



QUEEN VICTORIA MARKET RENEWAL: ECONOMIC JUSTIFICATION



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1. INTRODUCTION

The section outlines SGS brief and methodology.

1.1 Project brief

SGS Economics & Planning (SGS) understands that the City of Melbourne (Council) will soon lodge a permit application to Heritage Victoria which, if approved, would enable key elements of the Queen Victoria Market Precinct Renewal to progress.

To support this permit application, the City of Melbourne is preparing a report in support of its application. SGS has been asked to support this report by preparing an economic justification that shows how the business as usual outcomes at Queen Victoria Market are unsustainable. Economic justification, in this context, refers primarily to the financial performance of the Market.

From our earlier work, SGS understands that the economic evidence will show that:

- Business as usual outcomes will threaten the:
 - Historic ‘open air market’ use of the Market
 - Long term financial viability of the Market, and
 - Future funding of heritage and public asset maintenance works at the Market given its inability to provide an economic dividend to Council.
 - Safety, security and compliance of the Market.
- The preferred renewal option being pursued by Council will protect the:
 - Market’s open air use
 - Market’s long term financial viability, and
 - Ability of Council to fund future heritage and public asset maintenance works given the economic dividends that will be generated by the Market.
 - Address unmet safety challenges, waste management issues, statutory compliance requirements for food and workplace safety, and site security.

1.2 Project methodology

In preparing our economic justification report, SGS has:

- Updated our earlier business case, using the most recent evidence, which supports our contention that the Market is facing a range of problems which, if not addressed, will render the Market to ongoing poor financial, economic and social performance results
- Reviewed the financial projections for the business as usual scenario, prepared by Queen Victoria Market Pty Ltd
- Reviewed the financial projections for the preferred renewal scenario, prepared by Queen Victoria Market Pty Ltd
- Used these results to demonstrate that the preferred renewal scenario development by Council will reposition the Market so it can sustainably deliver the financial, economic and social returns that should be reasonably expected of it.

2. UNDERLYING PROBLEMS WITH QUEEN VICTORIA MARKET

This section describes some of the key problems facing the Queen Victoria Market including its inability to adapt, inadequate facilities and outdated operating modes, along with its underperformance as a major public asset in the central city.

2.1 Key problems

At present Queen Victoria Market is experiencing several problems which threaten its ongoing financial sustainability. These include:

- Outdated Queen Victoria Market Proprietary Limited and trader operating modes undermine Queen Victoria Market's sustainability
- Inadequate facilities compromise Queen Victoria Market's security, safety and compliance
- Queen Victoria Market's constrained offer is unable to adapt to meet evolving customer expectations
- Underperforming public and heritage assets at Queen Victoria Market hamper CBD North's liveability

Outdated Queen Victoria Market Proprietary Limited and trader operating modes undermine Queen Victoria Market's sustainability

Market trading in different forms has constituted the core function of the Queen Victoria Market for over a century. This function, and the economic activity it generates, comprises a key element of Melbourne's heritage; maintaining a highly valued connection with the city's past. In order to maintain this function and facilitate a large and diverse trader population, the site must be upgraded accordingly to be able to respond and adapt to the changing demands of market-based retailing, and to attract new vendors.

Inefficient operating modes and business attractiveness

Traders at QVM face a range of operational issues that reduce the efficiency and productivity of their work and reduce the attractiveness of the Market as a place to operate a business.

Consultation with traders in 2015 found that 90 per cent of all fruit and vegetable traders raised facilities and infrastructure as a key issue, and 65 per cent of general merchandise traders.¹ Updated research has found that lack of storage continues to be an issue with traders noting that storage closer to the stalls and a lay down space for larger deliveries would be useful.²

With a lack of back of house facilities, many hours a day are spent by traders in setting up and packing down stalls, relocating stock to other parts of the QVM site, and finding alternatives to proper storage and loading facilities. Only 62 per cent of traders are satisfied with the ease of setting up and packing down, and only 66 per cent were satisfied with the logistical aspects of doing their business; suggesting substantial potential for improvement.³

¹ QVM 2015, 1-2-1 Trader Meetings Final Report.

² EY Sweeney, Trader Sentiment Survey: Wave 3, 2019

³ EY Sweeney, 2019

Consultation with traders found that more storage on site could result in fewer trips to the wholesale market being required, and that if there was better storage and a dedicated pickup/ delivery point, it would be easier to do business to business trade. Currently, business to business trading can be too time consuming for some traders.⁴

Likewise, traders agreed that the improved provision of services (electricity, wifi, water, website to sell products online, etc.) would assist them in running their business.⁵

Other key trader concerns in regard to the QVM, as identified through consultation include the following:

- Precinct-wide infrastructure for power, water, and recycling, with specific provisions in certain areas
- Waste management facilities, with emphasis on specific needs in certain areas, including fish and meat offal, organics and packaging
- Trader amenities with the inclusion of showers, toilets, breakout spaces and storage
- Facilities for delivery and waste removal including loading docks, off-street loading areas, washdown services and storage
- Reducing conflicts between service vehicles, including forklifts, and public access.^{6 7 8}

For a range of reasons, the attractiveness of QVM to new retail traders, formats and offers is limited. Moreover, there is a low level of short-term business confidence amongst current traders at the Market, and overall dissatisfaction amongst traders with their level of profitability.⁹

While the majority of QVM traders have been operating at the Market for twenty or more years, with QVM's recent decline in financial sustainability it is vital that the Market not only retains existing traders, but increases and diversifies its offer to boost its overall competitiveness in the retail market (as described above). Attracting a more diverse mix of traders is critical to this endeavour, but it is unlikely to occur without appropriate investment in infrastructure at the Market.

Note the following section is dedicated to examining the historic and forecast financial performance of Queen Victoria Market Pty Ltd under the business as usual scenario.

Inadequate facilities compromise Queen Victoria Market's security, safety and compliance

Current infrastructure within the QVM precinct is inappropriate and inadequate. This poses safety and security risks, in terms of vehicle and forklift access and operations in pedestrian areas and appropriate food handling and storage practices.

Despite its status as one of Victoria's most beloved and visited attractions, Queen Victoria Market has seen relatively few capital works in recent decades, resulting in outdated and inadequate facilities that potential impact on the site's compliance with occupational health and safety and food safety regulations.

Lack of pedestrian and vehicle separation

QVM currently has very limited and inadequate back of house and storage space for trader activity. While this causes significant operational issues for traders (discussed below), the need for service vehicles to enter and occupy public areas also creates conflicts between vehicles and pedestrians.

⁴ EY Sweeney, Trader storage and amenity needs: Quantitative research report, 2019

⁵ Ibid

⁶ QVM Precinct Renewal Master Plan, 2015.

⁷ NH Architecture, QVM Point of Sale Storage: Illustrative Brief, 2019

⁸ EY Sweeney, Trader storage and amenity needs: Quantitative research report, 2019

⁹ EY Sweeney, 2019.

For instance, the more than 500m distance between stores at Franklin Street and stall areas requires market traders to have road registered forklifts to transport produce from the stores to their stalls. This often also includes using local roads and the Franklin Street roundabout to move through the precinct, which contributes to traffic concerns in the area. The mandatory separation of vehicles from public areas is necessary to comply with contemporary safe work practices, particularly as outlined in the Occupational Health and Safety Act.¹⁰

An inspection of the Market undertaken in June 2019 found there to be a number of operational and safety issues:¹¹

- A major concern regarding the site is the mix of loading vehicles and pedestrians particularly along Queen Street. Loading vehicles consist of forklifts, vans, car and trailers, small trucks, large trucks and waste collection trucks. There is little to no segregation between loading activity and pedestrian movements. The current interaction between loading vehicles and pedestrians has the potential to cause incidents due to the lack of segregation, sight line obstructions, signage, line marking and protection for pedestrians.
- Loading vehicles including forklifts were observed operating during market trading hours and therefore at a time of high pedestrian activity, greatly increasing the likelihood of a pedestrian being struck by a loading vehicle or forklift. The high number of pedestrians present raises major safety concerns.
- Forklifts traverse the car park and high pedestrian areas during market trading hours travelling between Franklin Street and Queen Street. Forklifts also use the car park entrance accessway and a pedestrian walkway to travel via the on-site car park.

