

# Queen Victoria Market Precinct Renewal Program

## Business case

City of Melbourne, June 2017



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# 1 EXECUTIVE SUMMARY

Queen Victoria Market has continuously traded for nearly 140 years. It is the longest surviving marketplace of its size and diversity in Australia. A critical part of Melbourne's early development, the market continues to play a central role in the city's cultural, business and social life.

Home to more than 650 independently owned businesses, Queen Victoria Market is renowned for its multicultural community of market traders and its unique offer, with affordability, authenticity, fresh produce and a diversity of merchandise underpinning the long held traditions of Melbourne's marketplace.

However, as well loved as it is, the market is in a state of physical and financial decline and is in need of significant renewal. The market is lacking in amenities, facilities and spaces to adequately provide for present-day and future needs. The site faces increasing challenges in terms of complying with modern day operating standards and legislative requirements, including with respect to work, health and safety and food safety. There is significant potential to make greater use of the 7 ha site, with new and enhanced public open spaces and a more diverse market offer, including events and activities that complement the traditional market.

This updated Business Case provides a clear rationale for investing in the market and its surrounding precinct through the Queen Victoria Market Precinct Renewal (QVMPR) Program. It confirms that only renewal will ensure the future viability of the market and that dedicated below ground operational facilities are essential to address the identified problems facing the market. Moderate investment will not address the market's challenges in the long-term, and a business as usual approach will result in a continued loss of profitability and a requirement for Council to subsidise Queen Victoria Market Pty Ltd's operations over time.

The rationale for undertaking the QVMPR Program is first and foremost predicated on securing the market's place as a traditional open air market – retaining its heritage, traditions, unique offer and authenticity by making it more financially viable and equipped to support contemporary business requirements into the future.

The Business Case also outlines the funding strategy that has been developed by the City of Melbourne to deliver the QVMPR Program, as independently assessed by Price Waterhouse Coopers. It outlines how renewal will be delivered at a net capital cost of approximately \$238 million, within Council's publicly announced commitment to spend up to \$250 million on renewal.

Importantly, the Business Case reinforces that existing traders will not need to pay more to fund renewal. Average annual increases in lease and licence fees for existing traders will be no greater than 3 per cent per annum, and this is the basis on which this Business Case has been modelled. Instead, Queen Victoria Market Pty Ltd's future revenue growth is underpinned by the creation of new below ground infrastructure for traders – improving efficiencies and creating a larger net lettable area for additional traders above ground and the creation of more flexible spaces for programming and events.

The following benefits are identified through the Business Case investment logic:

- improved visitor experience and diversified market offer to meet evolving customer expectations
- improved amenity, connectivity and community services in the growing City North
- improved precinct-wide safety, security and compliance with health standards by addressing operating conflicts
- improved business (operation and tenant) viability by modernising operating practices to ensure the market's future sustainability.

The above benefits will better position the market precinct to play a more active role in the life of the city and realise its social, economic and community benefits. This includes programming a variety of changing offers and events to support the traditional market and reflect the needs of loyal customers and the increasing number of city residents.

Another key outcome of the QVMPR Program is the preservation of the market's physical heritage. These works are not only vital to protecting and celebrating the market's heritage, but will also ensure the historic elements of the site continue to provide an invaluable drawcard for market visitors, further supporting the long-term viability of the market.

This Business Case evaluates three key options for delivering the QVMPR Program vision, addressing the key challenges currently faced by the Queen Victoria Market and ensuring it can realise strategic, financial and community benefits:

- option one (base case) identifies a business as usual scenario at the market and includes progressive tackling of safety, security and maintenance issues. It will not address the current problems facing the market and will result in Council being required to subsidise the operations of the market at a cost of more than \$100 million over the next 30 years.
- option two includes limited below-ground trader infrastructure and upgrades to existing above ground infrastructure and facilities. It will result in a net present value (NPV) benefit increment of \$30 million over the base case.
- option three is the Queen Victoria Market Precinct Renewal Program. Only Option 3 addresses all of the identified problems facing the market and will deliver the strategic, financial and community welfare benefits required to sustain the future viability of the Queen Victoria Market. This significant investment will provide a NPV benefit increment of \$116 million.

The release of this updated Business Case aims to provide all stakeholders including traders, customers, the broader community, interested parties, Queen Victoria Market Pty Ltd and the City of Melbourne with a clear understanding of the strategic justification for why the level of investment and renewal within the market precinct is required now. It also outlines the implications of not progressing with the QVMPR Program and the implementation arrangements necessary to ensure strategic objectives are achieved.

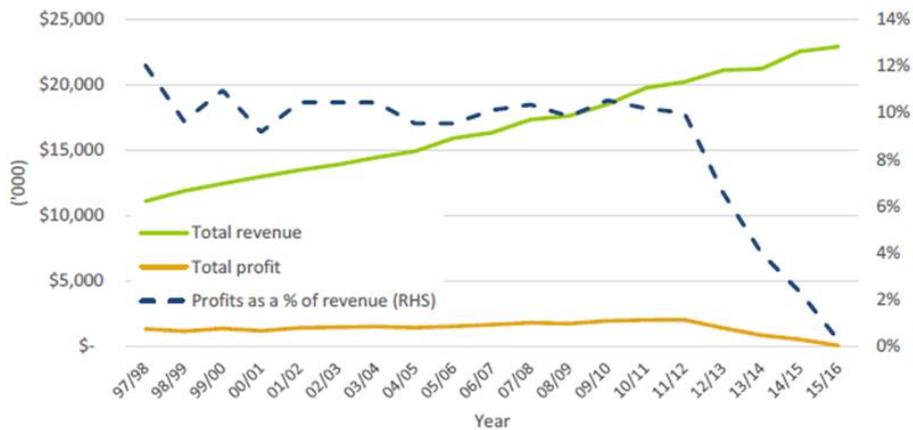
## 1.1 Current context: What is currently happening at the market?

### Poor financial performance

#### Queen Victoria Market Pty Ltd returning zero profit

The profitability of Queen Victoria Market Pty Ltd has declined consistently since the late 1990s due to a number of key contributing factors. While revenue has steadily increased during this period, this has been driven by non-core market areas such as car parking and the night market, not from the traditional, open air market comprising fruit and vegetable and general merchandise traders. Expenditure has also grown during this period, and over the past five years the market's profitability has declined to zero per cent. This is illustrated in the figure below.

FIGURE 1 QUEEN VICTORIA MARKET PTY LTD – CURRENT FINANCIAL PERFORMANCE



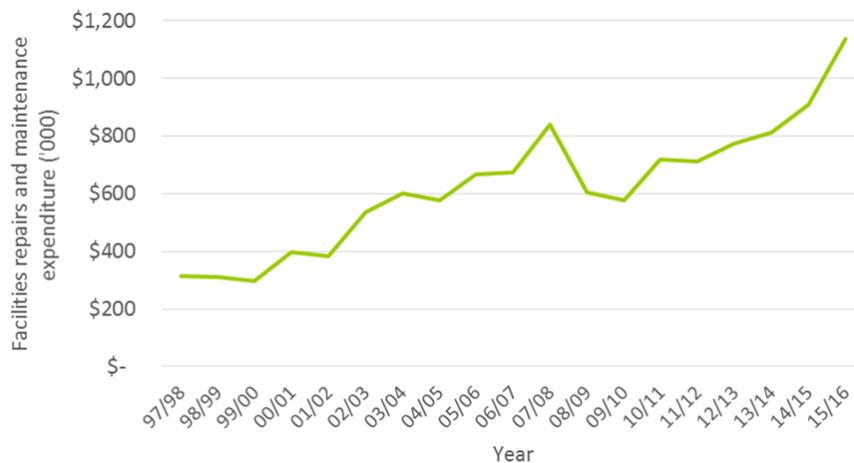
Source: SGS Economics & Planning (2017) based on QVMPL profit and loss statements.  
 Note: Car parking and night market revenues have been increasingly important over the past 5 years.  
 Note: State government congestion levies and stagnant market rentals/ licence fees have also contributed significantly to the deteriorating financial performance over the past 5 years.

### Increasing facilities repairs and maintenance costs

Annual capital contributions to maintenance of the market are no longer sufficient to sustain the ageing heritage buildings and provide the trader infrastructure and customer amenity required to support the market’s day-to-day operations and viability.

Facilities repairs and maintenance costs at Queen Victoria Market have increased by more than 70 per cent over the past 10 years. In the 2015-16 financial year, expenditure on facilities repairs and maintenance costs amounted to over \$1.1 million. While at present this figure only comprises 5 per cent of the market’s total expenditure, the trend over recent years suggests that repairs and maintenance costs are likely to escalate significantly in the future.

FIGURE 2 FACILITIES REPAIRS AND MAINTENANCE EXPENDITURES



### Changing retail environment

Queen Victoria Market was once Melbourne’s premier location for sourcing fresh produce. However, in recent decades, Queen Victoria Market Pty Ltd and its small business operators have been impacted by a

number of changing retail conditions. This has included the rise of convenient, local supermarkets, the upsurge of competition from new farmers' markets, other specialty markets, online retail and the relocation of the wholesale fruit and vegetable market to Epping.

### **Inefficient operating modes and business attractiveness**

Traders at Queen Victoria Market face a range of operational issues that compromise the efficiency and productivity of their work and diminish the appeal 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 raised similar concerns.

With a lack of back-of-house facilities, many hours are spent each day by traders setting up and packing down stalls, relocating stock to other parts of the market site, and finding alternatives to inadequate storage and loading facilities. Other issues include limited access to power, water and the internet, insufficient trader amenities and lack of weather protection. The safety issues described in Problem 3 (see Section 3) also detract from business satisfaction at the market.

