct.</li> <li>A building with a strong identity and visual appeal.</li> <li>Good acoustics.</li> <li>Adequate public transport access.</li> <li>Relatively large total floor area.</li> <li>~1.5km from the Melbourne CBD.</li> <li>A short walk to the Clarendon St retail strip.</li> </ul>	<p><b>WEAKNESSES</b></p> <ul style="list-style-type: none"> <li>Due to age and design, the building has high capital and operating costs.</li> <li>Inefficient layout. Very interrupted floor plates.</li> <li>Limited views, and poor natural light.</li> <li>Mostly doesn't lend itself to split occupancies.</li> <li>Due to its design and heritage status functionality is stunted.</li> <li>Little realistic opportunity to excise an area to reduce floor space.</li> <li>A south facing building.</li> <li>Not a natural congregation point.</li> <li>Low volume of passing foot-traffic.</li> <li>No on-site parking.</li> </ul>
<p><b>OPPORTUNITIES</b></p> <ul style="list-style-type: none"> <li>To boost utilisation.</li> <li>To increase the public use and feel of the property.</li> <li>To leverage external funding opportunities.</li> </ul>	<p><b>THREATS</b></p> <ul style="list-style-type: none"> <li>Police station across the road is anticipated to close in a couple years.</li> <li>Economic decline – limiting interest of potential users.</li> </ul>



## 7. THE OPTIONS IDENTIFIED

- 7.1 In June 2019, Councillors were briefed on the lease history of the Town Hall and details of ANAM's proposal. Councillors requested officers to assess the ANAM proposal and the other options available to Council.
- 7.2 The options identified were:-
- [Option 1] maintain the status quo.
  - [Option 2] proceed to negotiation with ANAM.
  - [Option 3] offer the Town Hall for lease on the open market.
- 7.3 Since June 2019, officers have sought further details of the proposal from ANAM and have completed an assessment of the three options.
- 7.4 Option 2 must be treated as a renegotiation of the existing lease, any new lease replacing the existing lease. If terms for a potential new lease can be agreed, they would be subject to the statutory processes, including receiving and hearing public responses to the potential lease.
- 7.5 It is noted that Option 3 can only be exercised upon the expiry (in 2032) or earlier ending of the existing lease with ANAM.
- 7.6 There is a risk that ANAM will relocate away from the Town Hall if its proposal does not proceed, thus triggering a need to bring forward the consideration of Option 3. (Other than discounted rent, the current lease gives ANAM little contractual incentive for them to remain for the full term).

## 8. CAN COUNCIL CARRY OUT DIRECT NEGOTIATION?

- 8.1 Directly negotiating with ANAM takes that opportunity away from the broader market, at least temporarily.
- 8.2 The outcomes of the negotiation, if approved, would bind up to 12 successive Councils, and two generations of ratepayers.
- 8.3 Council can carry out a private treaty negotiation for the lease of the Town Hall, though there must be a compelling reason to do so.
- 8.4 The following are together considered a compelling reason for direct negotiation:-
- Unique, proven use compatible with Council strategy.
  - Risk to the asset, to the Precinct and to Council's reputation, of having a vacancy of up to several years whilst a substitute major tenant is secured and takes up occupation.
  - Financial analysis suggests that the initial offer is near the quantum of financial benefit the property would receive on the open market.
  - A planning permit for a change of use, if one is required, is not readily achievable, given the absence of on-site parking.