The associated risk assessment of QVM's Operating Zone found several scenarios of 'Fundamental Risk' in relation to forklift movement and traffic. Fundamental Risk refers to those risks which are related to events which will 'almost certainly' occur, and the consequences of which are likely to be catastrophic, resulting in fatalities or multiple fatalities. These included:

- Pedestrian and loading activity allowed to mix
- Forklifts observed to manoeuvre in mixed loading/ pedestrian environment
- Forklifts observed traversing car park and high pedestrian areas
- Forklifts required to reverse long distances and across pedestrian crossings
- Pedestrian and loading activity allowed to mix with market aisles/ loading aisles.

These issues are linked to the following risk types:

- Pedestrian struck by forklift
- Pedestrian struck by loading vehicle.

More recent concerns around potential vehicular acts of aggression have prompted recommendations to implement Crime Prevention Through Environmental Design (CPTED) principles around the precinct, and the installation of bollards and other barriers with regard to high risk locations.¹²

Food safety issues

A number of recorded incidents of poor food safety compliance have also been identified by Council health inspectors at QVM. These can partly be attributed to a lack of appropriate infrastructure available to traders, including lack of vermin-proofed food storage space, food preparation space and poor waste management systems. Moreover, stallholders have no access to dedicated hand washing facilities.

A survey of traders found that 91 per cent have problems with managing pests, with 63 per cent of respondents stating that they use cool storage to protect their produce from pests.

¹⁰ Cardno, Safety and Logistics Management Report, 2019.

¹¹ Cardno, 2019.

¹² CBM Safety 2017, QVM Security Observation Summary.

Summer spoilage of organic waste was also noted as an issue. Additionally, not all stores have hot water; a requirement of the Department of Health.¹³

This issue is a concern not only because it does not comply with the Food Act and can cause harm to traders and visitors, but also because it risks the reputation and viability of the Market. Continued media coverage on poor food safety and quality at QVM can have potential long-term implications for resident and tourist visitation.\

Queen Victoria Market's constrained offer is unable to adapt to meet evolving customer expectations

With the heritage value of QVM in part linked to its relevance in the retail lives of Victorian residents, a decrease in its prominence and use among Victorians ultimately translates to destruction of its heritage values.

Today, supermarkets play a 'one-stop-shop' role for the grocery needs of customers, with competition-led discounting further adding to the attractiveness of the supermarket sector.

Online shopping increasingly provides an additional offer for the convenience-focused shopper, offering a broad and competitive selection of products with no need for customers to travel and delivering direct to customers' front doors.

Consumer preferences have arguably also changed, and Victorians are more inclined to seek comfort and amenity in their retail experiences than they have been in the past.

The declining importance of the market is reflected in visitation rates, which are significant but stagnant despite rapid growth in the population of the City of Melbourne and metropolitan Melbourne over the last decade.

For QVM to be competitive in today's retail environment, its offer needs to evolve to meet contemporary customers' needs and provide improved amenities and access to people of all abilities.

The following sections outlines some of the ways in which Queen Victoria Market is failing to optimise the visitor experience and to position itself as a competitive, major attraction and retail destination in Melbourne.

Convenience shopping

The limited opening times of QVM is a key restriction to both attracting the convenience-oriented market and providing a more diverse visitor experience. At present, the Market is only open 5 days a week (Tuesdays, Thursdays, Fridays, Saturdays and Sundays). Of the days that it is open, the market ceases to operate at either 3pm or 4pm.

These opening hours do not compare to the CBD's standard retail trading hours of 9:00 am to 5:00 pm (or 10:00 am till 6:00 pm), Monday to Friday. On Friday, many shops in the CBD remain open until 9:00 pm. On Saturday and Sunday, the hours in the CBD and shopping centres are generally 9:00 am to 5:00 pm and 10:00 am to 4:00 pm respectively.

The QVM's reduced operating times limit its accessibility to a large proportion of the surrounding worker, student and resident populations, which often seek groceries, take-away meals or value-added food products on their way home.

The QVM night markets operate outside of these hours, but these are only run on a seasonal basis (November to March and June to August), and only once a week. Moreover, despite the sizeable nature of the QVM site, there is limited variability in operating hours across the site and its different activities.

In a recent survey, 10 per cent of people reported that their primary deterrent from shopping at the Market was that it is not open at the times that they wished to shop. Expanding the

¹³ NH Architecture, QVM Point of Sale Storage: Illustrative Brief, 2019

Market's hours of operation was found to have the most potential for increasing overall visitation to the market.¹⁴

At present, however, the expansion of QVM's active hours is limited by inadequate infrastructure and operating modes (discussed further below). Consultation found that many trader stalls lack basic services such as electricity, hot and cold running water, sewage and internet access.¹⁵ In addition to these concerns, the lack of storage and refrigeration, and the difficulty of setting up and packing down place limitations on the ability of traders to operate effectively over extended hours (particularly in the winter months).

Diversity of offer

There are several other fresh food and merchandise markets across metropolitan Melbourne, including Prahran, South Melbourne, Dandenong, Footscray and Preston,¹⁶ not to mention a variety of farmers markets. A preference for the competitor markets was seen to be a barrier to visitation for some lapsed customers.¹⁷

Given QVM, like any other produce market, is unlikely to ever reach trading hours or offer convenience shopping comparable to supermarkets, it needs to be able to widen and diversify its offer to increase its attractiveness in other ways.

Visitor surveys have shown that there is demand for more and higher quality produce at QVM, particularly as the resident population in the wider precinct surrounding the Market grows.¹⁸ This may partly be because of recent cultural trends toward gourmet food and ingredients.¹⁹ It has been suggested that the Fresh Meat, Fish and Poultry Retailing sector, for instance, is likely to achieve more success if products on offer cater to the local market (e.g. in according to latest food trends).²⁰

However, while most visitors to the Market cite grocery or produce related factors as either their main reason or one of their reasons for their visit, the Market's offer is heavily weighted towards merchandise-based retail (i.e. about 60% of trading space).²¹ This weighting has remained relatively constant over the past 50 years, with similar levels being quoted in 1969.²²

The QVM also has significant scope to develop its 'leisure retail' offer. Leisure-oriented shopping, undertaken by recreational shoppers likely to browse for discretionary items, is generally motivated by the overall experience or social or leisure activity offered, rather than a need for goods.²³ For instance, visitor surveys have found there to be significant overlap between browsing and other activities; 45 per cent of shopper browsing at the market were also there to eat and drink, while 32 per cent were doing something social.²⁴

On average, leisure-based shoppers tend to spend more than 'mission' based shoppers (shoppers in search of a specific product). This is supported by recent findings that hyperlocal shoppers, defined as those who live in one of the postcodes immediately adjacent the market, are more likely to do quick, solo trips to the Market for groceries and are likely to spend less than other, leisure oriented visitors.²⁵ In order to attract leisure shopping, the

¹⁴ Bastion Latitude, Bringing Melburnians Back: A quantitative survey of local residents, workers and students to explore the decline in visitation at the QVM day market, 2019

¹⁵ NH Architecture, QVM Point of Sale Storage: Illustrative Brief, 2019

¹⁶ Essential Economics QVM Economic Advice Report, 2011.

¹⁷ Bastion Latitude, 2019

¹⁸ Bastion Latitude, 2019

¹⁹ Essential Economics, 2011.

²⁰ IBISWorld (2016). Survival of the fittest: Ongoing competition from supermarkets constrains industry revenue. IBISWorld Industry Report G4121: Fresh Meat, Fish and Poultry Retailing in Australia.

²¹ Bastion Latitude, 2019.

²² CoM, 'QVM Long Term Strategy', 2011.