Given the reasons listed above, Queen Victoria Market's attractiveness to new retail traders, formats and offers is very limited. In addition, there is a low level of short-term business confidence among current traders.

### **Poor amenities and safety**

Queen Victoria Market is sorely lacking in amenities, facilities and spaces to adequately provide for present-day needs. Its heritage buildings are also in a state of disrepair. Plant and equipment, where it exists, is outdated and fails to meet contemporary standards for sustainable building management. This means the site faces increasing challenges in terms of complying with modern day operating standards and legislative requirements, including with respect to work, health and safety and food safety. The poor standard of trader facilities compromises day-to-day business operations in terms of efficiency, viability and amenities that do not meet customer expectations.

While the overall atmosphere of the Queen Victoria Market is rated highly by visitors, almost a quarter of these visitors do not find the appearance of the market satisfactory, while one in three visitors are dissatisfied with its cleanliness. Visitor infrastructure is definitely in need of improvement, including the need for additional seating, particularly in food courts and eating areas. This is supported by recent visitor surveys where more seating was cited as one of the top five suggested improvements for the market.<sup>1</sup>

The need for improved weather protection was also identified as a part of consultation for the development of a Master Plan for the Queen Victoria Market. While the market's identity as an open-air market is invaluable – 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. The market experiences drops in customer footfall on days of inclement weather and extreme heat, further reducing its appeal for market trading. Exposure to the elements, combined with minimal on-site cold and dry storage, poses significant issues for stock in terms of spoilage and damage.

### **Inadequate waste management systems**

Currently, a significant proportion of Queen Victoria Market Pty Ltd's \$4.4 million cleaning costs are dedicated to waste removal as a result of inadequate waste removal systems and facilities. The market has no centralised waste transfer area or recycling station. This results in considerable resources being spent on collecting and disposing of waste generated by market operations, including fish and meat offal, organics and packaging. Cleaning costs at the market have increased by \$1.8 million (71 per cent) over the past 10 years.

The lack of waste management facilities also has implications for visitor amenity and results in a large proportion of potentially recyclable waste being sent to landfill.

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<sup>1</sup>Sweeney Research Queen Victoria Market Visitor Report, 2013.

## 1.2 Queen Victoria Market Precinct Renewal Program

In October 2013, the City of Melbourne announced its intention to renew the Queen Victoria Market and surrounding precinct, proposing to spend up to \$250 million to secure the market's future.

Following extensive community and trader engagement, the QVMPR Master Plan and Implementation Framework were created to guide the delivery of the five-year renewal program. The program commences in 2017, signalling the start of the single largest market renewal in the world right now.

The QVMPR Program seeks to preserve and celebrate the market's long history, while investing in safe, efficient and sustainable trader facilities to make day-to-day business operations more viable. Improved customer amenities and facilities, and the creation of new open spaces, will support the market and seek to better meet the needs of this growing part of the city.

## 1.3 Why has the Business Case been updated?

In late 2016 SGS was asked to review the existing material relating to the QVMPR program and update the program's Business Case. The reason for updating the document was to incorporate and consider a number of events that have taken place since the initial Business Case was prepared in 2012.

The original Business Case was a Commercial in Confidence document presented to the State Government that highlighted the need for significant investment, without which the Queen Victoria Market would face an uncertain future.

It established the basis for Council's long term strategy for Queen Victoria Market, seeking to position it at the centre of the emerging City North precinct, and in doing so, secure its long term future as a viable, working marketplace. The original Business Case ultimately informed Council's announcement in late 2013 to renew the market.

While this Business Case strongly reinforces the original premise, it has been updated to take into account the following changes since 2012:

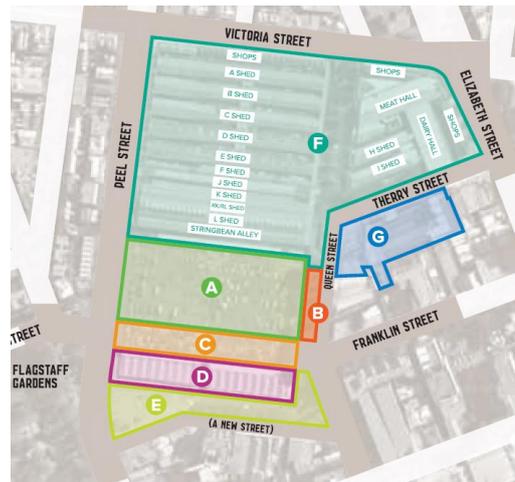
- Council's execution of the State Government agreement covering land transfers and associated performance requirements (September 2014)
- completion of three phases of public community engagement over an 18 month period (October 2013 to May 2015) informing the Queen Victoria Market Pty Ltd Strategic Brief (February 2015) and QVMPR Master Plan
- Council's endorsement of the Queen Victoria Market Precinct Renewal Master Plan (July 2015) and Implementation Framework (August 2016)
- Council's strategic purchase of the 'Munro site' (October 2014), protecting it from inappropriate development and enabling complementary investment in community facilities and affordable housing
- development of Amendment C245 to the Planning Scheme, which proposes to change land use regulation to enable the delivery of the Queen Victoria Market Precinct Renewal Master Plan (July 2015)
- release of Queen Victoria Market Pty Ltd's Melbourne's Marketplace Retail Plan (May 2017).

## 1.4 State Agreement

When scoping renewal options, considerations have been incorporated to meet the terms of the agreement Council has entered with the Victorian Government (2014). Under this Agreement, the State has agreed that proceeds from the sale of public land parcels to the market's south will be reinvested into the market's renewal on the condition that Council commits to fully deliver on the outcomes stipulated in the Agreement as summarised in the figure below.

FIGURE 3 STATE AGREEMENT OUTCOME EXPECTATIONS

- A** Current car park replaced by 2019, new open space by 2022
- B** Queens Corner Building by 2026
- C** Franklin Street connection, roundabouts removed by 2019
- D** Franklin Street stores (D) retained and new development sites for mixed-use development (E) to follow in 2026
- F** Enhance upper market sheds A, B & C by 2019, retain authentic market character & experience
- G** *Munro site location added to agreement post purchase.*



In addition, Council has acquired the Munro site (location G), thereby expanding the area of the market precinct that is under Council's direct control and opening up a broader range of possibilities for the achievement of the State Agreement outcomes. The State Agreement was varied in 2015 to recognise this. The Munro site has since been integrated into the QVMPR Master Plan (2015) and further articulated in the QVMPR Implementation Framework (2016).

## 1.5 Investment rationale and benefits envisaged: What is the City of Melbourne trying to achieve by investing in the market?

The overarching investment logic for renewing Queen Victoria Market and securing its long term future, revolves around solving four key problems facing the precinct. If these problems are effectively addressed, key benefits will flow.

<b>Problem</b>	<b>Benefit</b>
<p><b>Queen Victoria Market’s constrained offer cannot adapt to meet evolving customer expectations</b></p> <p><i>In order for Queen Victoria Market to be competitive in today’s retail environment, its offer needs to evolve to meet current customer needs and provide improved amenities and access to people of all abilities.</i></p>	<p><b>Improve the visitor experience and diversity of the market offer</b></p> <p><i>Improving visitor amenity in the market precinct and expanding the market’s offer 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.</i></p>
<p><b>Underperforming public assets at the Queen Victoria Market hamper City North’s liveability</b></p> <p><i>The 7 ha 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.</i></p>	<p><b>Improved amenity, connectivity and community services in the growing City North</b></p> <p><i>Creating more public and community spaces within the market site, in particular converting the current car park into a 1.5 hectare public space, 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.</i></p>
<p><b>Inadequate systems and facilities compromise Queen Victoria Market’s security, safety and compliance</b></p> <p><i>Inappropriate and inadequate infrastructure within the Queen Victoria Market precinct, poses safety and security risks, in terms of vehicle and forklift access and operation in pedestrian areas, and appropriate food handling and storage practices.</i></p>	<p><b>Improved precinct wide safety, security and compliance with health standards by addressing operating conflicts</b></p> <p><i>The creation of dedicated back-of-house facilities with appropriate delivery areas will improve safety by removing the co-location of service vehicles and forklifts with market visitors and traders. Moreover, the provision of vermin-proof storage and access to trader hand washing facilities will significantly improve compliance with health and food safety regulations.</i></p>
<p><b>Outdated operating modes undermine Queen Victoria Market’s sustainability</b></p> <p><i>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.</i></p>	<p><b>Improved business (operation and tenant) viability by modernising operating practices</b></p> <p><i>Relocating back-of-house facilities from the market trading area will have significant benefit. It will create more space for traders to run their businesses 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 businesses. It will also help the market become more sustainable with improvements to energy consumption and waste management and reductions in greenhouse gas emissions.</i></p>

If the underlying problems identified are not solved, it is expected that the Queen Victoria Market precinct will gradually decline as a trading location, diminishing its relevance as a visitor and shopping destination and undermining the overall performance of this iconic asset. If this occurs, the significant social and economic contributions the market currently generates will decline, the financial returns earned for Council will turn into ongoing financial subsidies, and the market's reputation could be severely impacted.

## 1.6 Employment potential

Compared to other areas of the central city, the level of employment generated by the Queen Victoria Market is quite low. While the Queen Victoria Market has 314 jobs per hectare, other areas of the city accommodate 875 to 1,506 jobs per hectare. This underutilisation of land and the consequently low level of employment it generates is a suboptimal use of an important Council asset.

