Item 10

Grants - Accommodation Grants Program - Goodstart Early Learning

File No: X138903

Summary

The Accommodation grants program (AGP) supports community organisations by providing accommodation in City owned buildings within the property portfolio at below market rent.

Goodstart Early Learning Pty Ltd (Goodstart) has leased 4 properties from the City through the Accommodation grants program since 2016, paying market rent for each.

At different periods over the past several years, Goodstart has advised the City of financial stress with deficit forecasts due to high staffing costs, low fees charged in comparison to competitors, high operational costs including rent, and their participation in Government subsidy programs. The City responded during this time to say that any support the City provides will require evidence through financial statements and must be endorsed by Council. This culminated in the announcement by Goodstart in August 2026 that they would close one of their centres later this year. The City and Goodstart have been in negotiations with a key priority for the City being to ensure continuity of operations at all the facilities. Goodstart have now requested a subsidy of 25% for new leases for the 4 properties for 5 years, in addition to some further support in relation to potential capital works on the East Sydney property. It is noted that Goodstart has also received Federal Government approval to increase fees at all 4 of its facilities.

This report seeks Council approval to enter into new leases with rental subsidies under the Accommodation grants program of 25% for 4 Goodstart Early Learning properties, for 5 years (with no further options) and that authority be delegated to the Chief Executive Officer to provide additional financial support in relation to works at the East Sydney property if required.

Recommendation

It is resolved that:

(A) Council approve a new subsidy of 100% for Accommodation grants program tenant Goodstart Early Learning Pty Ltd for the Darlinghurst (East Sydney) childcare property for 2 months from 1 October 2026 to 30 November 2026 on the following subsidy:

Property	Current Rental Fee (per month)	Rental Subsidy	Rental Value Subsidy	New Rent Payable	Total Subsidy (2 months)
East Sydney, Darlinghurst	$28,013	100% (currently 0%)	-$28,013	$0	-$56,027

(B) Council approve a new subsidy of 25% for Accommodation grants program tenant Goodstart Early Learning Pty Ltd for childcare properties at Darlinghurst (East Sydney), Glebe (the Crescent), Alexandria (Huntley Street), and Zetland (Waranara) commencing from 1 December 2026 for a lease for up to 5 years (with no further options) totalling $2,000,847. The following rental subsidy is for Year 1:

Property	Current Rental Fee (Year 1)	Rental Subsidy	Rental Value Subsidy (Year 1)	New Rent Payable (Year 1)
East Sydney, Darlinghurst	$336,159	25% (currently 0%)	-$84,040	$252,119
Waranara (Zetland)	$399,709	25% (currently 0%)	-$99,927	$299,782
The Crescent (Glebe)	$378,985	25% (currently 0%)	-$94,746	$284,239
Huntley Street (Alexandria)	$374,011	25% (currently 0%)	-$93,503	$280,508
Total	**$1,488,865**		**-$372,216**	**$1,116,648**

(C) authority be delegated to the Chief Executive Officer to approve a City contribution of up to $400,000 (excluding GST) towards noise attenuation works at the Darlinghurst Early Learning Centre where such works are agreed by the City and Goodstart Early Learning Pty Ltd acting reasonably as necessary to comply with any order arising from the current court proceedings, subject to prior approval by the City

(D) authority be delegated to the Chief Executive Officer, within 24 months, to approve a City contribution of up to $200,000 (excluding GST) towards agreed internal modifications at the Darlinghurst Early Learning Centre that support Goodstart Early Learning Pty Ltd's operational requirements and regulatory compliance while maintaining the integrity and design of the building, subject to the City's prior written approval

(E) Council note the impact on the budget as outlined in the subject report, including the potential use of CEO and capital works contingency funds if required

(F) authority be delegated to the Chief Executive Officer to enter into any documentation required to vary the leases to reflect the new rental subsidies

(G) authority be delegated to the Chief Executive Officer to correct minor changes to the matters set out in this report, and a CEO Update will be provided to Council advising of any changes made in accordance with this resolution.