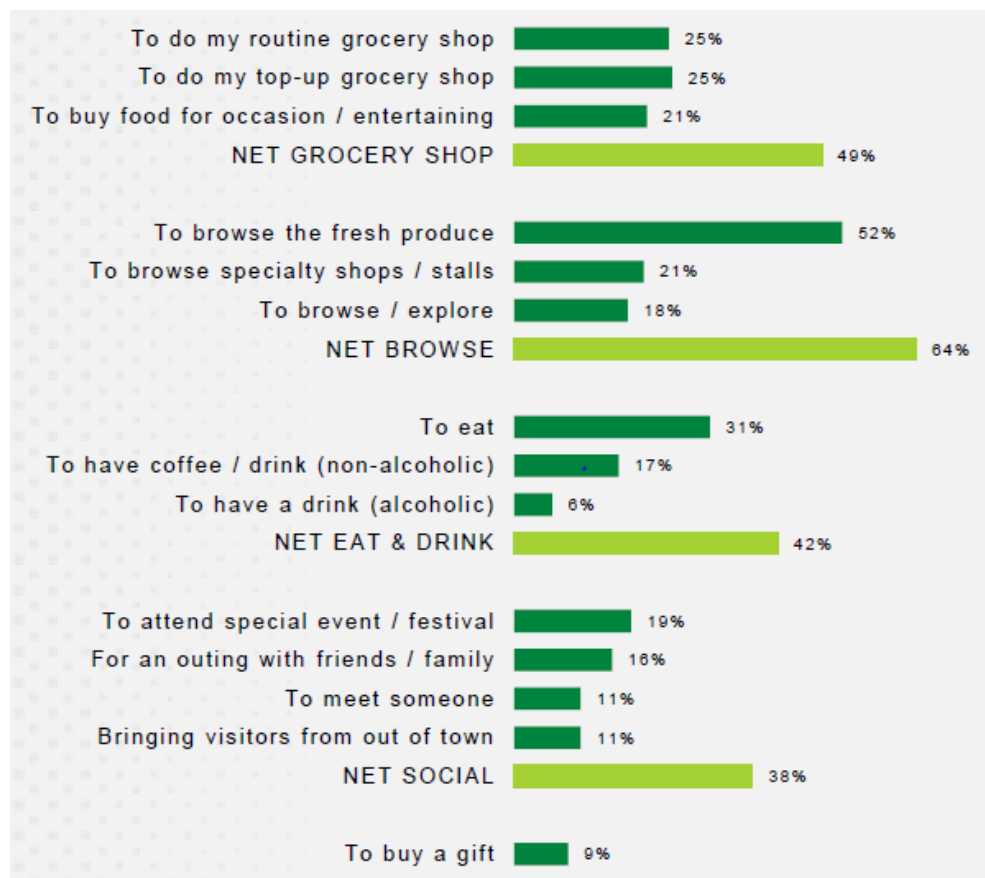
²³ Bastion Latitude, 2019

²⁴ Bastion Latitude, 2019

²⁵ EY Sweeney QVM Customer Sentiment Tracking: Shopper research report, 2019

experience of shopping needs to be positive and enjoyable, often catering to higher order retail.²⁶

FIGURE 1. PURPOSE OF MOST RECENT VISIT TO MARKET



Source: EY Sweeney, 2019

At present, the QVM has a strong, existing 'leisure retail' oriented base. As seen in the figure above, while 49 per cent of respondents indicated grocery shopping as the purpose of the most recent visit to the QVM, a wide range of other reasons are also cited; such as eating and drinking, browsing, socialising with family or friends, attending a special event, gift shopping and to bring visitors from out of town.

However, with a low level of diversity in its offer, the QVM fails to fully realise its potential in the leisure-based retail sector. Surveys have found that only 27 per cent of non-visitors associate the Market with being 'diverse', compared with 45 per cent of visitors. Past visitor intercept surveys, have found the need for more variety, range and diversity was in the top five of top-of-mind suggestions for improvement, including more and/or different entertainment and music options, and more choice in hospitality option.²⁷

A lack of useable space across the site, as a result of expansive car parking, poor spatial configuration and inadequate infrastructure, limits flexibility of programming and operations, e.g. the hosting of various entertainment options or hospitality offers at the Market or providing hireable areas for festivals and community events. With an increasing proximate resident population and an increasingly sophisticated consumer base, the need for efficient operations and diverse programming is likely to grow further in coming years.

²⁶ Bailey, M. (2013), 'Consumer Profiles and Behaviour in Australian Shopping Centres', Retail Property Insights, 20(1), 4-11.

²⁷ Sweeney Research QVM Visitor Report, 2013.

Poor site amenity

The QVM's capacity to act as a leisure retail destination is further dependent on its ability to provide a high amenity environment. However, as relatively few major works have been undertaken across the QVM site in the past two decades, the amenity of the site – particularly given its status as a major visitor attraction – is relatively poor.

While the overall atmosphere of the QVM is generally rated quite highly by current visitors, only nine per cent of existing visitors associate the Market with being 'clean' and two per cent of non-visitors.²⁸ Likewise, 17 per cent of non-visitors (potential, lapsed customers) associate the Market with being 'outdated', only 16 per cent consider it to be 'inclusive', and only four per cent consider it 'high quality'. However, existing visitors are more likely to have positive associations with the Market than non-visitors.

Visitor infrastructure is in need of improvement, including greater provision of seating, particularly in food court and dining areas. This is supported by visitor surveys, in which the need for more seating was cited as one of the top five suggested improvements for the market.²⁹ Lack of facilities, including change rooms and play equipment, was cited as a barrier to bringing children to the QVM precinct.

The need for improved weather protection was also identified through consultation.³⁰ While the QVM's identity as a non-sheltered market is valuable – it is often promoted as the largest open-air market in the southern hemisphere – there is a need for more sheltered areas and protection from the weather.³¹

Car parking and access issues

Expansive open air car parking and poor vehicle and pedestrian accessibility within the site and its surrounds further detract from the QVM visitor experience and the Market's overall competitiveness in the wider retail landscape. The southern part of the QVM site, dominated by large expanses of surface car parking and wide roadway, has little to offer in terms of visitor amenity, and does not contribute to the core market experience.

Driving continues to represent the dominant mode share for travel to the Market, with 32 per cent of people indicating that they use the car to get to the Market in October 2019.³² As such, visitation to the QVM is still to a large extent dependent on the provision of sufficient and easy-to-use car parking. Those who travel to the market by car also spend the most on average, potentially because the car allows them to easily carry away a larger volume of goods.³³

Car accessibility around the QVM site is also a key issue. Not only does it currently have a confusing and inefficient road layout, but the network in surrounding streets has brought road safety in the area into question.

Firstly, there is a problem of unbalanced traffic flows surrounding the site. Secondly, there is also a number of traffic black spots in the vicinity of the market, including the roundabouts at Franklin and Queen and Peel and Dudley Streets. These issues detract not only from visitor accessibility but also safety, particularly given the high level of foot traffic in and around the QVM.

The poor connectivity and confusing road layouts in and around the market further act as a barrier between market activity and its surrounds. Poor site configuration (particularly the expansive at-grade car park) also obstructs visibility of the QVM site to surrounding car traffic,

²⁸ Bastion Latitude, 2019

²⁹ Bastion Latitude, 2019

³⁰ Bastion Latitude, 2019

³¹ QVM Precinct Renewal Master Plan, 2015.

³² EY Sweeney, 2019

³³ EY Sweeney, 2019

creating a 'blind spot' for many potential visitors. Lack of and difficulty in finding parking was a barrier to visitation for 31 per cent of lapsed customers.³⁴

There is a need to ensure improved vehicle accessibility and safety around the precinct, while ensuring that there is enough parking to meet customer demand.

The need for improved pedestrian connectivity is also a key accessibility issue in and around the QVM site. While a major concern for traders is the need for improved car parking, community consultation conducted in preparation for the QVM Master Plan revealed that pedestrian amenity and safety were key concerns for the wider public in accessing the Market.

Underperforming public and heritage assets at the Queen Victoria Market hamper CBD North's liveability

Given its premium, central city location, a large proportion of the QVM site is significantly underutilised, with a large amount of space currently allocated to car parking and roadway. This poor use of space and the absence of back-of-house facilities causes an inability to make better use of the 7 ha site, with new and enhanced public open spaces and complementary community events and activities.

The need for more public space and community infrastructure in the City North precinct has already been recognised. A community infrastructure needs analysis found a number of community infrastructure priorities relating to the City North, including access to community information, an affordable local meeting space, local open space, family health and childcare services, and youth services.³⁵ With a significant level of future development anticipated across the City North precinct, these needs are likely to increase in the years ahead if not addressed in a timely way.

