

**City of Kingston
Special Council Meeting**

Agenda

10 October 2011

Notice is given that a Special Meeting of the Kingston City Council has been scheduled for 6.00pm at 1230 Nepean Highway Cheltenham on Monday 10 October 2011.

Business will be as follows:

- 1. Apologies**
- 2. Disclosures of conflicts of interest**
- 3. Items of Business**
- 4. N 164 Potential Land Acquisition – 81 Albert Street, Mordialloc**

N 164 Potential Land Acquisition – 81 Albert Street Mordialloc

Approved by: Paul Franklin - General Manager Corporate Services

Author: Julian Harvey – Manger Property, Arts and Leisure Services

1. Purpose

The purpose of this report is to enable Council to consider the purchase of 81 Albert Street Mordialloc.

This report is confidential as it concerns a potential commercial contractual transaction which may prejudice Council's position if made public. The contents of the report could also prejudice the vendor's position if made public.

2. Council Plan

Planned Outcome 1 – Infrastructure for a Safe and Active Community
Strategy – 1.3 Quality community facilities that are accessible, safe and well utilised

3. Background

Council considered the possible purchase of 81 Albert St Mordailloc at a Special Council Meeting on 19 September 2011 (a copy of that report is attached at appendix 1), a motion was put to continue to negotiate for the purchase of the property, the motion was lost. At the Ordinary Council Meeting of 26 September 2011 a notice of motion from Cr West was considered . The motion was carried and Officers were instructed to negotiate for the purchase of 81 Albert Street Mordailloc. (refer appendix 2)

Those negotiations have been undertaken and a price at which the owners are willing to sell the property has been reached at \$1,150,000. Council must now determine if it wishes to enter into a contract for the purchase of the property. Councillors are also asked to note that should Council decide to purchase that an additional \$500,000 will be immediately (2011/12 Financial Year) required to protect the building from further deterioration prior to refurbishment to make the building suitable for its subsequent public use. The potential purchase is unbudgeted and Councillors have been appraised of funding requirements and options.

4. Summary and Conclusion

Council officers have negotiated with the owners representative a price at which the owner is willing to sell, by agreement to Council. Council now needs to decide if it wishes to enter into a contract to purchase the property for \$1,150,000, and if it does, identify how to finance the un-budgeted expenditure which including essential building protection measures totals \$1,650,000.

5. Consultation

Officers have previously sought the advice of several Council departments to identify potential uses and repair costs for the property. These uses and costs are explored in detail in the report of 19 September 2011 (refer appendix 1).

6. Issues

If Council wishes to purchase the property a notice is required to be served on the owner under the Land Acquisition and Compensation Act that the purchase is by agreement. The price negotiated \$1,150,000 is considered by officers as fair and reasonable in comparison to the valuation prepared for Council \$1,100,000 given the complexity of the property and limited market transactions of similar historic properties.

The Condition of the property is such that immediate essential building works must be undertaken to prevent further deterioration of the building fabric. The cost of these works is estimated at \$500,000 and compromise :

Demolition and Site works	
<i>Roof</i>	\$33,600
<i>Internal walls</i>	\$34,750
<i>Floor finishes</i>	\$3,300
<i>Ceilings</i>	\$8,250
<i>Underpinning NW corner</i>	\$40,000
<i>Asbestos removal</i>	\$50,000
<i>Demolish rear addition</i>	\$25,000
External Repair Works	
<i>Scaffolding</i>	\$39,000
<i>Render repairs</i>	\$44,000
<i>Lintels</i>	\$20,000
<i>New Roof</i>	\$46,200
<i>Window repairs</i>	\$3,6000
<i>Repair front steps</i>	\$6,000
<i>Steel Escape Stair</i>	\$25,000
<i>Repair terrace</i>	\$20,000
Internal Repair Works	
<i>Staircase repairs</i>	\$10,000
<i>Repair rotted floors</i>	\$13,900
<i>Repair GF ceiling</i>	\$10,500
<i>Fire Hose reel</i>	\$9,000
<i>Electrical rough in</i>	\$15,000
TOTAL ESTIMATED	\$489,500
SAY	\$500,000

Future use of the building for community purposes will require careful consideration and consultation. Of the uses identified an additional \$3million is estimated as being required to put the building to use. This brings a total project estimated cost of \$4.65 million made up of purchase \$1.15 million, make safe works \$0.5 million and building and fit out of approximately \$3 million.

If Council decides to proceed to purchase it is recommended that Council receives a further detailed report on potential uses and related fit out costs from the Manager, Property Arts and Leisure and the Manager Community Buildings.

