



13.1 PORTFOLIO IMPROVEMENT: CHILDCARE CENTRES

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1. PURPOSE

1.1 To: (a) seek approval to carry out the community engagement processes under Section 114 of the *Local Government Act 2020* regarding an intention to sell 17 Eildon Road, St Kilda, 46 Tennyson Street, Elwood, and 39 The Avenue, Balacava, being Council owned properties currently leased as childcare centres; and (b) inform of the intention to develop a contemporary, expanded childcare centre on the site of the existing North St Kilda Children's Centre.

2. EXECUTIVE SUMMARY

- 2.1 Within the municipality are over forty kindergartens and childcare centres.
- 2.2 They are important community infrastructure, serving a valuable social and economic purpose.
- 2.3 Seventeen are owned by Council.
- 2.4 Council has a long history of operating and supporting childcare, and several generations of City of Port Phillip's citizens have passed through its childcare facilities.
- 2.5 Council's "fleet" of childcare centres has evolved over time. However, some of those assets are struggling to keep up with time and change – suffering from aged related decline, functional obsolescence and non-compliance with regulation/legislation.
- 2.6 This is incompatible with:
 - the quality service that the operators strive to provide;
 - Council's role as a responsible asset owner; and
 - Council's policy commitments.
- 2.7 Council is working hard to address this, including developing four modern centres over the past decade or so – namely Barring Djinang kindergarten in South Melbourne, Bubup Nairn Children's Centre in St Kilda, Bubup Womindjeka in Port Melbourne, and Poet's Grove in Elwood.
- 2.8 Another new centre is being planned. It will re-create the North St Kilda Children's Centre as a higher capacity, higher amenity and more functional daycare centre, the first Council owned centre fully compliant with disability access legislation.
- 2.9 Additionally, Officers propose to divest three childcare properties that are incurably obsolete. These are currently leased to and operated by committees as: Eildon Road Children's Centre in St Kilda; Elwood Children's Centre in Elwood; and The Avenue Children's Centre and Kindergarten in Balacava.
- 2.10 The Committees of the relevant centres and the Victorian Department of Education have been advised of this intention.



- 2.11 Should the three properties be sold, it is intended that the proceed be used to fund further improvements within the childcare centre portfolio.
- 2.12 The divestments, and the development of the new facility, are intended to occur in stages, over the next few years, as indicatively shown in the chart in section 11 of this report.
- 2.13 These interventions are part of Council's long term strategy of renewal, upgrading and replacement to achieve a fully fit for purpose and future ready portfolio of childcare facilities.
- 2.14 The intended divestments will contribute to better childcare facilities, as sale proceeds are to be allocated to the Quality Building Levy reserve – which funds childcare facility replacement and renewal.

3. RECOMMENDATION

That Council:

- 3.1 Notes that planning is underway to boost the capacity and functionality of the North St Kilda Children's Centre, including its ability to accommodate children with a disability.
- 3.2 Authorises relevant Officers to seek State and Federal government co-funding for the development of the new North St Kilda Children's Centre, and delegates authority to the Chief Executive Officer to do all things necessary to secure this funding, including entering into and signing all relevant funding agreements, including the affixing of the Common Seal of Port Phillip Council to the relevant documents should that be required, and further provides the CEO the authority to on-delegate these powers to another Officer if required.
- 3.3 Notes that as part of its asset and portfolio management, Officers shall continue to assess its stock to ensure that Council-owned childcare facilities are fit for purpose and meet legislative and building compliance requirements.
- 3.4 Commences the statutory procedures in accordance with the *Local Government Act 2020* (the "Act") to sell its land at 17 Eildon Road, St Kilda, 46 Tennyson Street, Elwood, and 39 The Avenue, Balaclava, by competitive market process, and in stages over the next few years.
- 3.5 Advertises the Public Notices of Intention to Sell on Council's website in accordance with Section 114 of the Act.
- 3.6 In relation to each proposed sale, commences a community engagement process in accordance with Section 114(2)(b) of the Act.
- 3.7 Authorises Officers to undertake the administrative procedures necessary to enable Council to carry out its functions under section 114 of the Act in relation to the sale proposal and in accordance with *Council's Community Engagement Policy 2021*.
- 3.8 Following the consideration of any submissions to each Notice, receives a further report at an Ordinary Meeting of Council.
- 3.9 Where a lessee operator considers that Council's intention to sell the property may impact the viability of the relevant centre, authorises the Chief Executive Officer (or their delegate) to allow the early end of their lease, and to enter into and sign a deed of surrender of lease, including the affixing of the Common Seal of Port Phillip if that is required.