**9. THE OPTIONS ASSESSED**

9.1 The following tables set out the key benefits, risks and constraints associated with Options 1 and 2.

OPTION 1 - Maintain status quo (ANAM as 'anchor tenant')	
Benefits	Potential Risks & Constraints
<p>Provides flexibility and available space for community use of Town Hall.</p> <p>Council can control hire costs of non-ANAM space.</p> <p>Potential for Council to influence and adjust tenant mix in non-ANAM spaces to include and support for instance, early stage entrepreneurs.</p> <p>Provides longer term flexibility for Council, especially in the context of the envisaged growth at Fishermans Bend.</p>	<p>Aged structure with significant costs to Council for ongoing maintenance of Council portion of building and capital renewal for whole building.</p> <p>The management structure is cumbersome, with Council responsible for management of a portion of the building, and ANAM leasing the balance of the building but with responsibility to also make certain spaces available for community purposes.</p> <p>Without undertaking a full EOI process, the actual demand for arts/performance spaces within the precinct cannot be fully understood.</p> <p>ANAM may seek an alternative venue, potentially outside the municipality. The risk of them doing so is heightened by their existing lease terms.</p>
Key Considerations	
<p>Net present value* to maintain the Town hall under this model over say, 50 years is -\$89m, (at a 7.5% nominal discount rate). The model assumes that leasing arrangements like the current ones continue for the 50 years. (Net present value for the current lease term expiring in 2032 is -\$13m).</p> <p>ANAM's objectives and vision align with the <i>Council Plan</i> (directions 5.2. and 5.3) and other key strategies and plans.</p> <p>Current model will not improve community access to the Town Hall and access to the Main Hall for events will remain restricted due to ANAM's current requirement for large rehearsal spaces.</p>	
<p><b><u>This option is NOT RECOMMENDED</u></b></p>	

\* The value today, of the future net cashflows, adjusted for risk.



**OPTION 2 – Proceed to negotiations with ANAM**

<b>Benefits</b>	<b>Potential Risks &amp; Constraints</b>
<p>ANAM is a good 'fit' for the Town Hall in terms of the peculiar layout and other characteristics of the building.</p> <p>ANAM is an established, internationally recognised organisation and reinforces the identity of the Precinct.</p> <p>Subject to other sites being available within the Precinct, ANAM has the ability and connections to draw like-minded and/or synergetic arts groups.</p> <p>Council only needs to manage a single tenant.</p> <p>Operates in a similar fashion to the current status quo method, however, ANAM will take over Council's current role of booking spaces for community use and ANAM will be responsible for all building maintenance issues and renewal/upgrade works throughout the term of the lease, relieving Council of a significant financial burden.</p> <p>ANAM would be entitled to sublease areas of the Town Hall should it wish to do so. The requirement for Council to consent to any sublease by ANAM, together with the permitted use of the Town Hall set out in the headlease, will enable Council to retain some level of control over future uses of the Town Hall that are consistent with Council's strategies and plans for the precinct and community expectations.</p> <p>Free/discounted tickets to 180 ANAM performances each year.</p> <p>ANAM has identified an increase in the number of musicians from New Zealand in the student cohort in the event of ANAM's proposal proceeding, potentially attracting NZ government and philanthropic funding. It is unclear how realistic this is.</p> <p>Opportunity to incorporate environmentally sensitive design elements.</p> <p>ANAM's in-kind works to repair, restore and maintain the Town Hall for a 50 year period nears the assessed market rental valuation.</p> <p>ANAM to fund and provide dedicated resources for bookings and venue management.</p>	<p>In relation to the Town Hall, Council is less able to directly influence the strategic vision/direction of the Precinct, unless captured in the lease.</p> <p>Established 'traditional' and high-end musicians may be favoured by ANAM over start-up ventures and up-and-coming artists.</p> <p>New facilities developed by ANAM may not align with the needs of the community resulting in under-utilisation.</p> <p>ANAM does not have a history of managing similar major projects.</p> <p>ANAM may not have the financial capacity to deliver its proposal and unforeseen building issues throughout the lease term may negatively impact its financial position.</p> <p>ASSIST function will need to be relocated, unless the proposal is changed.</p> <p>Extent of building works is likely to trigger a range of compliance works that may not have been included in ANAM's initial cost estimates.</p> <p>Less flexibility to respond (through this asset) to growth at Fishermans Bend.</p>

**Key Considerations**

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Net present value (NPV) to maintain this model over say, 50 years is -\$2.5m. (This does not factor in ANAM's requirement for \$7M contribution up front from Council, nor any potential costs of relocating the ASSIST service – for instance, to the South Melbourne Library, or a retail space on Clarendon Street, or to Council's op-shop on Bank Street.