The underperformance of Queen Victoria Market also has an impact on employment in surrounding areas. A number of businesses are located close to the market precinct to capitalise on its high visitation rates. However, the current state of the market is restricting a number of new business opportunities.

Employment projections indicate that an additional 11,560 workers will be accommodated within the Market Core area as a result of the full QVMPR Program within 15 years, an implied growth rate of around 722 per annum.

## 1.7 Program options

### Options identification

Three key options have been analysed in this updated Business Case.

Drawing on the issues outlined above, effective options for renewing the Queen Victoria Market precinct must respond to the State Agreement by:

- improving the visitor experience and diversifying the offer
- improving amenity, connectivity and community services
- addressing operating conflicts, and
- modernising operating modes.

Two broad options both meet the car parking and market infrastructure delivery requirements outlined in the State Government Agreement. A 'business as usual' option has been explored to provide a baseline for decision-making, although it is acknowledged the case for change has already been articulated and forms the basis of the rationale that underpins the State Agreement.

### Option 1 – Business as usual

Option 1 is a business as usual scenario whereby the City of Melbourne elects not to pursue the renewal program, and therefore does not initiate the terms of the State Agreement. Business as usual in this context is not doing nothing, but includes the progressive tackling of safety and food handling compliance issues, and the ongoing escalation of asset maintenance, as the ageing infrastructure within the precinct rapidly deteriorates. This approach would see the continuation of a similar scale and scope of capital improvement within the market precinct that has been undertaken annually by Council over the last 20 years (approximately \$1-2 million per annum). Without significant overhaul, the cost of operating the market would continue to increase. With revenue continuing to decline the market would ultimately require Council to subsidise its operations at a cost of more than \$100 million over the next 30 years.

### Option 2 – Limited below ground

Option 2 consolidates replacement car parking to a new below ground facility to be developed at the Munro site (Quarter 4). The State Agreement obligation to improve market facilities in the lower market

(Quarter 1) is achieved by the construction of a new below ground area, as a means of adequately addressing the market precinct's significant public and workplace safety risks.

Under Option 2, back-of-house facilities are provided 'at grade' in the upper market (Quarter 2), necessitating the dedication and separation of a substantial area for operational activities and replacement storage facilities. This also necessitates the possible permanent removal of sections of the heritage sheds to accommodate larger vehicles.

Option 2 would see the upgrade of Sheds E, F, J, K, L and M with new infrastructure and facilities; the creation of a major new open space within Quarter 3, with construction of a new Market Square and a new Queens Corner building, along with the realignment of Franklin Street; improvement works on adjoining city streets with more trees and room for pedestrians and cyclists; and the subsequent commercial redevelopment of the southern sites land parcels.

### **Option 3 – Below ground**

Option 3 creates two new car parking areas that combine to replace the existing car park, distributing customers between a new below ground facility to be developed in Quarter 4, and a second below ground facility to be developed in Quarter 2 beneath Sheds A, B and C, with an entrance from Shed D adjacent to Peel Street.

The Quarter 2 below ground area is combined with new back-of-house facilities, meaning that both core parts of the market precinct (Quarter 1 and 2) are served by below ground facilities, in addition to Quarter 4.

The provision of essential market infrastructure and replacement storage via these below ground areas serves to expand the potential retail trading area and ensure public access to the heritage sheds is maintained, with the sheds fully retained after being temporarily removed for restoration.

In line with Option 2, Option 3 would also see the upgrade of Sheds E, F, J, K, L and M with new infrastructure and facilities; the creation of a major new open space within Quarter 3, with construction of new Market Square and a new Queens Corner building, along with the realignment of Franklin Street; improvement works on adjoining city streets with more trees and room for pedestrians and cyclists; and the subsequent commercial redevelopment of the southern sites land parcels.

## **1.8 Program options outcomes**

Table 1 outlines some of the key outcomes generated by each of these three options.

Figure 4 traces the financial returns generated by Queen Victoria Market Pty Ltd from ongoing operations (i.e. once renewal works are complete).

From these results it can be concluded that only Option 3 would address all of the identified problems facing Queen Victoria Market to secure its long term financial viability.

While Option 1 involves limited capital expenditure, it fails to address the deteriorating financial performance of Queen Victoria Market Pty Ltd; risking the social and economic contributions the market generates and threatening its long term sustainability as a working, traditional marketplace. Indeed, given recent performance, the net revenues forecast for Option 1 may be optimistic, as they assume real revenue growth over the long term.

TABLE 1 OUTCOMES UNDER OPTIONS 1, 2 AND 3

	Option 1	Option 2	Option 3
Total floor space (m <sup>2</sup> )	46,310	68,193	85,867
Net lettable floor space (m <sup>2</sup> )	24,531	25,661	29,940
Lettable trader back of house (m <sup>2</sup> )	1,915	3,015	6,215
Capital costs (\$ million)	Limited	222.83*	308.77*
2022/23 annual rents/ fees \$ (million)	15.97	20.81	25.74**
Trader rental increases (per m <sup>2</sup> )	3.0% p.a.***	3.0% p.a.***	3.0% p.a.***

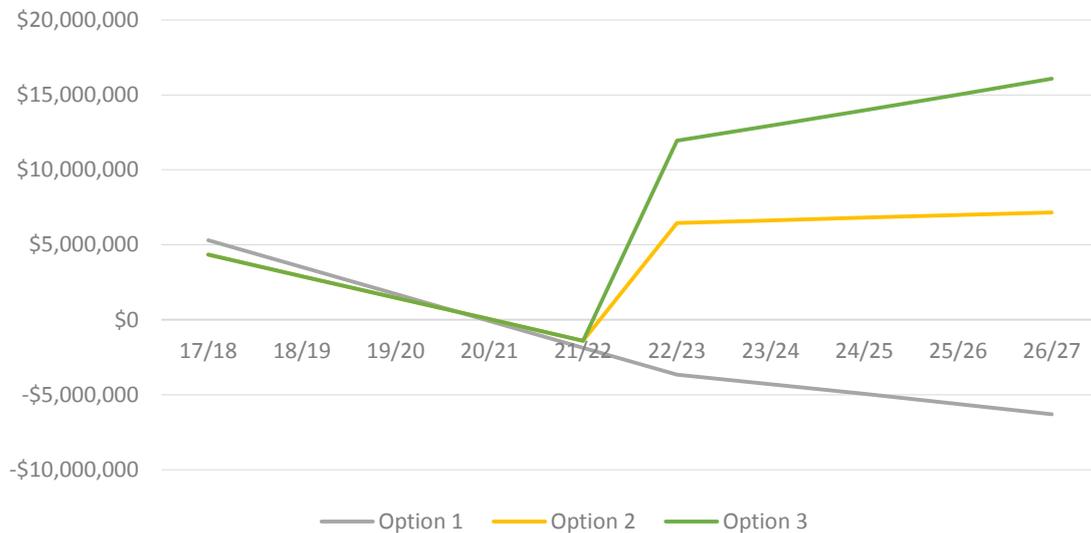
Source: City of Melbourne (2017)

\*excludes funding contributions from other asset sales.

\*\*this increase is driven by the addition of net lettable floor space combined with the commercial activation of other spaces.

\*\*\* average annual increases in lease and licence fees for existing traders will be no greater than 3% per annum, and this is the basis upon which this Business Case has been modelled.

FIGURE 4 COMPARATIVE NET REVENUE OUTCOMES UNDER OPTIONS 1, 2 AND 3\*



Source: SGS based on City of Melbourne (2017)

\*Net revenues before the payment of any licence fees or dividends to Council.

### 1.9 Program options analysis

Each of the competing program options have been analysed from the following perspectives:

- Strategic – how does each option deliver the benefits envisaged?
- Financial – how does each option impact Council finances?
- Community welfare – how does each option impact on community welfare levels?
- Key risks – how does each option compare in terms of key implementation risks?

Table 2 summarises the results of the strategic options analysis and details how each option performs against the changes/assets required to deliver the key benefits articulated earlier in the investment logic map.

TABLE 2 STRATEGIC BENEFIT DELIVERY OF OPTIONS

	Option 1	Option 2	Option 3
- Improved visitor value	Deteriorating	Medium-High	High
- Improved City North liveability	Deteriorating	Medium	High
- Improved precinct security, safety & compliance	Low	Medium-High	High
- Improved business (operator & tenant) viability	Deteriorating	Medium-High	High

Option 3 clearly outperforms Option 2, with Option 1 only progressively tackling compliance issues.

The financial, community welfare and key risk analyses are summarised in Table 3. In this table the analysis is reported using an incremental approach. That is, it summarises the financial, welfare and key risk implications of moving from the business as usual scenario (Option 1) to each of the precinct renewal options (Options 2 and 3).