4. KEY POINTS/ISSUES

Council's role

- 4.1 Council is involved in providing childcare and kindergarten services occurs through:
- direct ownership and management of childcare centres – Council owns and directly manages five childcare centres; and
 - financial support for committee managed childcare – Council owns twelve childcare facilities and/or kindergartens managed by community committees as social enterprises.
- 4.2 These centres compete within a broader childcare market. In the municipality this includes over forty childcare centres, plus a few registered family day care centres and many in-home carers (e.g. nannies, au pairs), and both for profit and not-for-profit providers.
- 4.3 Whether and in what way Council should remain as a market participant was considered as part of its children's services policy review of 2019, culminating in the City of Port Phillip policy "Every Child, Our Future: Children's Services Policy" (hereinafter referred to as the "Children's Services Policy"), which came into effect on 1 July 2020.
- 4.4 The Children's Service Policy requires that "Council-owned facilities are fit for purpose and meet legislative and building compliance requirements", and guides Council "to ensure facilities can meet current and future demand for children's services in [the municipality of] Port Phillip. This will ensure: Council provides facilities where there is evidence of a community need that can't be met in any other way..." (Commitment 13).
- 4.5 Separate from its policy position regarding childcare provision, Council has a role as a prudent landlord to manage the performance and risks of its portfolio – including by ensuring that Council assets are maintained to an appropriate standard and are compliant with building regulation and legislation.
- 4.6 City of Port Phillip charges its childcare centre lessees a Quality Building Levy, to help Council renew and replace its childcare facilities.

The problem

- 4.7 As part of the policy review, an assessment was undertaken of the condition and "fitness for purpose" of all of Council's childcare facilities.
- 4.8 It highlighted that of Council's five owned and managed childcare centres, two are "future ready", being able to meet current and anticipated future needs now. The other three will require significant upgrading or redevelopment to meet those needs.
- 4.9 Of the Council owned, committee managed facilities, one is "future ready", seven will require significant upgrading or redevelopment to reach that state, and four have no capacity to meet future needs.
- 4.10 Of most immediate concern are three facilities, namely:
- 17 Eildon Road, St Kilda;
 - 46 Tennyson Street, Elwood; and
 - 39 The Avenue, Balaclava.



- 4.11 Council has acknowledged that three childcare facilities have “no capacity to meet future needs without rebuilding” and that even if were cost effective to do so, there was little space to expand on site, once heritage restrictions and planning controls are taken into account, (*Every Child, Our Future: Policy Issues and Options Paper, 2019*).
- 4.12 None were purpose built. They are all former houses, each over 100 years old.
- 4.13 The *Every Child, Our Future: Policy Issues and Options Paper* notes that the St Kilda and Elwood facilities have poor functionality, and the Balaclava facility only moderate functionality.
- 4.14 The buildings are at a life stage and in an overall condition where renewal is cost prohibitive. The work required on each building is likely to trigger a requirement to upgrade the whole building to meet current regulatory standards. This would exceed their replacement cost. It is not economically viable.
- 4.15 None of the three buildings meet contemporary standards of disability access, in breach of discrimination law.
- 4.16 All have a maximum operating capacity significantly less than typical current generation competitors. This constrains their service offering and cost efficiency, and thereby financial sustainability. This has a flow-on impact for Council, as each operator has a financial model that relies on financial sponsorship by Council.
- 4.17 None readily meet the minimum threshold of 66 places, or expandability by 22 places, typically required to attract co-funding from the State government for major facility improvement.

Addressing the problem (Part A – staged withdrawal of the 3 most obsolete facilities)

- 4.18 It is acknowledged that community members can have strong affinity with Council owned properties, including kindergartens and childcare centres, this sometimes manifesting in an understandable reluctance for the properties to be changed or replaced.
- 4.19 Under a “do nothing/minimum” approach for managing the three assets, only minimal, safety related maintenance would be undertaken, but no renewal or upgrades, and each centre closed once its physical life ends.
- 4.20 This is not realistic, as it perpetuates statutory non-compliance and risks:
- unplanned failure of the building;
 - unplanned closure of the service; and
 - the City needing to carry out costly and wasteful upgrades to a building that is otherwise obsolete.
- 4.21 It will also likely frustrate and dissatisfy the tenants and their customers.
- 4.22 The buildings are obsolete. As already noted, their on site replacement is not feasible.
- 4.23 Accordingly, Officers recommended the alternative approach of divesting the properties, and commencing community consultation on that intention in accordance with section 5 of this report.
- 4.24 As noted in the Councillor Briefing of 17 March 2021 and 19 May 2021, divesting the properties may result in the staged withdrawal of a total of 123 licenced places from the municipality. The amount from each facility is shown in the table below.