In the long run, the financial model is not particularly sensitive to lease term, but sensitive to the timing of capital works – i.e. whether or not they fall within the lease term.

In financial value terms, ANAM's financial contribution to the initial repair, restoration and upgrade works, together with capital renewal throughout the lease term, compares reasonably well with the value we would achieve with a market lease scenario.

ANAM's objectives and vision align with the Council Plan (directions 5.2. and 5.3) and other key strategies and plans.

ANAM's expanded use of the Town Hall represents a good 'physical fit' for the building. Whereas ANAM is a use that needs such a space, most if not all of the other existing uses could operate elsewhere, and probably better.

Simplified booking system for access by community groups and functions/events.

Upgraded presentation facilities will be available to community groups and hirers.

ANAM proposes to attract a range of festivals and events to the Town Hall (e.g. Melbourne Comedy Festival, Fringe Festival etc).

Other Council properties in the Precinct may be better suited to smaller creatives (e.g. 200-202 Bank Street and 222-228 Bank Street).

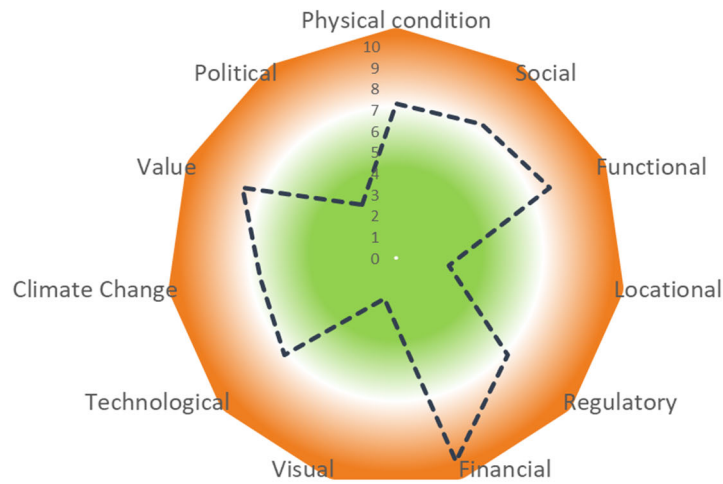
The utility of the building to a tenant is mediocre. This affects commercial and community use tenants, eroding their efficiency and effectiveness. The financial benefits obtained from the proposed lease with ANAM can be applied to provide/improve community facilities elsewhere in the local area.

**It is RECOMMENDED to attempt to negotiate a lease deal with ANAM,  
that can be put to the community for feedback,  
but on terms different to those proposed by ANAM.**

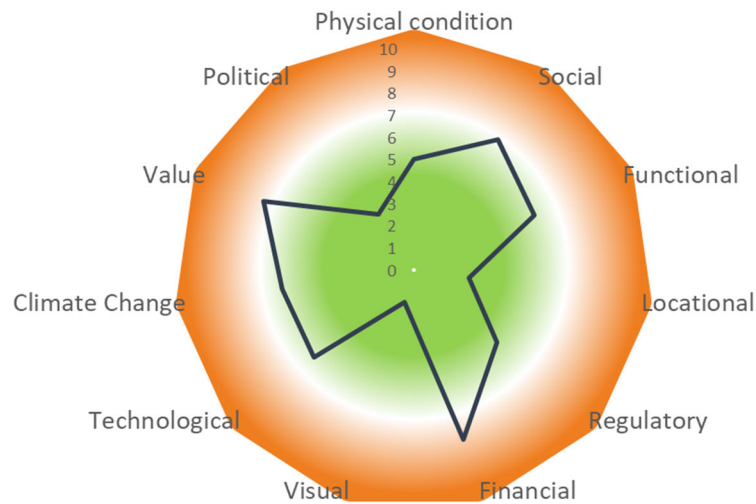


9.2 The ANAM proposal has potential to have a significant impact on the performance of the Town Hall as an asset. This is represented in the spider charts below.