Across the City of Melbourne, by 2036 the average daily population of the municipality is forecast to be more than 1.4 million, with 339,000 people predicted to be City of Melbourne residents by this time.^{36 37}

At present, activities and events in the central city are strongly focused in the south, around Federation Square, the Yarra River and the Arts Precinct. While the City North precinct has several significant institutions and cultural assets, its lack of a focal point has been recognised for some time.

Without significant and enough public space available for community activities and events at the northern end of the central city, resident and worker liveability in this growing precinct is likely to suffer.

³⁴ Bastion Latitude, 2019.

³⁵ K2 Planning, City North Community Infrastructure Assessment, 2011

³⁶ City of Melbourne, Daily Population and Forecasts, 2019

³⁷ Forecast .id, City of Melbourne population forecasts, 2019

3. BUSINESS AS USUAL FINANCIAL PROJECTIONS

This section draws from the earlier discussion of the Market’s underlying issues, to trace the decline of QVMPL’s financial performance. It then projects ongoing financial underperformance under a business as usual scenario at the Market.

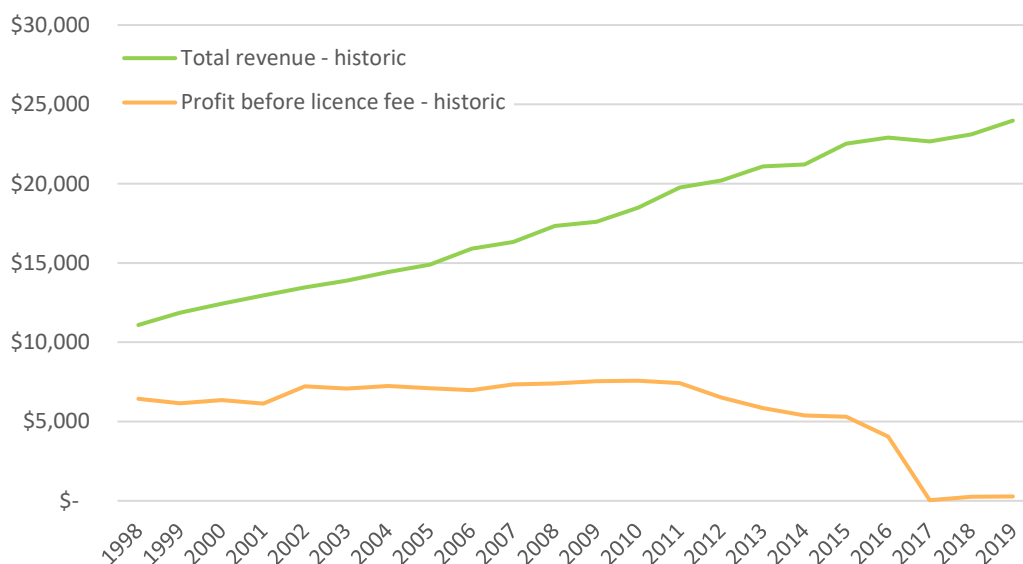
3.1 QVMPL’s deteriorating financial performance

QVM’s financial performance has declined over the past decade. While revenues have increased at a relatively steady rate since 1998, costs have grown at a faster rate, particularly since 2010 as the need to expand into ‘non-traditional’ activities such as night markets and other events emerged. As a result, the QVMPL’s overall profitability has declined significantly. Since 2017, QVMPL has barely covered its cost of operations, let alone delivered a surplus for Council.

Until 2014/15, a ‘licence fee’ of \$4.635 million³⁸ was paid annually by QVMPL to the City of Melbourne. In response to declining profitability in 2015/16 and 2016/17, a reduced licence fee was paid, with the further deterioration of QVMPL’s operating position since then meaning that no licence fee has since been paid.

QVMPL revenues, as well as profitability (before payment of the licence fee or any dividends to Council) since the 1998 financial year are shown in Figure 2.

FIGURE 2. QVMPL TOTAL REVENUE VS. TOTAL PROFIT (\$000) (1997/98-2018/19)



Source: SGS Economics & Planning based on QVMPL profit and loss statements.

Note: Car parking and night market revenues have been increasingly important over the past 5 years.

Note: State government congestion levies and stagnant market rentals/ licence fees have also contributed significantly to the deteriorating financial performance over the past 5 years.

³⁸ This licence fee was held constant year on year, meaning that, in real terms, the value of the licence fee to the City of Melbourne has decreased significantly since 1998.

3.2 Analysis of key financial drivers

Over the past ten years, QVMPL's profitability (before payments to the City of Melbourne) has declined from \$7.55 million (in the 2009 FY) to \$0.28 million (in the 2019 FY).

This decline in profitability has multiple causes, which can be better understood by reviewing QVMPL's financial statements line by line.

Operating revenues

On the revenues side, the following conclusions can be drawn:

- 'Open stands' revenue has declined significantly, from providing half of total revenue in the 2009 FY to less than a third in 2019 FY, with a reduction in demand for stalls in the open shed area of the Market.
- In contrast, demand for leaseholds in the meat and dairy hall, and in fixed shops has been strong, with revenues linked to these rising by \$2.7 million over the same period.
- Revenue from car parks has grown steadily and has retained a similar level of importance in relative terms.
- The loss of the Melbourne Wholesale Food Market (MWFM) management fee has adversely impacted profitability.
- Other revenues have grown since 2009, as QVMPL has sought to diversify the Market's offer and maximise usage of the site. These have been driven largely by an expanded night market schedule and other events.

TABLE 1. SUMMARY & COMPARISON OF KEY QVMPL REVENUE CATEGORIES, 2009 FY VS 2019 FY (\$'000)

	2009 FY	Proportion of total revenues	2019 FY	Proportion of total revenues	Change, 2009 FY to 2019 FY
Open Stands	\$8,799.4	50.0%	\$7,966.1	33.2%	-\$833.3
Leasehold Tenants	\$4,295.5	24.4%	\$6,977.9	29.1%	\$2,682.4
Car Park Revenue	\$2,996.8	17.0%	\$4,256.9	17.8%	\$1,260.1
Bar Operations	\$0.0	0.0%	\$1,781.7	7.4%	\$1,781.7
Interest Received	\$248.3	1.4%	\$25.2	0.1%	-\$223.1
Management Fee Received - MWFM	\$194.5	1.1%	\$0.0	0.0%	-\$194.5
Night Market Stall Fees/Rentals/ Sponsorship	\$658.1	3.7%	\$1,750.2	7.3%	\$1,092.1
Other	\$520.0	2.4%	\$1,216.8	5.1%	\$696.8

Source: SGS Economics & Planning based on QVMPL profit and loss statements.

Operating costs

Turning to QVMPL's costs, the following key points can be made:

- While the cost of cleaning and waste management has declined significantly as a proportion of total costs, in dollar figures it has grown faster than all costs except Employee Costs.
- Employee Costs have increased significantly as QVM has sought to expand activities.
- The state government congestion levy has imposed a significant cost on QVM.
- 'Other' costs have also increased, with these largely relating to the expansion of the night market and an expanded events program; designed to increase market visitation.

- Legal and consultancy fees increased between 2009 FY and 2019 FY, though not significantly in terms of their share of overall costs. There was an increase in legal and consultancy fees between the 2016 and 2019 financial years, though the bulk of consultancy fees relating to renewal were paid by the City of Melbourne.³⁹

TABLE 2. SUMMARY & COMPARISON OF KEY QVMPL COST CATEGORIES, 2009 FY VS 2019 FY (\$'000)

	2009 FY	Proportion of total costs	2019 FY	Proportion of total costs	Change, 2009 FY to 2019 FY
Cleaning & Waste Management	\$3,168.0	28.5%	\$4,653.9	19.6%	\$1,485.9
Employee Costs	\$3,090.7	27.8%	\$6,863.9	29.0%	\$3,773.2
Security	\$654.7	5.9%	\$1,094.2	4.6%	\$439.5
Car Park	\$334.8	3.0%	\$354.5	1.5%	\$19.7
Land Tax	\$254.9	2.3%	\$315.9	1.3%	\$61.0
Congestion Levy	\$156.2	1.4%	\$962.4	4.1%	\$806.2
Advertising, Marketing & Entertainment	\$850.3	7.6%	\$1,722.5	7.3%	\$872.2
Insurance	\$335.4	3.0%	\$275.0	1.2%	-\$60.4
Legal & Consultancy Fees	\$429.2	3.9%	\$900.8	3.8%	\$471.6
Utilities (including Recoveries)	\$327.2	2.9%	\$927.0	3.9%	\$599.8
Depreciation	\$298.2	2.7%	\$936.9	4.0%	\$638.7
Facilities/Repairs & Maintenance	\$606.0	5.4%	\$841.8	3.6%	\$235.8
Director Fees	\$176.0	1.6%	\$224.4	0.9%	\$48.4
Cost of Goods Sold	\$0	0.0%	\$501.7	2.1%	\$501.7
Other	\$439.5	4.0%	\$2,618.0	11.1%	\$2,178.5

Source: SGS Economics & Planning based on QVMPL profit and loss statements.