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1 DECEMBER 2021



Facility	Licensed capacity (children)
39 The Avenue, Balaclava	40
46 Tennyson Street, Elwood	39
17 Eildon Road, St Kilda	44
Total	123

The supply/demand context

4.25 As noted this intervention will disrupt the operations of the three centres. It will also likely inconvenience some customers of those centres, and result in flow to competing centres.

4.26 Examples of nearby centres are listed in the table on the next page.

Capacity withdrawal	Nearby centre	Distance
17 Eildon Rd, St Kilda	Star Child Care & Day Care St Kilda	1.3km (16 minute walk)
	Kinderclub Childcare Centre	1.3km (17 minute walk)
	Guardian Childcare & Education St Kilda South	1.7km (21 minute walk)
	Guardian Childcare & Education St Kilda North	1.9km (24 minute walk)
	Middle Park Civic Kindergarten	2.2km (27 minute walk)
North St Kilda Children's Centre [temporary closure]	Kinderclub Childcare Centre	350m (4 minute walk)
	Star Child Care & Day Care St Kilda	350m (4 minute walk)
	Headland Montessori	450m (6 minute walk)
	Bubup Nairn	1km (12 minute walk)
	Papilio Early Learning Centre	1.1km (14 minute walk)
46 Tennyson St, Elwood	Goodstart Early Learning Elwood	250m (3 minute walk)
	Guardian Childcare & Education St Kilda	550m (7 minute walk)
	The Elwood Nest	750m (9 minute walk)
	Bubup Nairn Children's Centre	900m (12 minute walk)
	Poet's Grove	1.1km (14 minute walk)
39 The Avenue, Balaclava	Kimmba Bilingual Early Learning Centre	800m (10 minute walk)
	Bubup Nairn	1km (12 minute walk)
	Little Patch Early Learning Centre	1km (12 minute walk)



	St Kilda Steiner Kindergarten	1km (12 minute walk) currently, though intend to relocate, new location unknown.
	Papilio Early Learning Centre	1.1km (14 minute walk)
	The Elwood Nest	1.2km (16 minute walk)
	Guardian Childcare & Education Caulfield	1.6km (20 minute walk)

- 4.27 Some customers will be more inconvenienced than others, as – like with any infrastructure – geographic availability of childcare options is not perfectly even across the City. Also, the preferences and needs of children and their parents/guardians vary, and so do the offerings of the centres listed above.
- 4.28 There are also differences in vacancy levels across the competing centres.
- 4.29 That said, there is no broad supply failure. Rather, there is currently significant spare capacity overall.
- 4.30 Joint estimates of the City of Port Phillip and the Victorian Department of Education and Training (*Kindergarten Infrastructure and Services Plan, 2021* https://www.education.vic.gov.au/Documents/childhood/providers/funding/City_of_Port_Phillip_KISP_Signed.pdf) suggest that all new demand for kindergarten places, in all suburbs of City of Port Phillip, could be accommodated by existing centres, for at least the next four years. This is even without considering the supply provided by the two private new centres that have just opened, and others in the pipeline.
- 4.31 Note however, that delivery of purpose built childcare centres typically takes several years. Without pre-emptive investment by either the market or Council, an undersupply of child care places can be expected in the medium term, even if only temporarily, until the market mechanism responds to rising childcare fees.

Addressing the problem (Part B – renewing and upgrading existing centres)

- 4.32 As part of a staged renewal/upgrading/replacement, most of the Council owned facilities can be made significantly more fit for purpose over the next ten to fifteen years.
- 4.33 Officers are currently planning the first major upgrade – in the form of a replacement of the North St Kilda Children’s Centre.
- 4.34 The North St Kilda centre is one that is:
- nearing replacement or major upgrade;
 - has strong technical potential to be enlarged; and
 - in a hotspot of socio-economic disadvantage.
- 4.35 It is also reasonably proximate to one of the centres proposed for closure.
- 4.36 North St Kilda Children’s Centre has a licenced capacity of 77 children.
- 4.37 Council’s detailed assessment confirms that a centre of up to 121 is feasible.
- 4.38 As well as boosting client capacity, the replacement will also address the existing fifty year old building’s:



- age related decline;
- functional deficiencies (for example, lack of staff planning area); and
- legislative/regulatory non compliance (for example, accessibility for people with disabilities).

4.39 The intention that the new building be designed by being sensitive to the wide spectrum of human abilities, including physical, perceptual and cognitive abilities, specifically by having regard to the seven universal design principles, and thereby provide access for children of all abilities.

4.40 The planning and delivery of the replacement building will take several years. The delivery programme is indicatively represented in the chart below.