*Table: Town Hall – asset obsolescence - current*



*Table: Town Hall – asset obsolescence – estimated based on ANAM proposal*





**10. KEY NEGOTIATION POINTS, SHOULD COUNCIL WISH TO PROCEED**

- 10.1 There is a risk that negotiations could carry on indefinitely, or at least until the current lease of ANAM ends. Such negotiations are a significant draw on the time on Officers and the elected body of Council. Accordingly, a negotiation deadline of one year is proposed, by which a potential deal is to be put to the community, or abandoned indefinitely. The deadline may possibly also assist ANAM to establish whether it has the full funding support it requires.
- 10.2 The following principal items are recommended and will require negotiation and agreement between ANAM and Council, to support performance, risk mitigation, accountability, sustainability and recognition.

*Table: Principal items of negotiation*

<b>Commercial/ financial</b>	The 50-year term as currently proposed is not considered to be appropriate unless the financial consideration improves. If not, a total term of up to thirty-five years, appears to better balance ANAMs need for long term certainty and return on investment, with community palatability and preservation of long term optionality.
	Incentives for meeting key performance indicators.
	Security (e.g. bank guarantee) where performance risk is not otherwise mitigated.
	Sinking fund for building renewal, non refundable on early ending of the lease.
	Maintenance and renewal according to a long term asset management plan, with reporting of same.
	A strict limit to Council contributions.
<b>Environmental</b>	Environmental sustainability incorporated into the initial upgrades, the long term asset management plan, and operations.
<b>Social/ community</b>	Upgrades incorporated into the asset management plan that encourage visitation to the building, including as a public event space.
	Creating conditions that encourage community access and support utilisation by community/ cultural groups.
	Capped hiring fees for community and cultural groups.
	A meaningful plan and effort to celebrate the indigenous history of the site – in design and use.
	Availability of spaces for civic functions such as citizenship ceremonies and Council meetings.
	Formalising the use of the Town Hall by the South Melbourne Symphony Orchestra.
	Recognition of Council as a major supporter of ANAM – for example, with Council logos.
+ reporting on performance – social, environmental economic, financial.	

**11. CONSULTATION AND STAKEHOLDERS**

- 11.1 The relocation of administrative functions of South Melbourne City Council to St Kilda Town Hall following local government amalgamations in 1994 and the 1997 lease to ANAM at the direction of the Victorian Government, resulted in significant community disquiet with calls at the time for ANAM to be evicted.



- 11.2 The negotiation of the current 15-year lease with ANAM reignited community resentment with some residents again calling for ANAM not be granted a new lease, so that full council services could return to the Town Hall.
- 11.3 For the purpose of its application for State government funding, ANAM has engaged Elton Consulting to prepare a Communications and Engagement Plan and to undertake stakeholder and community consultation.
- 11.4 ANAM's stakeholder engagement activity is understood to have consisted of:
- One-on-one meetings with key stakeholders
  - Patron/visitor engagement pre-show/event
  - Drop-in sessions at South Melbourne Market (half-day weekday and Saturday)
  - Public space conversations using intercept survey method
  - Village/business drop-ins for informal conversations with local businesses (weekday afternoons x 2 and evening x 1).
- 11.5 At around the same time City of Port Phillip undertook a *Have Your Say* campaign, seeking community input – not relating directly to the preliminary ANAM offer, but to sentiment about the significance of the Town Hall and uses compatible with that significance.
- 11.6 Recent community engagement has taken place to inform the South Melbourne Place Plan 2019, which has reinforced that:-
- The significance of the buildings themselves is considered less important than the range of Council services being provided in the precinct.
  - There is a desire for the Town Hall to generate income.
  - There is a need to improve the open space around or in front of the Town Hall.
  - 2.4% of respondents visit South Melbourne to engage in art, music or cultural activities (contrast 43.8% for visiting cafes, bars, restaurants).
  - 14.2% of respondents would recommend South Melbourne as a destination to engage in art, music, or cultural activities (contrast 63.3% for recommending cafes, bars, restaurants).
  - Respondents were asked which areas of South Melbourne they have visited in the last 6 months. Clarendon Street shopping precinct and South Melbourne Market both scored 76.9% and Emerald Hill precinct scored 35.5%.
- 11.7 Should Council decide to proceed with lease negotiations with ANAM, a communications and engagement plan will be implemented, and should a prospective deal be reached that Council considers entering into, there will be formal opportunity for public submissions when Council advertises its intention to enter into a lease under section 190 of the *Local Government Act 1989* and to invite public submissions under section 223.