3.3 Increasing facilities repairs and maintenance costs

QVM is a heritage asset, and the community expects that its structures are maintained to a standard appropriate for such a significant heritage asset. This being the case, significant and ongoing works are required to prevent the structures and broader precinct falling into disrepair.

At present QVMPL is unable to generate sufficient returns for the City of Melbourne to fund the renewal of assets, meaning that City residents and potentially Victorian taxpayers will be called upon to maintain QVMPL structures in perpetuity.

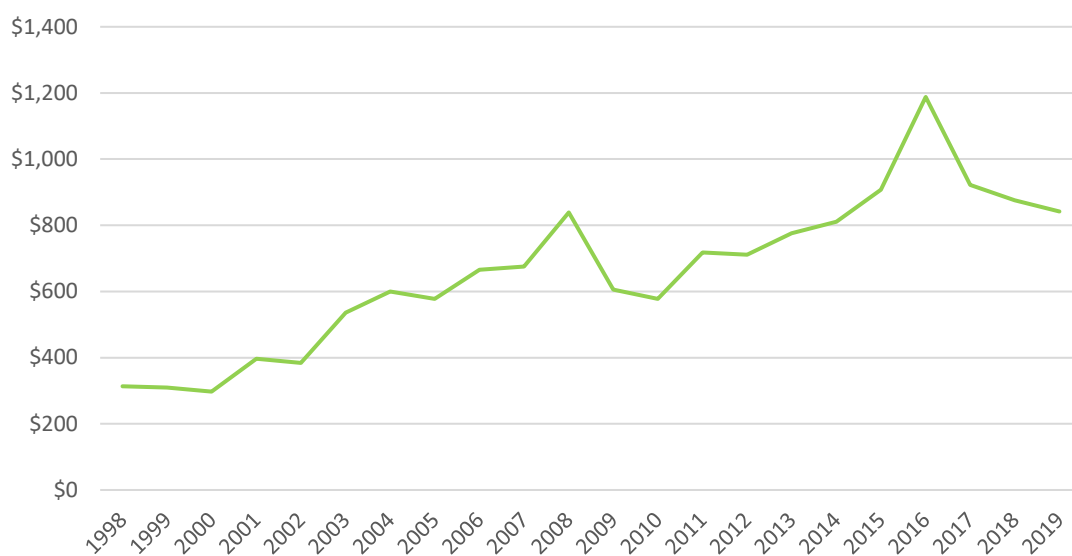
Historic maintenance costs

Facilities repairs and maintenance costs incurred by QVMPL, in its capacity as the precinct's prime tenant, have increased significantly over the past two decades.⁴⁰ This is a result of the low level of capital improvements made in the precinct since the 1990s. In the 2015/16 financial year, QVMPL's expenditure on facilities repairs and maintenance costs peaked at over \$1.1m and remained at historically high levels to the 2019 FY.

³⁹ In any event, even if the increase in costs over this time period (between \$300,000 and \$400,000 per annum) were added back in, a marked deterioration in QVMPL's operating position would still be evident.

⁴⁰ Based on QVMPL profit and loss statements

FIGURE 3. QVMPL EXPENDITURE ON FACILITIES REPAIRS AND MAINTENANCE (\$'000) (1997/98-2018/19)



Source: SGS Economics & Planning based on QVMPL profit and loss statements.

City of Melbourne heritage restoration program

The City of Melbourne, as landlord, has committed to a major heritage maintenance/conservation program that is independent of these above mentioned works by QVMPL.

Donald Cant Watts Corke has estimated that these near term works to restore QVM’s heritage structures will cost approximately \$25.000 million.⁴¹ SGS understands that these works are likely to occur over approximately four years – beginning in May 2020 and concluding in July 2024.

While these QVM’s repairs and maintenance costs are increasing, both for QVMPL and Council, it is important to note that these expenditures in no way address the underlying issue facing the market, as described in Section 2. Therefore, these combined expenditures in no way address the Market’s underlying issues; meaning they won’t improve future financial performance of traders, stallholders or QVMPL.

Heightened maintenance works will likely to be required into the future as market infrastructure continues to age, to ensure that market infrastructure meets the minimum expectations of the community. Given that the City has not drawn any payments from the QVMPL since 2015/16 (i.e. no licence fee, no dividends), a profound change in the Market’s financial performance needs to occur if funding for these works is to be secured.

3.4 Base case financial projections

QVMPL financial projections indicate that the profitability outlook for the Market will remain poor under a business as usual scenario – where there is no material capital investment in the Market. The section below summarises these financial projections, identifies and explains the underlying causes of the declining financial performance, and summarises the implications of a scenario in which there is no capital investment at the Market.

Summary charts/ tables

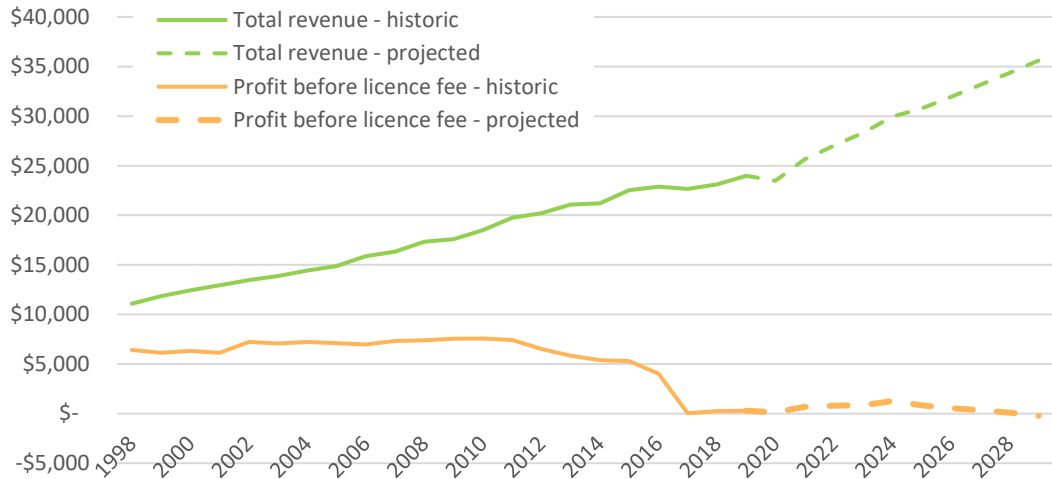
Figure 4 shows the historical financial performance of QVM between 1999 FY and 2019 FY, including projections to 2029; showing revenues as well as profit before the payment of any

⁴¹ Donald Cant Watts Corke; City of Melbourne, Queen Victoria Market Precinct Renewal, Restoration of sheds A-F & H-M cost plan report, 16 October 2019.

dividends or licence fees to the City of Melbourne. Essentially it presents a continuation of the historic poor financial performance.

Under the base case, profitability is projected to average around \$0.5 million per annum over the forecast period; a figure which is low by historical standards and insufficient to allow QVMPL to pay any licence fee or dividends to the City of Melbourne (\$4.635 million p.a. previously).