Calendar year	2022				2023				2024				2025				2026					
Quarter	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	
Design development																						
Planning permit process																						
Construction & tender docs																						
Construction tender																						
Kids exit																						
Construction																						
Kids occupy																						

5. CONSULTATION AND STAKEHOLDERS

5.1 Officers have met with the Committee representatives of the three centres to advise them of Council’s intention to sell the respective property.

5.2 The Victorian Department of Education and Training has been advised that Council intends to:

- sell three properties in the municipality currently being operated as childcare centres; and
- expand the capacity of the North St Kilda Children’s Centre.

5.3 Should Council adopt the recommendation, Officers will seek community feedback concerning the sales of the subject land.

5.4 The objective of the engagement is to present the community with each proposed sale, the reasons for the sale, and to receive written submission from any person concerning that sale.

5.5 The fundamental question of the engagement is: “Are there any reasons why a sale should or should not proceed?”.

5.6 The engagement activities Officers propose to undertake, for each intended sale, are:

- publishing a notice on Council’s website for four weeks;
- publishing a notice in *The Age* newspaper;



- writing to adjoining owners and residents, attaching a copy of the notice, to support awareness of the proposed sale and highlight the opportunity to make comment; and
- carrying out an online Have Your Say survey, to enable members of the community to register comments concerning the proposed sale for Council's consideration prior to a decision.

5.7 Any written submissions received by the closing date will be considered in a further report which will be presented to Council to enable the consideration of such submissions prior to making a final decision to sell the land.

6. LEGAL AND RISK IMPLICATIONS

- 6.1 For the City to remain landlord of the three properties exposes it to looming liability for asset replacement and/or major upgrade (or the risks of not doing so).
- 6.2 The intended order of divesting the three properties is based on relative condition, occupational health & safety risk, essential safety measure compliance, and disability access risk.

7. FINANCIAL IMPACT

New facility

- 7.1 The total development cost of the new facility is approximately \$9.5M, including escalation and contingency.
- 7.2 To partly pay for this, Officers intend to pursue Building Blocks Grant funding from the Victorian Department of Education and Training, and will also consider other sources of State and Federal government funding.
- 7.3 Supplementary funding will be through reserves City of Port Phillip has built up from the Quality Building Levy – an infrastructure levy from all community managed childcare centres for funding building replacement and upgrades – specifically the “replacement and renewal of existing places”.

Divestment of three properties

- 7.4 It is economically and technically impractical to address the performance shortcomings of the existing three facilities.
- 7.5 A disciplined retirement of those assets will provide funds for reinvestment in other properties in Council's childcare portfolio, by replenishing the Quality Building Levy reserve to the extent that it is drawn down for the construction of the new facility.
- 7.6 Underperforming properties consume resources that could better be used elsewhere, and impair Council's ability to provide/support acceptable service standards whilst maintaining affordability for ratepayers.

8. ENVIRONMENTAL IMPACT

- 8.1 The recommendation is not in itself considered to have any material environmental impact.
- 8.2 Council's environmental sustainability policy is being considered in the planning of the new facility.



9. COMMUNITY IMPACT

- 9.1 The availability of childcare services is critical to the ongoing social development and economy of our community.
- 9.2 The proposed interventions will enhance the certainty, inclusiveness, compliance and flexibility of this service.
- 9.3 Council’s *Access and Inclusion Plan 2019-2021* commits to improving the equitable participation and inclusion for people with disability within the community. The recommendation supports this commitment – by withdrawing facilities that do not comply with the *Disability Discrimination Act (Cth)1992*, and by incorporating universal design into a new facility.

10. ALIGNMENT TO COUNCIL PLAN AND COUNCIL POLICY

- 10.1 The community consultation proposed aligns with Council Plan direction “Well Governed Port Phillip”.
- 10.2 A development of a new children’s centre supports Council Plan direction “Inclusive Port Phillip”.
- 10.3 Proactive planning for Council’s childcare facilities supports Council’s *Asset Management Strategy 2018-21*, including its underlying objectives, namely: fit-for-purpose assets; delivery of community benefit; environmental sustainability (including climate resiliency); financial sustainability; and advanced asset management practice.

11. IMPLEMENTATION STRATEGY

11.1 TIMELINE

11.1.1 The intended programme of development and divestment is indicatively shown in the chart below.

Calendar year	2022				2023				2024				2025				2026					
Quarter	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1
Sale – 17 Eildon Rd, St Kilda																						
Statutory consultation		■																				
Selling			■																			
Closure of facility					⊗																	
Property transferred						■																
Development - North St Kilda																						
Closure for construction										⊗												
Opening for new cohort																					➔	
Sale – 46 Tennyson St, Elwood																						
Statutory consultation				■																		
Selling						■																
Closure of facility										⊗												