## 12. RISK IMPLICATIONS

12.1 A risk assessment of the ANAM proposal has been undertaken.

- 1.1 In summary, the primary risks associated with ANAM's proposal (Option 2) are:

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- Reputational

Negative publicity for Council in considering ANAM's proposal as occurred with previous leasing proposals for the Town Hall.

- Counterparty – ability to service financial obligations

Over 90% of ANAM's income is derived from government grants (over 60%) and donations (over 30%). There is a risk over time that there may be significant policy shifts in government (either Federal, State or both) around funding of the arts. Reductions in grant funding or donations may severely impact upon ANAM's ability to fund the ongoing maintenance and capital renewal of this significant heritage building, with this responsibility then reverting to Council.

There is a history of threats to ANAM's government funding. In 2008, it was announced that Federal government funding of ANAM was to be withdrawn. This decision was only reversed after a significant public campaign.

Donations are generally not ongoing in nature but are often 'one-off' or project-based, adding uncertainty to ANAM's future budgeting for this income.

ANAM's 2017 and 2018 income position is set out in the following table.

<b>2017 Total Income</b>	<b>\$5,449,900</b>	
<b>Source</b>		<b>% of Total</b>
Grant Income (govt)	\$3,686,700	68%
Donations & fundraising	\$1,356,700	25%
Operations, interest & other	\$406,500	7%
<b>2018 Total Income</b>	<b>\$5,705,700</b>	
<b>Source</b>		<b>% of Total</b>
Grant Income (govt)	\$3,661,300	64%
Donations & fundraising	\$1,571,100	28%
Operations, interest & other	\$473,300	8%

ANAM's cash surpluses from operations for 2017 and 2018 were \$625,444 and \$343,784 respectively. Total comprehensive incomes for 2017 and 2018 (cash surpluses less depreciation, disposal/revaluation of assets) were \$227,903 and \$292,175 respectively.



ANAM's ratio of current assets to current liabilities for 2017 was 1.03:1.00, improving slightly to 1.18:1.00 for 2018. In terms of credit risk, ANAM's immediate ability to meet its liabilities is marginal.

- Cost certainty – “full” compliance

There is a building compliance and cost risk in that the extent of repair, restoration and upgrade works may trigger a range of works to bring the whole Town Hall up to current National Construction Code of Australia standards, particularly in the areas of fire safety and earthquake compliance.

- Cost certainty – escalation

Being a long-term lease, there is a risk that building renewal costs may increase at a faster rate than anticipated at lease commencement which may render the financial securities held by Council (for example, bank guarantee) insufficient.

This risk can be mitigated through suitable contractual clauses and securities to enable Council to call up funds for these obligations if ANAM is unable to do so.

- Cost certainty – works implementation

ANAM is not in the business of planning and managing works programmes. A potential way to mitigate this is to bring in expertise to support this, or have it carried out by a third party.

- Counterparty – walk away

Under the current ANAM proposal, there is a risk of ANAM vacating the Town Hall to avoid its building renewal and maintenance obligations. Under the lease, Council would be entitled to recover the balance of rental (\$1,000 per year) until a new tenant is located and the costs of building renewal would revert to Council.

To mitigate this risk, it is proposed that Council negotiate annual payments by ANAM into a sinking fund with Council having the entitlement to those funds for building renewal if ANAM vacates the building and terminates the lease. Council would then be required to undertake the renewal works utilising the sinking fund monies. However, there remains a financial risk to Council of a shortfall between the cost of the works and the balance of the sinking fund.

Detailed condition inspections have been conducted for Council and an Asset Management Plan including indicative costings for long term building renewal prepared (Napier Blakeley, 2020).