TABLE 3. INTEGRATED ANALYSIS

	Option 2 Present value (\$000)*	Option 3 Present value (\$000)*
<b>FINANCIAL ANALYSIS</b>		
- Capital costs	\$175,141	\$254,277
- Operating cost savings	(\$114,908)	(\$114,908)
- Interest payments	\$87,445	\$99,820
<b>Total costs</b>	<b>\$147,678</b>	<b>\$239,190</b>
- Residual value	\$26,172	\$37,149
- Operating revenues	\$97,006	\$263,859
- Proceeds of other asset sales	\$54,847	\$54,847
<b>Total revenues</b>	<b>\$178,025</b>	<b>\$355,855</b>
<b>Net Present Value (\$000)</b>	<b>\$30,347</b>	<b>\$116,665</b>
<b>Internal Rate of Return</b>	<b>6.07%</b>	<b>7.31%</b>
<b>Payback period</b>	<b>More than 30 years</b>	<b>23 years</b>
<b>COST BENEFIT ANALYSIS</b>		
<b>Capital costs</b>	\$175,141	\$254,277
- Operating revenues	\$97,006	\$263,859
- Operating cost savings	\$114,908	\$114,908
- Induced shopper benefit	\$52,890	\$87,217
- Existing shopper enhanced experience	\$244,536	\$244,536
- Tourism yields	\$38,993	\$43,201
- Residual value	\$26,052	\$37,029
<b>Total local area benefits</b>	<b>\$574,384</b>	<b>\$790,750</b>
<b>Net Present Value (\$000)</b>	<b>\$399,244</b>	<b>\$536,472</b>
<b>Benefit Cost Ratio (local area benefits only)</b>	<b>3.28</b>	<b>3.11</b>
<b>Economic Internal Rate of Return</b>	<b>15.56%</b>	<b>14.44%</b>
- Productivity benefits	\$252,352	\$415,052
- Urban consolidation benefits	\$117,632	\$193,473
<b>TOTAL LOCAL AND WIDER AREA BENEFITS</b>	<b>\$944,368</b>	<b>\$1,399,275</b>
<b>Net Present Value (\$000)</b>	<b>\$769,227</b>	<b>\$1,144,997</b>
<b>Benefit Cost Ratio</b>	<b>5.39</b>	<b>5.50</b>
<b>Economic Internal Rate of Return</b>	<b>20.94%</b>	<b>20.56%</b>
<b>SENSITIVITY ANALYSIS</b>	Sensitive to changes in capital costs & discount rates	Somewhat sensitive to changes in capital costs.
<b>RISK ANALYSIS</b>		
- Reputational risks	High	Low
- Stakeholders dissatisfaction	Medium	Low
- Long term viability risks	Medium	Low
- Underground construction risks	Medium	High
- Business continuity risks	Medium	Medium
- Heritage risks	Medium	Low
<b>INTEGRATED ASSESSMENT</b>		
<b>Ranking</b>	<b>2<sup>nd</sup></b>	<b>1<sup>st</sup></b>

\*discounted to present day values using a 5% nominal discount rate.

The actual financial performance of Option 1 is very poor; meaning that Council would need to subsidise the operations of the market at a cost of more than \$100 million over the next 30 years.

Option 3 outperforms Option 2 from a financial perspective, as its superior operational revenues more than makes up for its higher upfront capital costs.

The community welfare performance rating of both Options 2 and 3 are similar, with both significantly bolstering the community welfare outcomes generated by the market precinct. Indeed the benefit cost ratios exclude the benefits to the wider City North precinct. They also exclude some unquantified community benefits such as the fact that Queen Victoria Market is the last remaining market within central Melbourne and its continued presence allows visitors to engage in the 'shared experience' of market shopping in the same way as previous generations of Victorians. Many Melburnians value this opportunity.

While Option 3 has a higher risk profile over the 5 year construction period, reflecting its greater scale and complexity, this risk is manageable. Option 2 poses greater operating/ongoing risk (i.e. post renewal) as it does not address all identified challenges facing the market in the long term.

Even though Option 3 is the most costly option from a capital works perspective, it is clearly affordable, with the renewal works to be 'paid back' in 23 years. As previously stated, it is also the only option that will ensure the long term viability of Queen Victoria Market. If the underlying problems identified are not sufficiently addressed, it is expected that Queen Victoria Market precinct will gradually decline as a visitor and shopping destination and trading location, thereby undermining the performance of this iconic asset.

Under Option 1, the underlying issues with the market precinct remain unaddressed, which means the ongoing viability of the market is threatened. As already stated, the current financial, economic and social contributions made by the Queen Victoria Market precinct would be undermined under Option 1.

### **1.10 Recommended program option**

Based on an integrated assessment of the competing options, it is recommended that Council pursue Option 3. It delivers a superior strategic financial and community welfare return, and addresses all of the key problems facing the Queen Victoria Market precinct.

Option 2 is more of a stop gap measure, which still requires significant financial resources and causes business disruption. Moreover, given the time it has taken to gain stakeholder support to renew the market, any intervention that fails to solve all of the key problems in one construction program cannot be supported.

As outlined in earlier sections, significant issues exist at Queen Victoria Market and a business as usual approach would leave these issues unaddressed, compromising the viability of the market and the benefits it delivers to the community.

## 1.11 Program delivery

Council has already established and resourced the QVMPR Program Office to deliver the QVMPR Program. The Program Office, in collaboration with other partners, has developed the QVMPR Master Plan and QVMPR Implementation Framework.

Other important implementation arrangements have been professionally developed and are clearly documented:

- Program Scope: Works Packages
- Program Scope: Detailed cost estimates
- Program Governance Plan
- Program Risk Register
- Program Communications and Engagement Strategy.

Council, through the Program Office which is being directed by the Program Control Group, is therefore well positioned to progress the delivery of Option 3.

The QVMPR Implementation Framework commits to a 5 year renewal program, which needs to progress to the procurement stage without delay, notwithstanding ongoing stakeholder engagement is required to manage stakeholder and community expectations.

## 1.12 Program funding strategy

A program funding strategy has been developed by the City of Melbourne based on Option 3.

The funding strategy envisages the QVMPR Program will be funded through a combination of the following:

- City of Melbourne Cash reserves
- prioritisation of future funding available for City of Melbourne capital works projects
- asset sales
- future increased returns from Queen Victoria Market Pty Ltd based on its Retail Plan (included in the appendices). Existing traders will not need to pay more to fund renewal, rather future revenue growth is underpinned by improved infrastructure, creation of more net lettable area for new traders and programmed activation of spaces. Average annual increases in lease and licence fees for existing traders will be no greater than 3 per cent per annum, and
- additional funding.

The future funding will require progressive drawing down to fund the capital works over the 5 year program to 2021-22. Any debt will require servicing and assumes a 4.25 per cent interest rate.

The future funding requirements will be repaid through:

- proceeds of asset sales.
- dividends generated by Queen Victoria Market Pty Ltd (commencing after renewal works)
- prioritisation of Capital Works Contributions, Open Space & Parking Levy funds (commencing in 2018-19).

The funding strategy envisages a peak funding requirement of approximately \$200 million<sup>2</sup> in 2020-21, with this being progressively repaid within a maximum of 19 years and possibly sooner.

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<sup>2</sup> This is lower than the funding requirements estimated in the financial analysis, as the funding strategy also includes contributions from cash reserves, and prioritisation of future funding available for capital works projects.

In addition to the Business Case, the Option 3 funding model's key variables (capital outlays and future returns based on the Queen Victoria Market Pty Ltd Retail plan) have been independently reviewed for reasonableness by Price Waterhouse Coopers.

### **1.13 Higher profits from Queen Victoria Market Pty Ltd**

The higher profits expected to be delivered by Queen Victoria Market Pty Ltd are underpinned by its Retail Plan which was released in conjunction with this updated Business Case.

The Retail Plan is underpinned by a sound business model that seeks to maintain the Queen Victoria Market's affordability, cultural diversity and value for traders and customers. The plan demonstrates that revenue increases facilitated by infrastructure renewal will enable the market to contribute a greater financial return to Council yet not at the expense of traditional market trading.

The Retail Plan recognises that security and affordability for traditional traders is critical to maintaining the market's authenticity as a working market and includes commitments to maintain the multicultural mix of traders and stability of rents and licence fees, with standard increases informed by either CPI growth or agreed increases as informed by individual leases. This Business Case has been modelled on average increases in trader lease and licence fees of no greater than 3 per cent.

Licence and lease arrangements under the Retail Plan will provide continuity for traders through potential longer commercial terms based on a strong business plan and other criteria, providing a platform for traditional market trading small business to develop and grow. Additional revenue streams will come from a range of sources including income from additional leaseholds and a broader range of licenses across an expanded range of trading hours.

The Retail Plan identifies how the QVMPR Program's investment in quality infrastructure will enhance the market's affordability for traders, providing them with a secure foundation to grow their small businesses. It also works on the basis that the market's core offer and trading times must be protected, with new infrastructure that facilitates the expansion of active hours outside these times. This means traditional traders can maintain their market trading practices, with new trading opportunities opened up on Mondays, Wednesdays and some evenings throughout the week. The Retail Plan presents a high level strategy for activation of the market precinct that will ultimately position it to play a critical role as a centre for the City North community as well as increasing annual visitation to around 15 million people by 2023.

Moving forward, the business model recognises that a crucial component of operating at the scale required for Queen Victoria Market to remain viable is the ability to service small retail and hospitality businesses in the city. Investment in quality back-of-house infrastructure will facilitate this expanded role, and in doing so, build a stronger independent retail supply chain for Melbourne.

## 2 INTRODUCTION

This section outlines the background and the brief guiding the development of this Business Case.

### 2.1 Background

Owned by the City of Melbourne and managed by a wholly owned subsidiary company, Queen Victoria Market occupies a 7 ha hectare site within Melbourne's central city, with 140 leasehold premises and more than 600 temporary licence stallholders.

Having traded since 1878, the Queen Victoria Market is one of Melbourne's few remaining public markets. With a longstanding tradition of selling fresh produce and merchandise, the market has for many years been a cultural icon and major visitor attraction in the city. This is also one of the key reasons why the market is currently being considered for possible inclusion on the National Heritage List<sup>3</sup>.