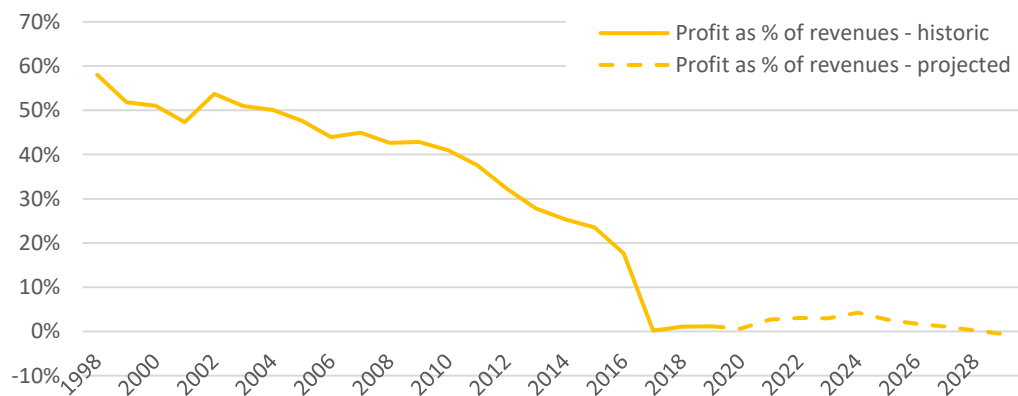
FIGURE 4. BASE CASE QVMPL PROFITABILITY, 1997/98 TO 2028/29 (\$'000)



Source: SGS Economics & Planning based on QVMPL profit and loss statements and financial projections.

Figure 5 presents a different perspective on profitability (before payments to City of Melbourne), looking at profits as a percentage of total revenues. It shows that profits are expected to remain between 0 and 3 per cent of revenues most years under a business as usual scenario. This compares poorly to the significantly higher rates of 20 per cent or higher that were achieved by QVMPL prior to 2015.

FIGURE 5. BASE CASE QVMPL PROFITABILITY (PRE-DIVIDEND & LICENSE FEE PAYMENTS) 1997/98 TO 2028/29



Source: SGS Economics & Planning based on QVMPL profit and loss statements and financial projections.

3.5 Analysis of key drivers

Forecast revenues

On the revenue side, the continued poor performance of QVMPL is expected to be driven by the continued underperformance of open stands and leasehold tenancies. Although revenues associated with these key sources is expected to increase, they will not increase enough to

offset anticipated increases in costs. The share of total revenue accounted for by each of these categories expected to decline.

To some extent, the poor performance of these 'traditional' revenue sources will be offset by growth in revenue drawn from night markets and an expanded events program.

TABLE 3. BASE CASE REVENUE PROJECTIONS, 2019 FY TO 2029 FY (\$000)

	2019 FY	Proportion of total revenues	2029 FY	Proportion of total revenues	Change, 2019 FY to 2029 FY
Open Stands	\$7,966	33.2%	\$10,565	28.8%	\$2,598
Leasehold Tenants	\$6,978	29.1%	\$9,372	25.5%	\$2,394
Car Park Revenue	\$4,257	17.8%	\$6,102	16.6%	\$1,845
Bar Operations	\$1,782	7.4%	\$3,969	10.8%	\$2,187
Night Market Stall Fees/Rentals	\$1,625	6.7%	\$3,116	8.5%	\$1,491
Other Events/Activations	\$238	1.0%	\$1,119	3.0%	\$881
Other	\$1,129	4.7%	\$2,481	6.8%	\$1,352

Source: SGS Economics & Planning based on QVMPL profit and loss statements and financial projections.

Forecast costs

Summary of the cost projections show that increasing costs are driven primarily by the impost associated with:

- Facilities repair and maintenance
- Employee costs
- Cleaning and waste management, and
- The expansion of QVM's entertainment and visitation offer.

TABLE 4. BASE CASE COST PROJECTIONS, 2019 FY TO 2029 FY (\$000)

	2019 FY	Proportion of total revenues	2029 FY	Proportion of total revenues	Change, 2019 FY to 2029 FY
Cost of Goods Sold - Bar	\$502	2.1%	\$1,310	5.3%	\$808
Cleaning & Waste Management	\$4,654	19.6%	\$6,823	27.4%	\$2,169
Employee Costs	\$6,864	29.0%	\$9,393	37.7%	\$2,529
Security	\$1,094	4.6%	\$1,549	6.2%	\$455
Congestion Levy	\$962	4.1%	\$1,438	5.8%	\$475
Advertising, Marketing & Entertainment	\$1,723	7.3%	\$2,611	10.5%	\$888
Legal & Consultancy Fees	\$901	3.8%	\$747	3.0%	-\$153
Utilities (including Recoveries)	\$927	3.9%	\$1,460	5.9%	\$533
Depreciation	\$937	4.0%	\$657	2.6%	-\$280
Facilities/Repairs & Maintenance	\$842	3.6%	\$5,182	20.8%	\$4,340
Other	\$4,290	18.1%	-\$6,225.7	-25.0%	-\$10,515

Source: SGS Economics & Planning based on QVMPL profit and loss statements and financial projections.

3.6 Conclusions

Under the base case, QVMPL is not projected to generate a significant financial surplus for the foreseeable future which will impact on the ongoing, sustainable use of the precinct as a financially viable, open air market. The analysis highlights that QVM in its present format is incapable of providing a retailing space that allows traders to adapt to the needs of the modern retail environment. As a result, the space will become decreasingly attractive to retailers as visitation and expenditure shares decline (relative to other retail types in metropolitan Melbourne).

Low visitation and expenditure shares (combined with increasing costs of operation), means that the City of Melbourne is unable to derive financial benefit from Market operations and therefore will fail to deliver the works necessary to maintain the heritage asset in an acceptable condition.

In all likelihood this means that, under the business as usual case, Council will be forced to choose to either fund ongoing maintenance of the heritage asset through general rates, or to allow the Market to fall further into disrepair, which does not allow the original and ongoing use of the place to be sustainable in the long term.

4. PREFERRED MARKET RENEWAL OPTION

This section describes the financial performance of Council's preferred option for renewing the Market. It shows that the constraints of the business as usual are overcome and the Market's operations are transformed into a financially sustainable position. Heritage assets are conserved and restored during this renewal process.

4.1 Preferred renewal approach

Council's preferred renewal option for the Market is detailed by NH Architecture, Schematic Design Report, August 2019.

The following extract from the NH Architecture Schematic Design Report, page 15, summarises how this preferred option addresses the underlying issues facing the Market.

Outdated QVMPL and trader operating modes undermine Queen Victoria Market's sustainability

Queen Victoria Market's poor use of available trading space and inadequate infrastructure compromise the market's productivity while contributing to the issues of poor retail competitiveness, environmental sustainability and consequential attractiveness of the market to customers and visitors.

By modernising operating practices, business (operation and tenant) viability will be improved. Relocating back-of-house facilities from the market trading area will have significant benefit. It will create more space for traders to run their business and for visitors to walk through the market. It will allow a wider variety of produce and events programming across the market site, increasing the market's overall competitiveness in the wider retail environment and its attractiveness to small business. It will also help the market become more sustainable with improvements to energy consumption and waste management and reductions in greenhouse gas emissions.

Inadequate facilities compromise QVM's security, safety and compliance

Current infrastructure within the QVM precinct is inappropriate and inadequate. This poses safety and security risks, in terms of vehicle and forklift access and operations in pedestrian areas and appropriate food handling and storage practices.

By addressing operating conflicts, precinct wide safety, security and compliance with health standards can be improved. With the creation of dedicated back-of-house facilities with appropriate delivery areas, this will improve safety by removing the co-location of service vehicles and forklifts with market visitors and traders.

Efficiencies can also be taken into consideration with steps undertaken to design for clear segregation of logistical movements and pedestrians for safety, without disruption to market operations.

Moreover, the provision of vermin proof storage and access to trader hand washing facilities will significantly improve compliance with health and food safety regulations.

QVM's constrained offer is unable to adapt to meet evolving customer expectations.

In order for QVM to be competitive in today's retail environment, its offer needs to evolve to meet current customers' needs and provide improved amenities and access to people of all abilities.

With the improvement of visitor amenity in the market precinct and expanding the market's offer; this will improve the overall market experience. This includes building on the traditional offer by providing greater weekday convenience for city residents and workers; ensuring there is always something appealing for tourists; and supporting local businesses with fresh produce and value added products.