- Negotiation failure

There is a risk that the items/terms proposed in this report may not be acceptable to ANAM. This may lead to the them exiting their current lease, in which case Council would need to consider Option 3, and work with the community on the future of the space.

- Sinking fund investment performance

Considerable funds will accumulate in the potential sinking fund to cover accrued physical depreciation of the building. The cashflow model assumes that cash in the fund is invested. Should the performance of investments may not achieve the target yield.



### 13. LEGAL IMPLICATIONS

- 13.1 If Council resolves to proceed with a new lease to ANAM, the current lease to ANAM will be surrendered, effective from the date of commencement of the new lease. Council's solicitors will prepare all surrender and new lease documentation to reflect the commercial terms and conditions agreed by both parties.
- 13.2 Prior to Council determining to enter into a new lease with ANAM, Council officers would undertake the public advertising as required under section 190 of the *Local Government Act 1989* and invite public submissions under section 223 of the Act.

### 14. FINANCIAL IMPACT

- 14.1 ANAM's financial offer includes a major contribution for the undertaking of repairs to the existing building structure, replacement of heating ventilation and airconditioning units and other renewal and compliance works identified in building condition reports following the 2018 ceiling collapse. It further includes a further major investment in tenant fitout and tenant upgrade works.
- 14.2 ANAM has proposed a further contribution of ~\$30m for building renewal works throughout the proposed lease term.
- 14.3 ANAM's financial offer is based on its high-level costings prepared in early 2019. ANAM is currently engaging with a number of consultants to prepare a detailed scope of works and more detailed costs estimates. These will need to be independently reviewed by Council's consultants and officers.
- 14.4 ANAM's proposal is contingent upon successfully obtaining State government funding and is currently making a formal application for funding.
- 14.5 Under ANAM's modified preliminary proposal, there is a requirement that Council, as the owner of the Town Hall, contributes the sum of \$7m to the cost of works. Council could partly fund this sum through the application of its insurance recoveries arising from the 2018 ceiling collapse.
- 14.6 The freeing up of significant Council capital over the lease term that would ordinarily be required to be spent on the Town Hall can be reallocated to other projects to activate the Emerald Hill precinct or across the whole municipality.
- 14.7 Consistent with the current Operating Agreement between Council and ANAM, all room hire fees will be retained by ANAM and will offset staffing costs for the promotion, booking and management of spaces.
- 14.8 Council has already received insurance recoveries in the sum of \$147,000 for 'make safe' works following the 2018 ceiling collapse.
- 14.9 Council allocated the sum of \$120,000 in its 2019/20 budget to carry out the comprehensive assessment of ANAM's offer. Spending has been within that budgeted amount.

### 15. ECONOMIC IMPACT

- 15.1 Although difficult to quantify, there will be positive economic effects on local businesses of having students, teachers, admin staff etc of ANAM in this location.
- 15.2 Significant capital renewal of the Town Hall will likely result in the local jobs during construction phases. Construction works are likely to span a 2-year period. During this period, local businesses will benefit from the patronage of the construction workforce.



15.3 ANAM's presence in the local area is likely to be positive in term of encouraging synergistic enterprises to cluster there.

## 16. ENVIRONMENTAL IMPACT

16.1 The ANAM preliminary proposal includes building and operational improvements that will provide environmental benefits. Subject to obtaining relevant approvals, those improvements:

- Improved insulation
- Solar power
- Double glazing
- Modern HVAC systems

16.2 Additionally, Officers have sought advice regarding the key opportunities for environmental sustainability for the Town Hall that could be incorporated into the proposed repair, restoration and upgrade works, aligning with the intended outcomes set out in Direction 3 of *Council Plan*. The following initiatives have been identified (Cundall, 2000):-