Initially one of a small number of inner city markets, Queen Victoria Market's expansion in subsequent decades saw it become Melbourne's primary wholesale produce market in the 1930s. When this wholesale function was relocated to Footscray in 1969, the market took on a retail focus, selling a variety of fresh produce and specialty foods to shoppers who sometimes travelled across metropolitan Melbourne. In recent decades, the market has been impacted by changing retail conditions, including the rise of convenient, local supermarkets. While it remains the top destination for international visitors to Melbourne and maintains a strong local resident pull, there is a need to ensure the market is able to adapt to and build on changing retail conditions into the future.

FIGURE 5. PAST AND FUTURE ROLE OF QUEEN VICTORIA MARKET (1880-2060)



Source: Draft Queen Victoria Market Retail Plan (2017)

Today Queen Victoria Market is in significant need of renewal. The market is sorely lacking in amenities, facilities and spaces to adequately provide for present-day and future needs. It also faces increasing challenges in terms of complying with current day operating standards and legislative requirements, including in work, health and safety and food safety.

Changing circumstances in the wider area surrounding the market are likely to further exacerbate current pressures on the market's site and offer. The City North urban renewal area<sup>4</sup>, which encompasses the entire market site, is a precinct that will see major population and employment growth in the coming decades. Given the current demand for the market from nearby residents and workers, this is forecast to grow significantly with larger day and night time populations in the City North area.

<sup>3</sup> Australian Government Department of the Environment and Energy website Queen Victoria Market National Heritage Listing assessment <http://www.environment.gov.au/heritage/organisations/australian-heritage-council/national-heritage-assessments/queen-victoria-market-proposed-national-heritage-listing>.

<sup>4</sup> Roughly bounded by Flagstaff Gardens to the south, Swanston St to the east, Tin Alley to the north, and Harcourt and Capel Streets to the west.

This projected increase in the local resident population calls for a greater level of public space and community infrastructure in the City North precinct. There is significant potential to make greater use of the 7 ha market site, with new and enhanced public open spaces and a more diverse market offer, including events and activities that complement the traditional market.

The respective visions of Queen Victoria Market and the City North precinct (illustrated below) are unlikely to be fully achieved without significant renewal of the market site.

**Vision for Queen Victoria Market:**

*“A thriving and diverse market place for future generations.”*

**Vision for City North precinct:**

*“City North will have a diverse mix of uses and be a world renowned knowledge district that grows out of the area’s distinct urban heritage as a new and unique Central City precinct.”*

## 2.2 Business case context

Council has significantly progressed the QVMPR Program since publicly announcing its intention to renew the Queen Victoria Market and surrounding precinct in October 2013. Since then it has developed the QVMPR Master Plan to guide the 5 year renewal program, publicly committed up to \$250 million to fund the works, and established governance and implementation arrangements, as reflected in the QVMPR Implementation Framework.

In late 2016, SGS was asked to review the existing material relating to the QVMPR Program and update the program’s Business Case. The reason for updating the document was to incorporate and consider a number of events that have taken place since the initial Business Case was prepared in 2012.

The original Business Case was a Commercial in Confidence document presented to the State Government. It highlighted the need for significant investment, without which the Queen Victoria Market would face an uncertain future. The original Business Case established the basis for Council’s long term strategy for Queen Victoria Market, seeking to position it at the centre for the emerging City North precinct, and in doing so, secure its long term future as a viable, working market. The original Business Case ultimately informed Council’s announcement in late 2013 to renew the market.

While this updated Business Case strongly reinforces the original premise, it has been amended to take into account the following changes since 2012:

- Council’s execution of the State Government agreement covering land transfers and associated performance requirements (September 2014)
- completion of three phases of public community engagement over an 18 month period (October 2013 to May 2015) informing the Queen Victoria Market Pty Ltd Strategic Brief (February 2015) and QVMPR Master Plan
- Council’s endorsement of QVMPR Master Plan (July 2015) and Implementation Framework (August 2016)
- Council’s strategic purchase of the Munro site (October 2014), protecting it from inappropriate development and enabling complementary investment in community facilities and affordable housing
- development of Amendment C245 to the Planning Scheme, which proposes to change land use regulation to enable the delivery of the QVMPR Master Plan (July 2015), and
- release of Queen Victoria Market Pty Ltd Melbourne’s Marketplace Retail Plan (May 2017).

## 2.3 Business Case brief

SGS was asked to review the existing material relating to the QVMPR Program in order to update the Program’s Business Case. This review highlighted that:

- assumptions and data in the existing Business Case (2012) needed confirmation, or updating, taking into account the contextual changes noted above
- an updated description of the QVMPR Program's rationale and the envisaged benefits for all stakeholders – traders, customers, the broader community, interested parties, Queen Victoria Market Pty Ltd and the City of Melbourne – with a clear understanding of the strategic justification for why the market renewal is required now, the implications of not progressing with this renewal, the implementation arrangements necessary to ensure its strategic objectives are achieved, and how the QVMPR Program is being funded
- options analysis and planning reflecting the implementation phase of the QVMPR Program (as distinct from the conceptual phase) was required, so that Council can effectively manage the delivery process.

This Business Case has been developed with this context in mind. It includes a detailed discussion of the overarching logic of the QVMPR Program, an analysis of feasible renewal options, and implementation arrangements for the recommended Program option.

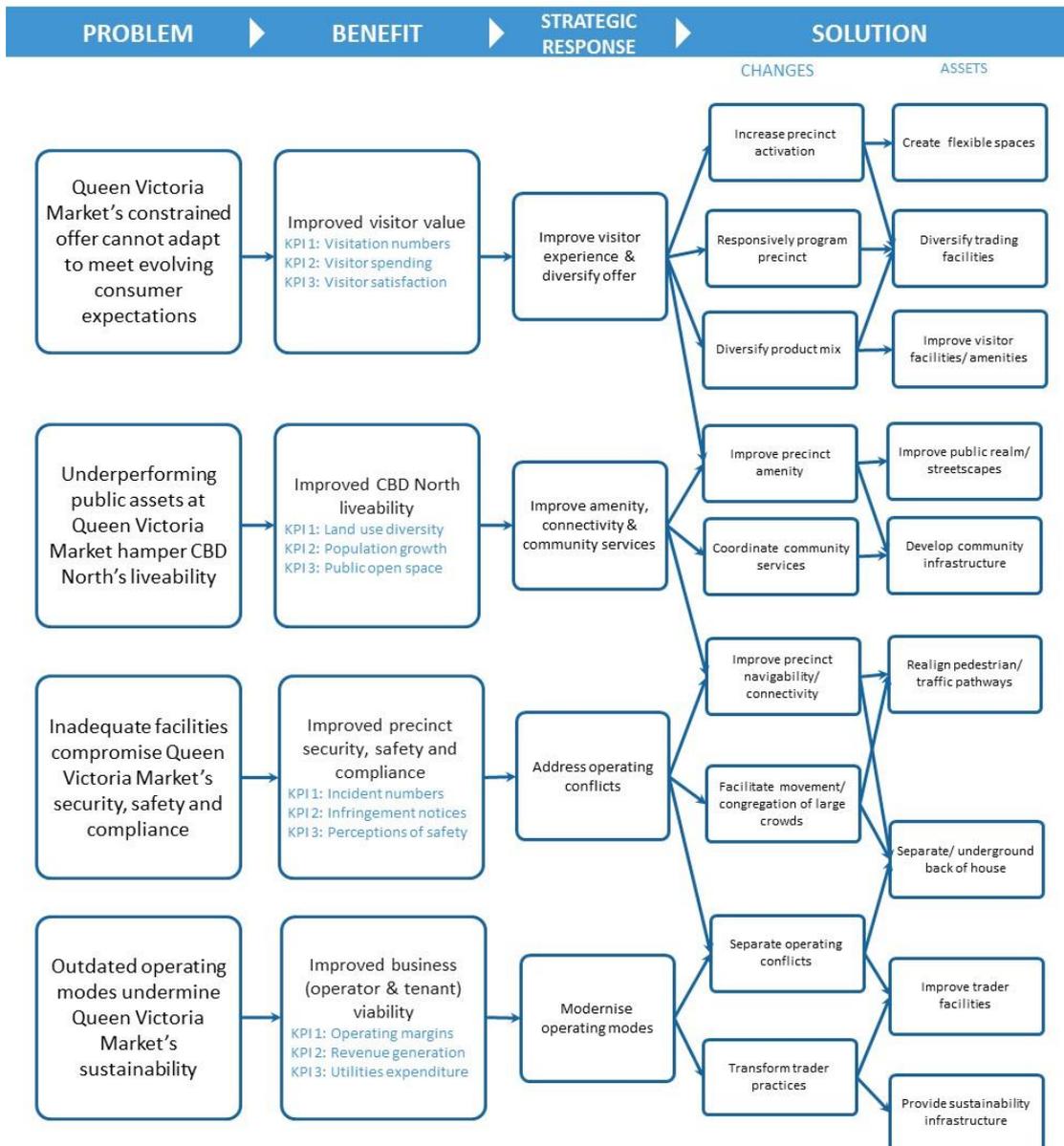
# 3 PROBLEM

This section outlines the overarching logic for QVMPR Program by describing and evidencing the key problems that must be addressed.

## 3.1 Investment logic map

The overall logic for the QVMPR Program is summarised in the investment logic map below.

FIGURE 6. INVESTMENT LOGIC MAP



The investment logic map identifies:

- the key problems faced at Queen Victoria Market
- the benefits that will be delivered if these problems are solved
- the strategic responses for solving these problems, and
- the components of the solution, in terms of non-asset changes and asset investment.