Attachments

Attachment A. Financial and operational implications (Confidential)

Background

1. In response to the City's 2013 Child Care Needs Analysis, the City built new childcare centres. These included Darlinghurst (East Sydney), Glebe (the Crescent), Alexandria (Huntley Street), and Zetland (Waranara).

2. In October 2015, the City called for Expressions of Interest from childcare operators, offering up to 5-year leases for each property through the City's Accommodation grants program. Applicants could opt to submit an Expression of Interest for one or any number of the centres.

3. Goodstart Early Learning Pty Ltd (Goodstart) were the successful applicant for all 4 properties and commenced occupation of East Sydney, the Crecent, and Huntley Street from August 2016, and Waranara from August 2018.

4. When renewing the leases for all 4 properties, Goodstart requested a rental subsidy due to financial constraints. The City agreed to consider an abatement on the condition that Goodstart provide financial evidence of site performance, noting that any agreement would require Council approval.

5. Goodstart reported that high staffing costs, low fees relative to competitors, and overheads like rent were causing the properties to lose money. They flagged that the government subsidy program constraints prevented them from increasing their childcare fees.

6. The City issued Heads of Agreement for new 5-year leases in May 2026. On 15 June 2026 Goodstart sought an extension to remain in all 4 properties until February 2027 and commence the new leases from 1 March 2027.

7. On 2 July 2026, the City met with Goodstart to discuss the leases, Goodstart advised they were assessing the business case for each property and flagged that they might exit the East Sydney site.

8. Goodstart formally notified the City on 14 August 2026, that they would be terminating the lease and ceasing operations on 27 November 2026, vacating on 21 December 2026.

9. Goodstart's stated reasons for ceasing operation included high operating costs (including rent), financial impact of the ongoing legal action from neighbouring residents relating to complaints of noise from the operation of the centre, the potential cost and disruption for required noise abatement work, and higher cost of staffing to maintain educator / child ratios due to building design.

10. Since that time the City has worked with Goodstart to negotiate new lease terms to ensure the continuity of service to Darlinghurst families.

11. On 1 September 2026, Goodstart advised the City that the Australian Department of Education had approved their request for an alternative fee cap and that Goodstart would be able to increase their fees in line with market.

12. Parents are able to claim the Australian Government's Child Care Subsidy (CCS) for services provided at Goodstart centres. The subsidy is means tested and covers a maximum of 100 hours per fortnight of care per child. There is also a cap on the cost per hour that is subsidised. CCS can only be applied to a capped per hour fee in relation to the fees charged by the provider.

13. On 9 September 2026, pending Council endorsement, the City and Goodstart reached an in principle agreement to renew the accommodation grant program leases for all 4 properties on the following terms:

    (a) an increase of the accommodation grant subsidy from 0% to 100% for the Darlinghurst (East Sydney) property from 1 October 2026 to 30 November 2026

    (b) an increase of the accommodation grant subsidy from 0% to 25% for all 4 properties for the duration of the new lease

    (c) that the new leases are for 5 years with no options, commencing 1 December 2026

    (d) approve a City contribution of up to $400,000 (excluding GST) towards noise attenuation works at the Darlinghurst Early Learning Centre where such works are agreed by the City and Goodstart acting reasonably as necessary to comply with any order arising from the current court proceedings, subject to prior approval of the scope, design and cost, satisfactory cost verification and supporting documentation, and inspection of the completed works

    (e) the City reserves the right to terminate the lease if the required noise attenuation works on the premises exceed the agreed amount

    (f) approve a City contribution of up to $200,000 (excluding GST) towards agreed internal modifications at the Darlinghurst Early Learning Centre that support Goodstart’s operational requirements and regulatory compliance while maintaining the integrity and design of the building, subject to the City’s prior written approval of the scope of works and receipt of satisfactory invoices and supporting documentation, including inspection of the completed works.

14. Goodstart have provided financial evidence to support their request for the increased subsidy, shown in Confidential Attachment A of the subject report.