- Rooftop rainwater harvesting from the Town Hall, feeding underground tanks in the forecourt with beneficial re-use of water in toilets within the Town Hall and forecourt landscaping. Consider the potential to reticulate re-use water to toilets in the Emerald Hill Library and Heritage Centre and the 222-228 Bank Street buildings.
- Apply heat-reflective roof paint where possible
- Incorporate on-site food production/edible landscaping, soft landscaping and shading structures to the forecourt
- Upgrade drainage systems for increasing peak rainfall events and flood mitigation
- Upgrade all plumbing fixtures to minimum WELS star ratings
- Heat rejection HVAC systems to be waterless
- Waste facilities to support recycling of all possible waste streams
- Food and beverage initiatives to include reduction/elimination of single use plastics
- Recycling of demolition and construction material wherever possible
- Draught-proofing of windows and doors, solar control films/blinds for selected windows
- All-electric systems throughout
- HVAC and lighting to meet Green Star benchmarks
- Integrated building control systems (motion activated sensors for HVAC and lighting)
- Use of low VOC/formaldehyde materials
- Install electric vehicle charging infrastructure with power sourced on-site (for example, solar PV).



## 17. COMMUNITY IMPACT

- 17.1 ANAM's proposal provides for spaces to be made available for community hire and use, some with improved presentation facilities. In the event that Council resolves to enter into detailed lease negotiations, hire fees caps charged by ANAM for spaces accessed by community groups could be determined in future Council budgets. For other spaces, it is reasonable that ANAM be able to set its own hire fees.
- 17.2 There may be an opportunity for future civic functions (such as citizenship ceremonies) being conducted in the Town Hall under any new lease negotiated with ANAM. ANAM's proposal includes a new catering kitchen to replace the existing kitchen which has been occupied by ANAM for administration purposes following the 2018 ceiling collapse.
- 17.3 Empirical evidence gathered by Arts Victoria and the Australia Council for the Arts supports the view that the arts can make a vital contribution to the wellbeing of the community. Council's commitment to the ongoing successful activation of the Emerald Hill precinct will contribute to the wellbeing of the local community.
- 17.4 Council residents will enjoy the benefits of free/discounted tickets to 180 ANAM performances. Conversely, if ANAM was to relocate away from the Town Hall, residents would lose these benefits.
- 17.5 Part of ANAM's proposal is to name certain rooms after significant donors to ANAM. A number of public submissions associated with the granting of the Current Lease in 2017 expressed a sentiment of loss of control by Council of a significant community asset. A combination of the naming of rooms by ANAM, a proposed long term lease of the whole building, and ANAM's level of capital investment will likely provide a heightened sense of 'ownership' of the Town Hall by ANAM, and for some members of the community a sense of displacement of the civic use.

## 18. ALIGNMENT TO COUNCIL PLAN AND COUNCIL POLICY

- 18.1 The recommendation of this report aligns with and advances *Council Plan*, the and *Emerald Hill Master Plan*.
- 18.2 The South Melbourne Town Hall Restoration Project (\$7.1M) is identified in Council Plan and due to be undertaken now.

## 19. IMPLEMENTATION STRATEGY

### 19.1 TIMELINE

- 19.1.1 Should Council accept the recommendation, Officers will immediately prepare a negotiation framework to guide the negotiation, and a commence the implementation of a communication plan to communicate the initiative to the community.
- 19.1.2 Up to 12 months of negotiations are allowed.
- 19.1.3 Associated with these negotiations are: ANAM's confirmation of funding in place for initial repair, restoration and upgrade works (through Federal, State and philanthropic funding); scope, plans, high level specifications and cost plan for the proposed initial works; agreement on an asset management plan; and project delivery methodology.

### 19.2 COMMUNICATION



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- 19.2.1 Council is committed to the performance of its property portfolio, including its overall community benefit and public value.
- 19.2.2 Council has put forward to ANAM some key matters which must be addressed in a prospective new lease, for negotiation and public reporting.
- 19.2.3 Council will formally seek and consider public feedback prior to entering into such a lease.

## **20. OFFICER DIRECT OR INDIRECT INTEREST**

- 20.1 No officers involved in the preparation of this report have any direct or indirect interest in the matter.

**TRIM FILE NO:** 86/02/15

**ATTACHMENTS**

- 1. ANAM's preliminary proposal
- 2. Have Your Say - responses