The initial project funding of purchase and make good will require approximately \$1.65 million of funding to be made available. These funds could be achieved by the sale of Council Owned Land. Two Properties have been identified as being able to be brought to market promptly:

- 9-11 Owen St Mordailloc
- 630-632 Warrigal Road Oakleigh South.

The combined realisation value of these properties is estimated at \$1.75 million – noting that formal valuations have not yet been obtained.

Future redevelopment of 81 Albert Street would need to form part of the forward capital budget and will require re-prioritisation of existing projects once a detailed proposal is developed for Council's consideration and determination.

7. Options

Council has two Options:

Enter into a contract for the purchase of the property;

or

Advise the owner's agent that Council does not wish to Purchase the Property;

8. Funding

In the event that Council wishes to purchase the property a funding source needs to be identified options for this are:

- a. A loan from a financial institution for the full cost of acquisition and make safe. Councillors are asked to note that any borrowings are subject to treasury approval and a formal budget review including public consultation processes being completed. If this option was supported by Council, it is advised that any formal offer be subject to treasury approval and the adoption of revised budget.
- b. The sale of Council assets – The following properties have been identified as being underutilised and are appropriately zoned for prompt sale to ensure cash flow is not adversely affected beyond the current financial year:
 - 9-11 Owen St Mordailloc; and
 - 630-632 Warrigal Road Oakleigh South
- c. A reallocation of previously approved capital works budget allocations.

The capital program is currently over 44% contractually committed with planning and design well advanced for the remainder. Any reduction in capital renewal expenditure across the

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major asset groups would have an unfavourable impact on Kingston's strategy to close its asset renewal gap.

d. Use working capital.

This would run down Council's cash position by a further \$1.65 million in the current financial year and result in Council utilising approximately \$2.1 million more cash in 2011/12 than it collects.

e. Reallocate cash from existing reserves.

Of Council's current total cash holdings of \$28.5 million, \$25.4 million is restricted by statute or regulation from alternative use as follows:

• Asset Development (Open Space) Reserve	\$6.0 million
• Long Service Leave Provision	\$6.9 million
• Trust Funds and Deposits	\$11.7 million
• Aged Care Reserve	\$0.8 million

This clearly demonstrates that Council is managing its working capital at minimal levels and that an unbudgeted expenditure may push Council into an overdraft position.

f. A combination of the above.

Councillors are asked to note that at the end of September no permanent favourable variances have been identified in the 2011/12 Budget.

9. Triple Bottom Line Checklist

- **Environmental** – As the property is subject to a local heritage overlay, it can only be demolished with a planning permit from Council and therefore any development will likely include the retention of the exterior of the building.
- **Social** – There are public uses identified which would enable Council to provide more enhanced services to the community either in Youth Services or Arts Services, noting that a final use is yet to be considered and determined by Council.
- **Financial** – The acquisition of this building and the consequential cost to Council will impact on Council's current capital program. Furthermore, the cost of completely new facility on the Allan McLean precinct could provide Council with a better return. \$5M for acquisition and refurbishment of just under 900sqm at 81 Albert Street 900sqm and \$6.4M for a new development of 2300sqm at Allan McLean is a reason not to invest at 81 Albert Street.

10. Officer Recommendation

From the perspectives of Council service delivery and Council's adopted Financial Strategy; officers do not recommend Council proceeds to purchase the property.

11. Motions for Council's Consideration

Motions:

A. If Council wishes to proceed with the purchase of 81 Albert Street, Mordialloc:

That Council :

1. Resolve to purchase 81 Albert Street Mordailloc by agreement for \$1,150,000.
2. Delegate the Chief Executive Officer to :
 - a. Execute a contract for the purchase of 81 Albert Street Mordailloc for \$1,150,000 to the satisfaction of Council's legal advisors.
 - b. Serve the required notices under the Land Acquisition and Compensation Act.
 - c. Enter into a contract or contracts for immediate building works to protect the building subject to Councils procurement policies.
3. Publish a notice pursuant to section 189 of the LGA of its intention to sell:
 - a. 9-11 Owen St Mordailloc
 - b. 630-632 Warrigal Road Oakleigh South
4. Appoint a section 223 committee comprising Cr.....
Cr.....Cr....., General Manger Corporate Services and Manager Property Arts and Leisure Services to hear any submissions received in relation to Council's intention to sell the properties and report back to Council.
5. If there are no submissions delegate the Chief Executive Officer to execute contracts of sale for the properties at no less than their valuation certified market value.
6. Make public Council's purchase of this land, the purchase price and this report upon execution of the Contract of Sale.