Likewise, proposed changes to road and intersection configuration, and the dissemination of customer parking across the precinct (including at the Munro and Southern Development sites), will remove existing hazards and improve safety and accessibility for cyclists, pedestrians and road users within the market precinct and surrounding area. These changes will also provide for the enhanced utilisation of public space.

Underperforming public and heritage assets at the QVM hamper City North's liveability

The 7ha market site is currently not realising the role it can play in helping address a lack of public space and community facilities in the growing City North area.

This can be improved with better amenity, connectivity and community services in the growing City North through creating more public and community spaces within the market site. In particular through converting the current car park into a 1.5 hectare public space, this will meet the growing resident needs of the City North area while supporting market festivals and activities. Other works will make the site more accessible to people of all abilities and improve safety for pedestrians.

4.2 Summary of financial projections

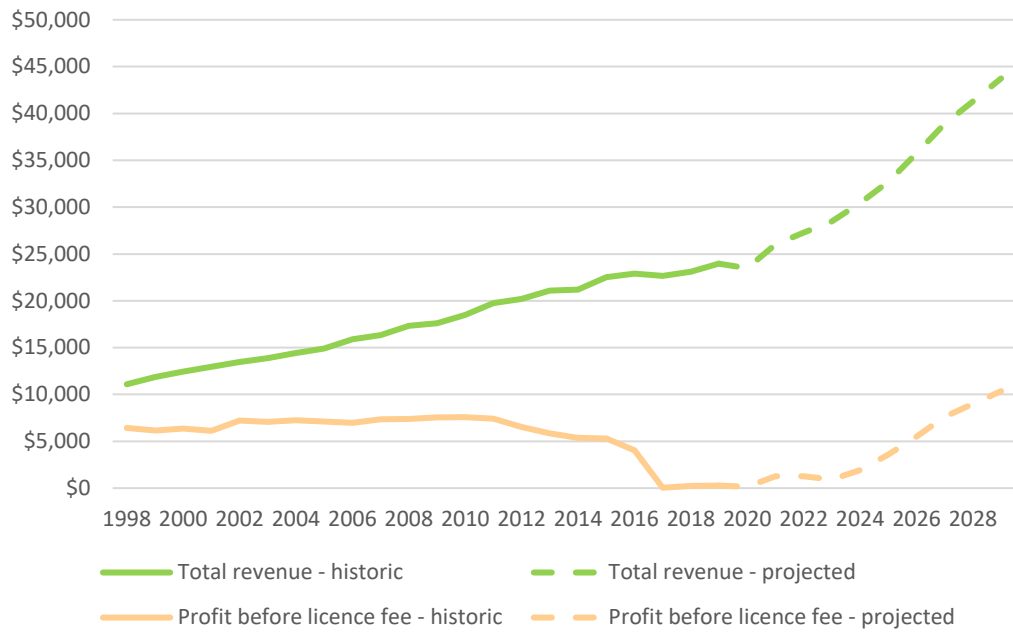
QVMPL has provided financial projections setting out its likely performance to 2029 under the 'preferred option' in which renewal is carried out.

Figure 6 shows the financial performance of QVMPL between 1999 FY and 2019 FY, and projections to 2029 prior to payment of licence fees and dividends to the City of Melbourne.

It presents a clear picture of improvement in financial performance following the renewal works, with an increase in annual QVMPL profits to more than \$10 million by 2028. If achieved, this figure would be substantially greater than any annual payment made to Council by QVMPL since 1998.

Under the project case, the annual profitability of QVM return to levels seen prior to 2010.

FIGURE 6. PROJECT CASE QVMPL PROFITABILITY, 1997/98 TO 2028/29 (\$'000)

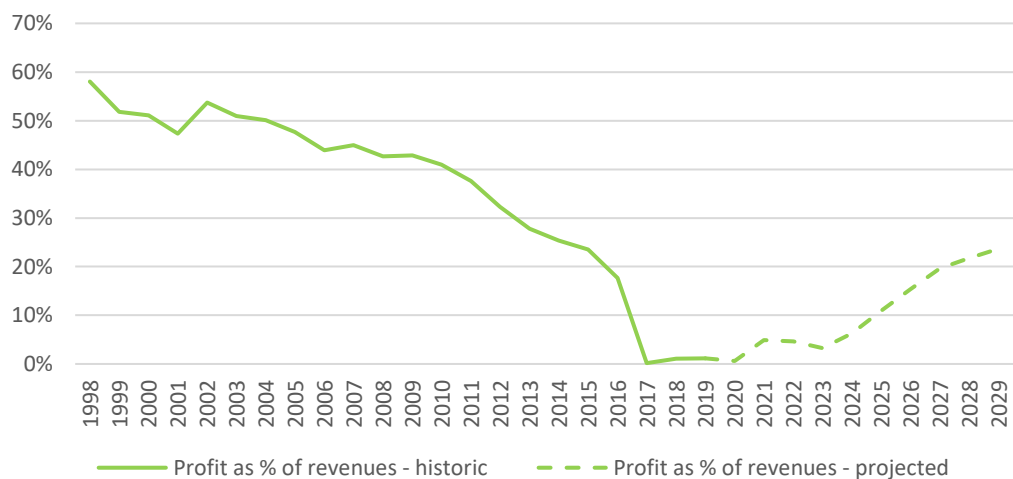


Source: SGS Economics & Planning based on QVMPL profit and loss statements and financial projections.

Figure 7 presents a picture of profitability (before payments to the City of Melbourne), comparing profits to total revenues. The chart shows a decline in the ratio of profit to revenue since the 1999 FY.

After renewal, the ratio of QVMPL profits to revenues is projected to return to levels not seen since 2015, with a clear upward trajectory.

FIGURE 7. PROJECT CASE QVMPL PROFITABILITY (PRE-DIVIDEND & LICENSE FEE PAYMENT), 1997/98 TO 2028/29



Source: SGS Economics & Planning based on QVMPL profit and loss statements and financial projections.

4.3 Analysis of key drivers

Forecast revenues

The projections show that the proportion of revenues generated from ‘traditional’ market spaces (i.e. from open stands and leasehold tenants) is expected to remain relatively steady

to 2029, in contrast to the base case, where traditional uses become decreasingly important sources of revenue.

At the same time, bar operations, night markets and other events will make up an increasingly significant proportion of total revenues, as QVM works towards diversifying its offer.

TABLE 5. PROJECT CASE QVMPL REVENUE PROJECTIONS, 2019 FY TO 2029 FY (\$'000)

	2019 FY	Proportion of total revenues	2029 FY	Proportion of total revenues	Change, 2009 FY to 2019 FY
Open Stands	\$7,966.1	33.2%	\$15,468.9	35.4%	\$7,502.8
Leasehold Tenants	\$6,977.9	29.1%	\$12,486.3	28.5%	\$5,508.4
Car Park Revenue	\$4,256.9	17.8%	\$6,102.0	14.0%	\$1,845.1
Bar Operations	\$1,781.7	7.4%	\$3,969.0	9.1%	\$2,187.3
Night Market Stall Fees/Rentals	\$1,625.2	6.7%	\$3,116.6	7.2%	\$1,491.4
Other Events/Activations	\$238.4	1.0%	\$1,119.2	2.6%	\$880.8
Other	\$1,128.6	4.7%	\$1,476.6	3.4%	\$348.0

Source: SGS Economics & Planning based on QVMPL financial projections.

Forecast costs

The summary of the cost projections shows that increasing costs are driven primarily by the impost associated with:

- Employee costs
- Cleaning and waste management
- Facilities repair and maintenance, and
- The expansion of QVM's entertainment and visitation offer.