The investment logic mapping process has been guided by the Victorian Department of Treasury and Finance specifications for investment, planning and review.

### 3.2 Definition of the problem

The overarching investment logic for renewing Queen Victoria Market, and securing its long term future, revolves around solving four key problems facing the precinct.

#### **Queen Victoria Market's constrained offer cannot adapt to meet evolving consumer expectations**

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

While Queen Victoria Market is a key Melbourne attraction, a number of basic practicalities currently compromise the visitor experience. If these are not addressed, customers will be more inclined to view the market as an outing, rather than a place to shop regularly and get what they need, when they need it.

#### **Underperforming public assets at Queen Victoria Market hamper City North's liveability**

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

A large proportion of the market site is comprised of a 1.5 ha at-grade customer car park. As a Council-owned site, this land is heavily underutilised, particularly when considering the current lack of public and community space in the City North precinct. The car park has been identified as a significant 'heat island' contributor from a precinct sustainability perspective due to its lack of tree canopy cover and the large surface area of black pavement, which absorbs, stores and radiates heat.

With significant residential and employment growth forecast around the market in the coming years, it is vital that sufficient public space and community services are made available for resident and visitor populations. Queen Victoria Market is well-positioned to accommodate these future uses.

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

**Inappropriate and inadequate infrastructure within the Queen Victoria Market precinct poses safety and security risks in terms of vehicle and forklift access and operation in pedestrian areas, and appropriate food handling and storage practices.**

The market's capacity to provide a safe and functional environment for traders to operate in is undermined by insufficient and poor quality facilities. Traders report poor access to power and water, insufficient waste management and removal facilities, lack of adequate storage and loading facilities, and safety concerns as a result of the inadequate separation of service vehicles and public access ways.

Currently, logistical operations are not separated from busy, pedestrian areas throughout the market. Following a number of local and international incidents, there is significant opportunity to strengthen the safety and security of the site for staff, traders and visitors. This includes addressing the current prevalence of ad hoc delivery vans, trucks and unmonitored movements throughout the day in Queen Street in particular, and under and between the historic sheds. Development of below-ground

operational areas and associated management systems would significantly enhance the current security arrangements across the entire market precinct as well as improve overall efficiencies.

### **Outdated operating modes undermine Queen Victoria Market's sustainability**

*The market's poor use of available trading space and inadequate infrastructure compromise the market's productivity while also contributing to the issues of retail competitiveness, environmental sustainability and consequential customer and visitor attractiveness.*

Outdated facilities further undermine Queen Victoria Market's capacity to operate efficiently and productively, and reduce its appeal to new businesses. Inefficient use of the site makes it one of the least productive areas of the central city, with the generation of employment far lower than its location could otherwise facilitate.

## **3.3 Evidence of the problem**

### **Queen Victoria Market's constrained offer cannot adapt to meet evolving consumer expectations**

While Queen Victoria Market has for many years been one of Melbourne's most popular attractions – both for tourists and local residents – its limited offer, access and amenity is now compromising the visitor experience offered by the market, undermining its ability to remain competitive in a changing retail landscape.

Once Melbourne's premier location for sourcing fresh produce, Queen Victoria Market must secure and enhance its existing offer in order to remain a relevant and attractive retail destination. Today, supermarkets play a 'one-stop-shop' role for the grocery needs of today's customers, with competition-led discounting further adding to the attractiveness of the supermarket sector.<sup>5</sup> 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.

Queen Victoria Market must be able to respond to changing customer needs by providing an offer that is attractive to today's time-poor and discerning consumer base – to whom a wide array of product options are available. In order to optimise the visitor experience and remain competitive, the market must be high in amenity with good accessibility, and its offer must be either convenient and/or provide a great experience.

The following sections outlines some of the key 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

Queen Victoria Market's limited opening hours are a key restriction on both attracting the convenience-oriented customer and providing a more diverse visitor experience. At present, the market is only open five days a week (Tuesdays, Thursdays, Fridays, Saturdays and Sundays). Of the days it is open, Friday is the only day in which the market does not close before 5pm.

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

Queen Victoria Market's reduced operating hours 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.

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<sup>5</sup> JLL (2017). Australian Shopping Centre Investment Review & Outlook.

The Queen Victoria Market night markets operate outside these hours although they 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 Queen Victoria Market site, there is limited variability in operating hours across the site and its different activities.

Expanding the market's hours of operation, including running more night markets, was the most commonly cited area for improvement in customer surveys commissioned by the City of Melbourne.<sup>6</sup> When asked directly about the potential expansion of opening hours, 78 per cent of respondents found this either 'appealing' or 'extremely appealing'.

At present, however, extending Queen Victoria Market's active hours is restricted by inadequate infrastructure and operating modes (discussed in Problem 4).

#### Diversity of offer

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There are a number of other fresh food and merchandise markets across metropolitan Melbourne, including Prahran, South Melbourne, Dandenong, Footscray and Preston;<sup>7</sup> not to mention a variety of farmers markets.

Given Queen Victoria Market, 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 there is demand for more variety and better quality produce at Queen Victoria Market, particularly as the resident population in the wider City North precinct grows. This may partly be, as is asserted by Essential Economics (2011), because of recent cultural trends toward gourmet food and ingredients. 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 line with the latest food trends).<sup>8</sup>

However, while the vast majority of visitors to the market cite grocery or produce related factors as either their main reason or one of the reasons for their visit, the market's offer is heavily weighted towards merchandise-based retail (i.e. about 60 per cent of trading space). This weighting has remained relatively constant over the past 50 years, with similar levels being quoted in 1969.<sup>9</sup>

Queen Victoria Market also has significant scope to add new layers of experience to its offer while maintaining and complementing its traditional trade. 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. On average, leisure-based shoppers tend to spend more than 'mission' based shoppers (shoppers in search of a specific product). In order to attract leisure shopping, the shopping experience needs to be positive and enjoyable.<sup>10</sup>

At present, Queen Victoria Market has a strong, existing 'leisure retail' oriented base. As seen in the figure below, while routine grocery shopping accounts for a large proportion of visitation to the Queen Victoria Market, a wide range of other reasons are also cited, such as eating and drinking, browsing, socialising with family or friends, discovery, gift shopping and general entertainment.

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<sup>6</sup> Sweeney Research, Queen Victoria Market Visitor Report, 2013.

<sup>7</sup> Essential Economics Queen Victoria Market Economic Advice Report, 2011.

<sup>8</sup> 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.

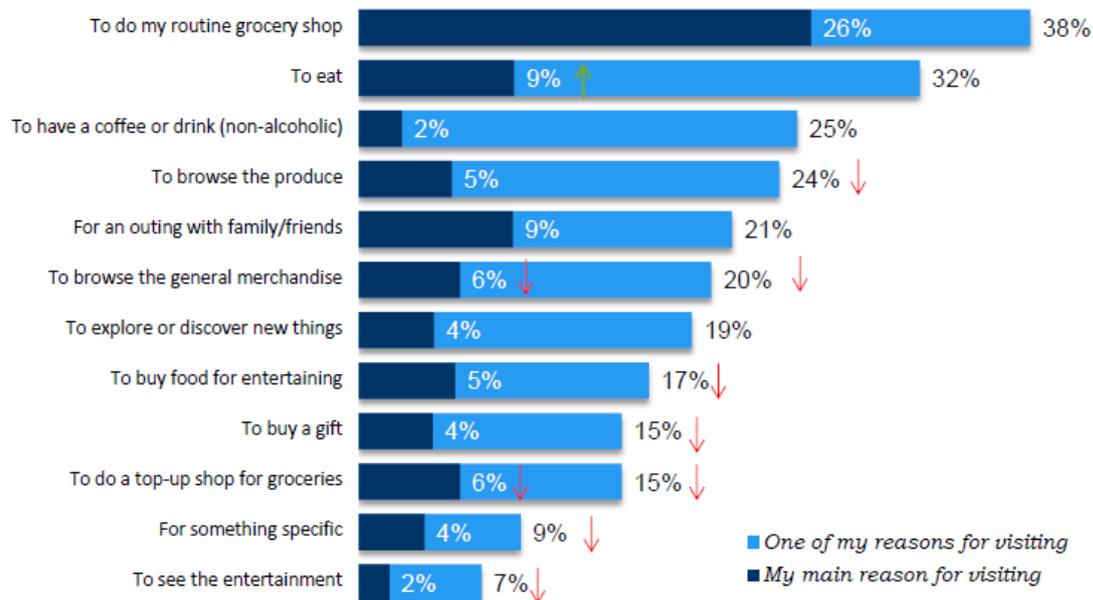
<sup>9</sup> City of Melbourne, 'Queen Victoria Market Pty Ltd Long Term Strategy', 2011.

<sup>10</sup> Bailey, M. (2013), 'Consumer Profiles and Behaviour in Australian Shopping Centres', Retail Property Insights, 20(1), 4-11.

However, with a low level of diversity in its programming and offer, Queen Victoria Market fails to fully realise its potential in the leisure based retail sector. In visitor intercept surveys, the need for more variety, range and diversity was in the top five of top-of-mind suggestions for improvement. Not only was a desire for longer opening hours and trading days and more night time markets (as mentioned above) expressed, but there were also suggestions for more and/or different entertainment and music options, and more choice in hospitality option.<sup>11</sup>

In order to create a more unique and attractive leisure retail experience, the market must attract and offer specialty vendors and stalls. The City of Melbourne’s previous Business Case<sup>12</sup> identified an opportunity to improve the visitor experience and attract a wider, ‘specific interest’ based audience through the offer of more culturally diverse food options<sup>13</sup> and local arts and crafts products.