Or

B. If Council does not want to proceed with the purchase of 81 Albert Street:

1. That Council resolves not to purchase 81 Albert Street, Mordialloc and thanks the representatives of the vendor for their consideration of Council's interest in the property.
2. Make public Council's decision not to purchase this land.

activities. The Arts and Cultural Services also saw merit in the possibility of utilising the space as a Gallery or Museum. These proposed uses have been explored and are the subject of further review below.

6. Issues

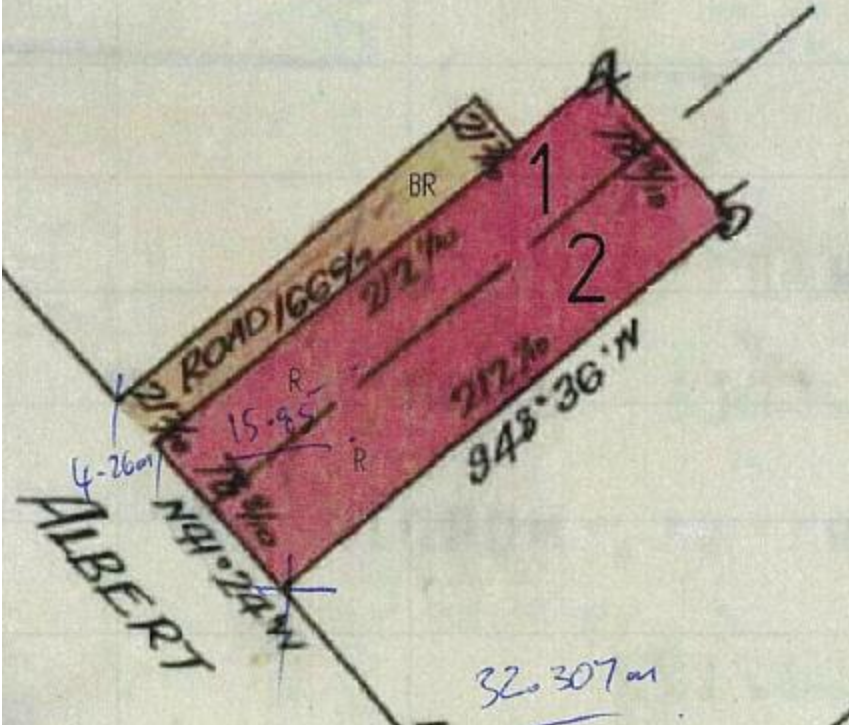

Property Information

The subject property is located on the western end of Albert Street Mordialloc, in close proximity to the Activity Centre separated by the Frankston Railway. The property adjoins a State school to the north and a residential apartment development to the south.



The property comprises 676m² of land zoned Residential 1. A Neo-Classical former Masonic Hall is constructed over the majority of the site. The two level building is of brick construction with timber floors, corrugated iron roof and some concrete ornate details. The building is in poor condition and is currently occupied as a residence. The building has a floor area of approximately 850m².

A heritage overlay applies to the land which protects the externals of the building. A permit is required to alter and modify the exterior of the building.

81 ALBERT STREET	TITLE
<p>Land Area – 676m²</p>	
<p>Building</p> <ul style="list-style-type: none"> Ground Floor – 345m² First Floor – 290m² Rear Addition – 215m² Construction – Brick Roof – CGI Floor – Timber Age – circa 1924 	
<p>Condition - Poor</p>	

The property has been inspected by Council's consultant building surveyor who has provided advice on the structural integrity of the building and the likely works required to restore the fabric. In summary, the building is in very poor condition and requires extensive remedial works to stabilise the fabric. The building is classified as a '7' on Councils rating scale as an asset in poor overall condition, deterioration is quite severe and limits the serviceability of the asset. The maintenance cost is considered high.

Works and proposed expenditure can be divided into three categories:-

A Make safe – Estimated \$500,000, assuming the building is purchased and held unoccupied pending refurbishment. This would necessitate urgent make safe works prior to significant works being undertaken including underpinning, replacement of roof, removal of asbestos

B Base building works – Estimated \$1.85M e.g. significant ceiling plaster repairs and window repairs.

C Fit out works – Estimated \$1.35M a suite of works to modify the building which would be undertaken once a strategic decision is taken as to the attenuate use.

Total redevelopment cost Estimated \$3M. Note a more accurate costing would require a detailed building utilisation proposal.

These indicative costings are provided on the basis of the building being used as a public building requiring universal access, essential safety measures and a reasonable level of occupier amenity.