Key implications

Strategic alignment - Sustainable Sydney 2030-2050 Continuing the Vision

15. Sustainable Sydney 2030-2050 Continuing the Vision renews the communities’ vision for the sustainable development of the city to 2050. It includes 10 strategic directions to guide the future of the city, as well as 10 targets against which to measure progress. This grant is aligned with the following strategic directions and objectives:

    (a) Direction 1 - Responsible governance and stewardship - working with Goodstart to ensure their services, and in particular the East Sydney service, remain in operation in City owned buildings demonstrates that the City understands community needs, manages public resources transparently, and builds long-term social infrastructure.

(b) Direction 6 - An equitable and inclusive city - access to childcare is vitally important for children's education, social and emotional development, and fosters a sense of belonging. Access to childcare also advances gender equality and drives social equity amongst parents and children alike. The provision of safe, appropriate and accessible childcare is critical driver of the city's economic productivity, and ensures that Sydney remains a highly functional, globally competitive, and family-friendly city.

Organisational impact

16. Excluding the financial implications, there are no other direct impacts on the organisation if the proposed recommendation is resolved by Council. Impacts are further discussed in Confidential Attachment A.

Risks

17. The City has minimal appetite for more than temporary disruption to our critical service functions, such as waste services and childcare services. Continuity of service has been a key risk that the City has been seeking to manage through these recent negotiations with Goodstart and is a key reason for the recommendation in this report. Further risk impacts are discussed in Confidential Attachment A.

Social / Cultural / Community

18. The City's Grants Program provides the City with a platform to support cultural and social initiatives from the communities and business within the local area.

19. The organisations within the Accommodation grants program make an invaluable contribution to our communities through the development and management of services, activities and programs.

20. Goodstart East Sydney provides childcare services to 80 families within the local area. Whilst other childcares operate within the local government area (LGA), the loss of a service would impact local families, creating significant inconvenience and uncertainty.

Financial implications

21. The total change in value of the recommended rental subsidy for the duration of the recommended period (5 years and 2 months) is unfavourable by $2,056,874, compared to FY2026/27 budget and forward planning. This is based on an annual 3% rental increase and 25% rental subsidy. Relevant adjustments in future years' operational budgets will be taken into account in future budgets.

22. There are insufficient funds available within the 2026/27 grants and sponsorship budget to support the revenue foregone under the Accommodation grants program.

23. The impact on the budget for the current financial year 2026/27, Accommodation grants program is $273,153. The City Life Division will seek to absorb this impact within its existing budget. If this is not achievable, CEO contingency will be used to fund the shortfall.

24. Any required capital contribution for noise attenuation and internal reconfiguration works are to be funded from capital works contingency.

Relevant legislation

25. Section 356 of the Local Government Act 1993 provides that a council may, in accordance with a resolution of the council, contribute money or otherwise grant financial assistance to persons for the purpose of exercising its functions.

26. Local Government Act 1993 - Sections 10A and 10B provides that a council may close to the public so much of its meeting as comprises the discussion of information that would, if disclosed, confer a commercial advantage on a person with whom the council is conducting (or proposes to conduct) business.

27. Attachment A contains confidential commercial information which, if disclosed, would:

    (a) confer a commercial advantage on a person with whom Council is conducting (or proposes to conduct) business

    (b) prejudice the commercial position of the person who supplied it.

28. Discussion of the matter in an open meeting would, on balance, be contrary to the public interest because it would compromise Council's ability to negotiate fairly and commercially to achieve the best outcome for its ratepayers. The reasons supporting this are that disclosure of the confidential information would compromise Council's ability to negotiate fairly and commercially to achieve the best outcome for its ratepayers. In addition, disclosure of the information provided in the course of the negotiation and the assessment of that information would prejudice the commercial position of the participants in the process.

Critical dates / Time frames

29. The increase in rental subsidy to 100% for the East Sydney site is proposed to come in to effect from 1 October 2026 until 30 November 2026, with new leases for all premises at a 25% rental subsidy to operate from 1 December 2026.

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Chief Operating Officer

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