FIGURE 7. REASONS FOR VISITING QUEEN VICTORIA MARKET, VISITOR SURVEY



Source: Sweeney Research, 2013, 'QVM Visitor Report'

A lack of useable space across the site, as a result of expansive car parking, poor spatial configuration and inadequate infrastructure, limits programing flexibility 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 resident population and sophisticated consumer base, the need for efficient operations and diverse programming is likely to grow in future years.

#### Poor site amenity

Queen Victoria Market’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 market 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 Queen Victoria Market is generally rated quite highly by current visitors, almost a quarter of these visitors do not find the appearance of the market satisfactory, while one in three visitors are dissatisfied with its cleanliness.<sup>14</sup> Visitor infrastructure is in need of improvement,

<sup>11</sup> Sweeney Research Queen Victoria Market Visitor Report, 2013.

<sup>12</sup> Queen Victoria Market Precinct Renewal Project Business Case (2012).

<sup>13</sup> JLL (2017). Australian Shopping Centre Investment Review & Outlook found that, over the last fifteen years, cafes, restaurants and take-away food have had the highest rate of growth of the major retail categories across Australia.

<sup>14</sup> Sweeney Research Queen Victoria Market Visitor Report, 2013.

including the need for 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. Lack of facilities, including change rooms and play equipment, was cited as a barrier to bringing children to the market precinct.

The need for improved weather protection was also identified as a part of consultation for the development of the Master Plan for the QVMPR Program. While the market's identity as an open-air market is invaluable – 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.<sup>15</sup>

#### Car parking and access issues

Car parking and accessibility issues within the site and its surrounds further detract from Queen Victoria Market's visitor experience and its overall competitiveness in the wider retail landscape. The southern part of the market site, dominated by large expanses of car parking and wide roadways, has little to offer in terms of visitor amenity, and does not contribute to the core market experience.

While the number of people driving to Queen Victoria Market has declined in recent years, almost half of all visitors to the market still arrive by car, largely for reasons of convenience, carrying capacity and distance.<sup>16</sup> As such, visitation to the market is still dependent on the provision of sufficient and easy-to-use car parking.

Accessibility for private vehicles around the market site is also a key issue. Not only does it have a confusing and inefficient road layout, but there is significant potential to improve road safety within the network of surrounding streets. Firstly, there is a problem of unbalanced traffic flows surrounding the site. Secondly, there are a number of traffic black spots in the vicinity of the market, including the roundabouts at Franklin and Queen streets 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 market.

Poor connectivity and confusing road layouts in and around the market act as a barrier between market activity and its surrounds. Poor site configuration (particularly the expansive at-grade car park) obstructs visibility of the Queen Victoria Market site to surrounding car traffic, creating a 'blind spot' for many potential visitors. This is reflected in visitor statistics. The majority of visitors to the market (78 per cent) arrive on a planned basis, rather than as a spontaneous visit.<sup>17</sup>

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

***In order for the Queen Victoria Market to remain competitive in today's retail landscape, its offer must be suitable and attractive to an increasingly time-poor and discerning consumer base that has access to a wide range of retail options. While the market is a major resident and visitor attraction in Melbourne, at present it fails to cater to the convenience and leisure oriented retail markets, does not provide a high amenity environment, and has a number of accessibility concerns, all of which compromise the visitor experience.***

<sup>15</sup> QVMPR Master Plan, 2015.

<sup>16</sup> Sweeney Research Queen Victoria Market Visitor Report, 2013.

<sup>17</sup> Sweeney Research Queen Victoria Market Visitor Report, 2013.

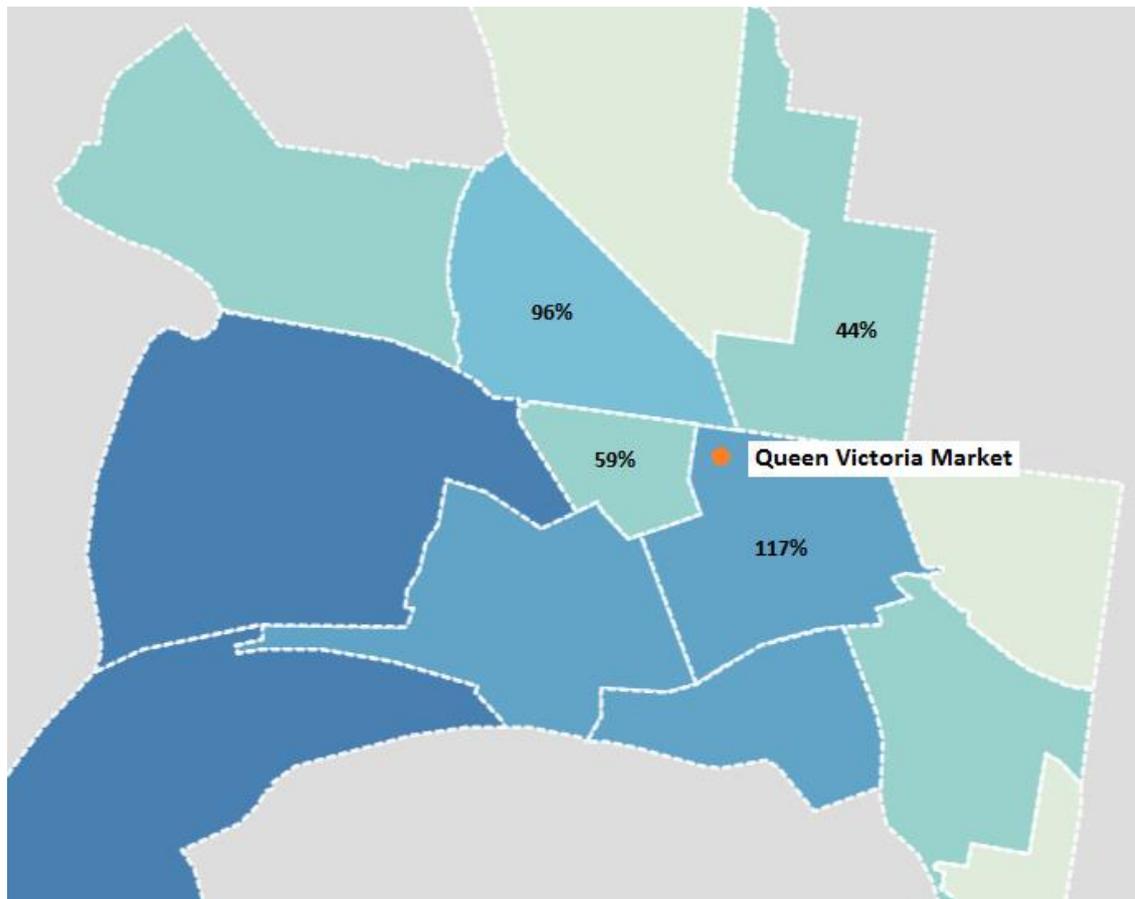
## Underperforming public assets at Queen Victoria Market hamper City North’s liveability

Given its premium, central city location, a large proportion of the Queen Victoria Market 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 (to be expanded on in Problems 3 and 4) has led to 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.<sup>18</sup> 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 2030 the average daily population of the municipality is forecast to be more than 1.2 million, with 202,000 people predicted to be City of Melbourne residents by this time.<sup>19</sup>

FIGURE 8. POPULATION CHANGE, CITY OF MELBOURNE LOCALITIES (2014-2034)



Source: SGS (2017) from Geographia (2015) population forecasts, <<http://melbournepopulation.geografia.com.au/>>.

As seen in the figure above, localities around the Queen Victoria Market are forecast to grow by 44 to 117 per cent over the next two decades. According to Council’s Queen Victoria Market Long Term

<sup>18</sup> K2 Planning 2011, City North Study Area Community Infrastructure Assessment Final Report.

<sup>19</sup> Queen Victoria Market Pty Ltd Melbourne’s Marketplace: Retail Plan, 2017.

Strategy (2011), the number of residents and workers in the immediate vicinity of the market is expected to almost double by 2030, with an increase of 13,500 residents and 12,000 workers.

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 a number of significant institutions and cultural assets, its lack of a focal point has been recognised for some time.<sup>20</sup>

Without significant and sufficient 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. As such, it is critical that an appropriately-located site is identified and redeveloped to better align with community needs in the near future.

***With a current deficiency in public space and community services in the northern precinct of the central city, as well as a significant level of population growth expected in the area in coming years, the continued underutilisation of the Queen Victoria Market site is likely to stifle liveability in the area for current and future generations.***

### **Inadequate facilities compromise Queen Victoria Market’s security, safety and compliance**

**Inappropriate and inadequate infrastructure within the Queen Victoria Market precinct, poses safety and security risks, in terms of vehicle and forklift access and operation 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 regulations.

#### Lack of pedestrian and vehicle separation

Queen Victoria Market currently has very limited and inadequate back-of-house and storage space for trader activity. While this causes significant operational issues for traders (discussed in Problem 4 below), the need for service vehicles to enter and occupy public areas also creates conflicts between vehicles and pedestrians, giving rise to consistent safety concerns for visitors.

For instance, a distance of more than 500m between storage areas in Franklin Street and the market stall requires traders to have road registered fork lifts to transport produce from the stores to their stalls. This often includes using local roads and the Franklin Street roundabout to move through the precinct, which contributes to traffic concerns in the area. 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*.