Potential Council Uses

In accordance with Councillor's requests, Officers have identified the following possible public uses for the building.

Public Arts Gallery/Museum

This use would require the building to be upgraded to an appropriate standard for a public building and a high level of climate control and lighting would be required to protect artworks and ensure travelling shows were attracted to the venue. The use could incorporate a small retail café component possibly utilising the upstairs balcony.

The venue could operate as a satellite operation from the existing Arts Centre and potentially house Council's art collection, historic records and a reading room. Ongoing operational funding would be required to staff the venue which would most likely include volunteers.

Performing Arts Space/Recital Hall

This use would require the building to be upgraded to an appropriate standard for a public building with a high level of climate control and acoustic treatments. The proximity of the building to the Shirley Burke Theatre would eliminate the use as a theatre space. The building could however be focused on music. Detailed acoustic modelling is recommended if this is to be proposed to ensure the space is able to attract high quality performers.

The venue could operate as a satellite from the existing Arts Centre and may provide a viable location from which private tutors could teach music from leased space. The space would require ongoing operational funding.

Dance Studio/Public Hall

This use would require a refurbishment plan with fairly minimal subsequent fit out. Change areas and kitchen facilities together with reasonable shower and toilet facilities would be required. Council could seek a lead tenant or programme the space with use of licences to individual dance instructors/schools. The opportunity may present it self to incorporate a sprung floor depending on the extent of renovations required.

Youth Centre

This use would require a base build refurbishment and minimal subsequent fit out. Small ante rooms and an I.T. fit out to provide relevant services to an increasingly linked in youth community. The location is central to the municipality and excellent transport links exist. Mordialloc is a significant congregation point for Kingston youth and the building has the potential to provide a relevant staging point for many youth activities while also serving as a place where guidance and counselling can be sought. Council could base its youth services facilities at this location and its office activities at 1230 Nepean Highway. This would enable the Southland Operation to cease and reduce any additional staffing costs to operate the new centre at 81 Albert Street.

U3A/Seniors

The building could be adapted to an appropriate standard for a public building to serve the needs of U3A and local seniors groups with a good refurbishment and good fit out. The use would require good heating and ventilation divisions of spaces upstairs into appropriately single rooms, possibly with movable partition walls to maximise flexibility of programming.

Upgrade kitchen and tea making facilities together with fully accessible toilet facilities would be required.

Environmental Centre for Excellence

The building could be redeveloped in such a manner as a demonstration of what is possible with re-use of historic buildings. The building could then serve as an information centre and community meeting space. The building could also function as a base for local community environment groups.

Such a demonstration project could be of interest to Sustainability Victoria and Heritage Victoria.

Valuation

Councils Valuer has inspected the property and reviewed and updated his 2008 Valuation report. A summary certificate copy of the report is attached. Mr Reed advises that the property's value is constrained by the heritage overlay precluding demolition. The value lies as a residential conversion where the shell would be retained and internal modifications made. Parking for up to 7 vehicles could be accommodated at the rear of the site by demolishing the derelict 1960's additions.

The carpark would be accessed via the existing road on the northern boundary of the property.

The property has an assessed market value of \$1,100,000 as at September 2011 (exclusive gst).

Purchase Strategy

If Council decides it wishes to purchase the property, it must decide if it wishes to use the power of compulsory acquisition or to negotiate by private treaty.

Whilst Council's open-market valuation is \$1.1M this may be below an acceptable price to the vendor or below other offers which may have been received.



The valuation for any compulsory acquisition is likely to be higher as it will include other heads of claim. These may amount to a further \$200,000 (estimated only) above the finally agreed market value. A further valuation will be instructed if Council decides to acquire using compulsory acquisition power. The ultimate compensation payable is likely to be above the 'open-market' valuation of \$1.1M and if the vendors refuse to accept the amount of compensation assessed by Council they may seek a further increase in compensation. If the vendors are in receipt of an unconditional offer to purchase, they are very likely to use this as evidence to increase the compensation payable by Council

Funding

Council has not budgeted for the purchase (\$1.1M plus) or immediate make-safe works (\$500,000) for this building. Total cost of purchase plus works could total up to \$5M depending upon the final use of the building.

Funding options are either of the following or a combination:-

- d. A loan from a financial institution for the full cost of acquisition and make safe. Councillors are asked to note that any borrowings are subject to treasury approval and a formal budget review including public consultation processes being completed.
- e. The sale of Council assets – The following properties have been identified as being underutilised and are appropriately zoned for prompt sale to ensure cashflow is not adversely affected:-

Warrigal Rd Library 
Owen Street Land 
- f. A combination of loan and sale of land
- g. A reallocation of previously approved capital works budget allocations.