TABLE 6. PROJECT CASE QVMPL COST PROJECTIONS, 2019 FY TO 2029 FY

	2019 FY	Proportion of total costs	2029 FY	Proportion of total costs	Change, 2019 FY to 2029 FY
Costs of Goods Sold - Bar	\$501.7	2.1%	\$1,309.8	3.9%	\$808.1
Cleaning & Waste Management	\$4,653.9	19.6%	\$6,823.1	20.4%	\$2,169.2
Employee Costs	\$6,863.9	29.0%	\$9,524.0	28.5%	\$2,660.1
Security	\$1,094.2	4.6%	\$1,549.0	4.6%	\$454.8
Congestion Levy	\$962.4	4.1%	\$1,437.6	4.3%	\$475.2
Advertising, Marketing & Entertainment	\$1,722.5	7.3%	\$2,610.9	7.8%	\$888.4
Legal & Consultancy Fees	\$900.8	3.8%	\$747.4	2.2%	-\$153.4
Utilities (including Recoveries)	\$927.0	3.9%	\$1,603.6	4.8%	\$676.6
Depreciation	\$936.9	4.0%	\$656.7	2.0%	-\$280.2
Facilities/Repairs & Maintenance	\$841.8	3.6%	\$2,793.4	8.4%	\$1,951.6
Other	\$4,289.5	18.1%	\$4,334.7	13.0%	\$45.2

Source: SGS Economics & Planning based on QVMPL financial projections.

4.4 Conclusions

The analysis shows that, under Council’s preferred renewal approach, QVMPL is likely to generate significant growth in revenues, driven by increased visitation to a facility that is modern, appealing to potential customers, and equipped to adapt to a rapidly changing retail environment. In doing so, the prominence of the Market to Victorians will be retained and, in this sense, its heritage values protected and retained.

A renewed market precinct is expected to be significantly more profitable than under the base case as described in Section 3, with greater than \$5 million projected in annual profits for 2027 and beyond; theoretically supporting the reinstatement of an annual licence fee and dividends to the City of Melbourne, which is likely to support the ongoing conservation and maintenance of the place, as well as capital improvements relating to the conservation of the market buildings.

Finally, in the longer term under the renewal scenario, the Market is likely to be able to fund a maintenance program out of its own revenues, reducing the risk to ratepayers of having to fund ongoing maintenance and restoration works through general rates, and allowing the Market to retain its historic use in an economically and financially viable way.

Summary of key figures:

- Under the base case between 2019 and 2029, the cost of repairs and maintenance to QVMPL is expected to increase from \$841,000 (3.6 per cent of total costs) to \$2.793 million (8.4 per cent of total costs).
- Under the base case, by 2029, QVMPL is projected to make a loss of around \$230,000, while, under the project case, an annual profit of \$6.46 million is projected. This improved performance will allow QVMPL to resume payment of licence fees and dividends to the City of Melbourne.
- The increase in ‘renewal related legal and consultancy costs’ incurred by QVMPL was between \$300,000 and \$400,000 per annum between the 2016 and 2019 financial years. In the context of a decline in overall market profitability from \$7.425 million in 2010 to \$0.248 million in 2019, this is clearly inconsequential in driving the declining financial performance.
- Renewal is projected to improve the performance of the ‘open stands’ component of the Market, with an additional \$1 million in revenues generated in 2029 under the project case, relative to the base case as described in Section 3.

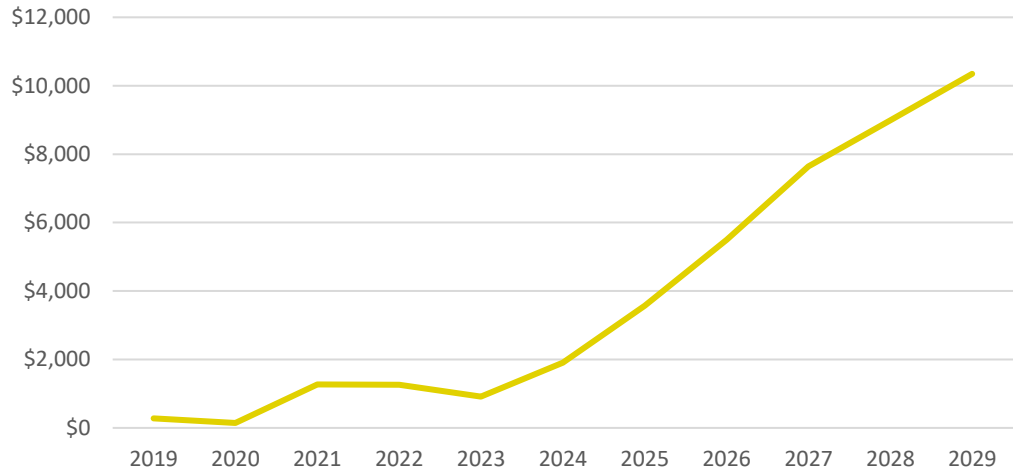
The following table summarises key figures from the base and project cases, summarising the key differences between each. It highlights that the growth in revenues projected under the base case will be driven by ‘open stands’ and ‘leasehold tenants’ revenue. On the cost side, the bulk of the difference between the base and project cases is attributable to facilities repair/ maintenance incurred y QVMPL.

TABLE 7. COMPARISON OF KEY QVMPL FIGURES, BASE AND PROJECT CASES, 2029

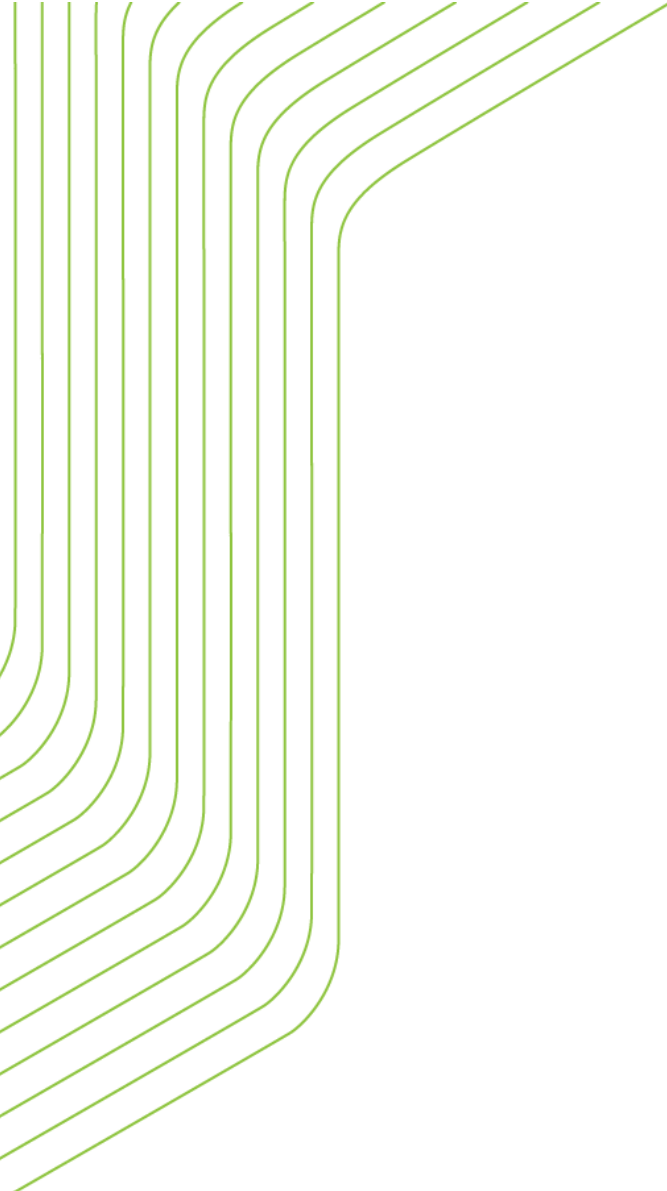
	Base case	Project case
Revenues, total (2029)	\$35.64m	\$43.74m
- Open stands revenue (2029)	\$10.56m	\$15.47m
- Leasehold tenants revenue (2029)	\$9.37m	\$12.49m
Costs, total (2029)	\$35.82m	\$33.39m
- Facilities repair/ maintenance	\$5.18m	\$2.79m

Profits, before licence fee & dividends (2029)	-\$0.18m	\$10.35m
Potential licence fees & dividends (2029)	-	\$10.00m

FIGURE 8. PROJECT CASE QVMPL PROFITABILITY (PRE-DIVIDEND & LICENCE FEE PAYMENT), 2018/19 TO 2028/29 (\$'000)



Source: SGS Economics & Planning based on QVMPL financial projections.



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