The capital program is currently over 44% contractually committed with planning and design well advanced for the remainder. Any reduction in capital renewal expenditure across the major asset groups would have an unfavourable impact on Kingston's strategy to decrease its asset renewal funding gap.

8. Comparative Overview – Allan McLean Precinct and Masonic Hall

The Allan McLean Precinct comprises:

Allan McLean Hall and Mordialloc Court House = Building area of 893sqm
and 2A Lewis Street = Building area 376sqm

- The combined total of the internal floor area is **1269sqm**

Allan McLean is currently utilised as a minor hall for hire and is home to Mordialloc Meals on Wheels. The Mordialloc Theatre Group, Italian Seniors, Kung Fu and occasionally Blood Donor Group also utilise the hall for their activities.

The Mordialloc Court House is leased to Kingston U3A.

2A Lewis Street comprises 2 buildings; the smaller is leased to Kingston U3A and the larger is leased to the Kingston Toy library.

- The building area of 81 Albert Street Masonic Lodge over the ground and first floors total **850sqm**

Under the current arrangements at the Allan McLean precinct it would not be possible to re-locate all existing tenants and services to 81 Albert Street. However if Council were to purchase 81 Albert Street, refit appropriately and relocate U3A together with some of the occasional tenancies, the existing community centre in Main Street may have the ability to absorb some of the other programs currently run from Allan McLean.

Attached are plans for the complete demolition and reconstruction of Allan McLean, the cost of which is estimated to be \$6.3M. This is provided as a comparison to assist Councillors in determining the best way to allocate funding to meet the needs of the Mordialloc community. It is evident that a full redevelopment of the Allan McLean site could achieve far greater community benefit than the purchase and redevelopment of 81 Albert Street

9. Options

- 9.1 To purchase the property by private treaty
- 9.2 To purchase the property by compulsory acquisition
- 9.3 Not purchase the property

10. Triple Bottom Line Checklist

- **Environmental** – As the property is subject to a local heritage overlay, it is unlikely to be demolished and therefore any development by a private owner will include the retention of the exterior of the building.
- **Social** – There are public uses identified within this report which would enable Council to provide more enhanced services to the community either in Youth Services or Arts Services

- **Financial** – The acquisition of this building and the consequential cost to Council will impact on Councils current capital program. Furthermore, the cost of completely new facility on the Allan McLean precinct could provide Council with a better return. \$5M for acquisition and refurbishment of just under 900sqm at 81 Albert Street 900sqm and \$6.4M for a new development of 2300sqm at Allan McLean is a compelling reason not to invest at 81 Albert Street.

11. Recommendation

From the perspectives of Council service delivery and Council's adopted Financial Strategy, officers do not recommend Council proceeds to purchase the property.

If however Council was of the view it wanted to buy this site it has the option of compulsory acquisition as an alternative to making an offer to the selling agent. It should be noted that if Council makes an unsuccessful offer it cannot then move to a compulsory acquisition.

Attachments:

Valuation (September 2011)

Albert Street Drawing (September 2011)

Allan McLean Concept Plans (May 2009)

Appendix 2 – Notice of Motion – September Council meeting

N 163 Notice of Motion – Cr West

Mordialloc Masonic Hall

Preamble

Considering that:

1. Mordialloc Masonic Hall is one of Kingston’s few heritage buildings not to have been demolished;
2. It is set in a historic precinct, surrounded by the heritage-listed water tower, State School, Anglican Church and heritage-listed Main Street precinct;
3. Officers have outlined a number of genuine needs and worthwhile uses for this building;
4. Council could also consider private uses that would ensure the building’s protection;
5. Heritage overlays in themselves have been shown in the recent past not to have prevented the demolition of Kingston’s heritage;
6. Other information is provided in the attached officer report.

Notice of Motion

I move that Council continue to negotiate for the purchase of 81 Albert Street, Mordialloc for a maximum price of [REDACTED]

Cr Rosemary West OAM
Central Ward

Crs West/Shewan

That Council negotiate for the purchase of 81 Albert Street, Mordialloc for a maximum price of [REDACTED]

Carried

A Division was called:

For

Cr Staikos
Cr Athanasopoulos
Cr West
Cr Shewan
Cr Ronke

Against

Cr Peulich
Cr Dundas
Cr Moloney
Mayor, Cr Brownlees

The Chairperson declared the motion was carried.