In 2012, a confidential report found that “the absence of separation between pedestrians, through traffic and unloading zones in Queen Street increases risk for people/vehicle interactions and incidents”.<sup>21</sup>

<sup>20</sup> City of Melbourne ‘Queen Victoria Market Long Term Strategy’, 2011.

<sup>21</sup> Deloitte 2012, Queen Victoria Market Pty Ltd internal audit of selected Occupational Health and Safety processes.

A 2012 risk assessment of Queen Victoria Market's Operating Zone found a number of scenarios of 'Extreme Risk' in relation to forklift movement and traffic. These included:

- private motor vehicle or truck impacting moving forklift (and vice versa)
- private motor vehicle impacting a pedestrian on roadway/footpath
- forklift impacting pedestrian on roadway/footpath.<sup>22</sup>

Following a number of local and international incidents, it has never been more paramount to ensure the safety of staff, traders and customers. The separation of vehicles, such as trucks and delivery traffic, from busy pedestrian areas, will provide improved safety and security across the market site.

#### Food safety issues

A number of recorded incidents of poor food safety compliance have been identified by Council health inspectors at Queen Victoria Market. 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.

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 Queen Victoria Market could have potential long-term implications for resident and tourist visitation.

***Inappropriate and inadequate infrastructure is raising concerns about the safety and security of the Queen Victoria Market precinct, both in terms of vehicle and forklift access and operation, and appropriate food handling and storage practices.***

#### **Outdated operating modes undermine Queen Victoria Market's sustainability**

Market trading in different varieties has constituted the core function of the Queen Victoria Market for over a century. This function and the economic activity it generates comprise 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.

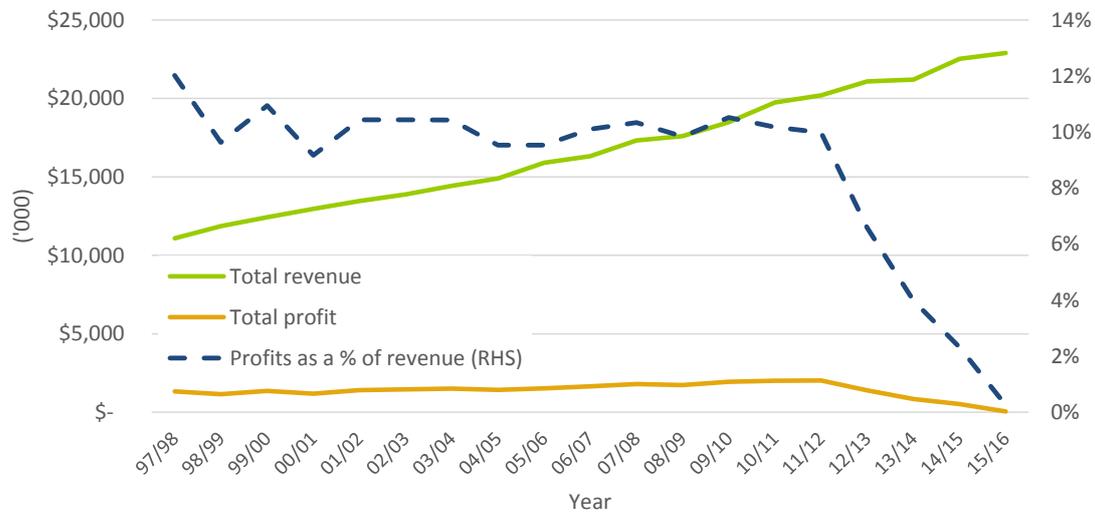
#### Queen Victoria Market Pty Ltd's deteriorating financial performance

The profitability of Queen Victoria Market Pty Ltd has declined consistently since the late 1990s, due to a number of key contributing factors. While revenue has steadily increased during this period, this has been driven by non-core market areas such as car parking and the night market, not from traditional, open air market trading comprising fruit and vegetable and general merchandise traders.

Expenditure has also grown at a disproportionate rate, with the market's overall profitability dropping significantly over this period. Annual capital contributions to maintenance of the market are no longer sufficient to sustain the ageing heritage buildings and provide the trader infrastructure and customer amenity required to support the market's day-to-day operations and viability. Over the past five years, the market's profitability has declined to zero per cent. This is illustrated in the figure below.

<sup>22</sup> CTQ Management Services, Queen Victoria Market Pty Ltd Operating Zone Risk Assessment.

FIGURE 9. QUEEN VICTORIA MARKET PL TOTAL REVENUE VS. TOTAL PROFIT (1997/98-2015/16)



Source: SGS Economics & Planning (2017) based on Queen Victoria Market Pty Ltd 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.

A number of key challenges are significantly impacting on the market’s viability and potential.

#### Inadequate waste management systems

Currently, a significant proportion of Queen Victoria Market’s \$4.4 million cleaning costs<sup>23</sup>, one of the largest contributors to its total expenditure, is dedicated to the removal of waste as a result of inadequate waste removal systems and facilities. The market has no centralised waste transfer area or recycling station. This results in considerable spending on the collection and disposal of waste generated by market operations, including fish and meat offal, organics and packaging.<sup>24</sup> Cleaning costs at the market have increased by \$1.8 million (71 per cent) over the past 10 years.

The lack of waste management facilities also has implications for the visitor amenity of the market and results in a large proportion of potentially recyclable waste being sent to landfill.

#### Increasing facilities repairs and maintenance costs

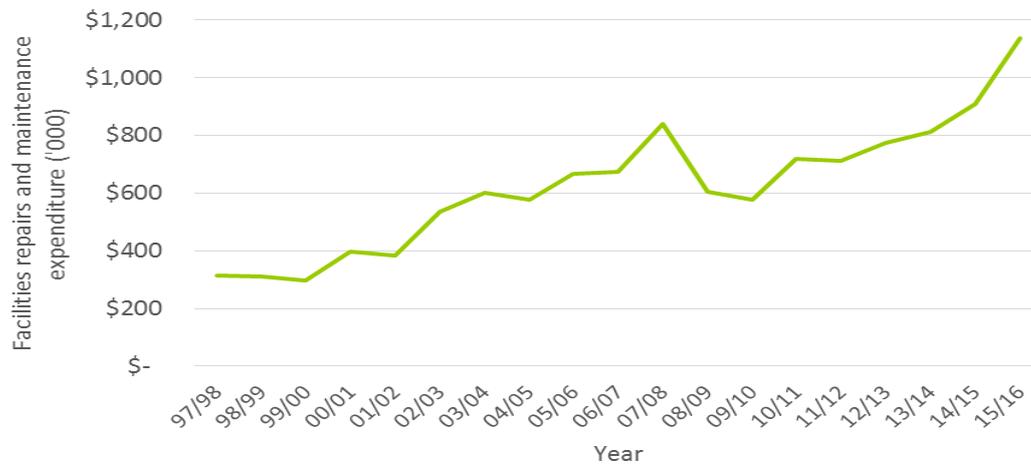
Facilities repairs and maintenance costs at Queen Victoria Market have increased by more than 70 per cent over the past 10 years.<sup>25</sup> This is a result of the low level of capital improvements made in the precinct since the 1990s. In 2015/16 expenditure on facilities repairs and maintenance costs amounted to over \$1.1 million. While at present this figure only comprises 5 per cent of total market expenditure, the trend over recent years suggests that repairs and maintenance costs are likely to escalate significantly in future.

<sup>23</sup> Based on Queen Victoria Market Pty Ltd profit and loss statements

<sup>24</sup> QVMPR Master Plan, 2015.

<sup>25</sup> Based on Queen Victoria Market Pty Ltd profit and loss statements

FIGURE 10. QUEEN VICTORIA MARKET TOTAL EXPENDITURE ON FACILITIES REPAIRS AND MAINTENANCE (1997/98-2015/16)



Source: SGS Economics & Planning (2017) based on Queen Victoria Market Pty Ltd profit and loss statements.

Considering the questionable nature of the Queen Victoria Market’s ongoing sustainability, the remainder of Problem 4 discusses factors that limit the market’s productivity.

#### Inefficient operating modes and business attractiveness

Traders at Queen Victoria Market face a range of operational issues that compromise 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.<sup>26</sup> 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 market site, and finding alternatives to proper storage and loading facilities. Melbourne’s Federation Square, on the other hand, a public space with commercial activity that has been cited by the City of Melbourne as an aspiration for Queen Victoria Market, provides dedicated back-of-house facilities to commercial operators.

Other issues include limited access to power, water and the internet, insufficient trader amenities and lack of weather protection. The safety issues described in Problem 3 further detract from business satisfaction at Queen Victoria Market.

For the above reasons, the attractiveness of the market to new retail traders, formats and offers is very limited. Moreover, there is a low level of short-term business confidence among current traders even though trader turnover is reasonably steady on a year-to-year basis. The figure below summarises trader concerns with regards to the Queen Victoria Market as identified through consultation.<sup>27</sup>

<sup>26</sup> Queen Victoria Market Pty Ltd 2015, 1-2-1 Trader Meetings Final Report.

<sup>27</sup> QVMPR Master Plan, 2015.

FIGURE 11. KEY TRADER CONCERNS

1. **Precinct-wide infrastructure** for power, water, and recycling, with specific provisions in certain areas
2. **Waste management facilities**, with emphasis on specific needs in certain areas, including fish and meat offal, organics and packaging
3. **Trader amenities** with the inclusion of showers, toilets, breakout spaces and storage
4. **Facilities for delivery and waste removal** including loading docks, off-street loading areas, wash-down services and storage
5. **Reducing conflicts** between service vehicles, including forklifts, and public access

Source: QVMPR Master Plan, 2015

While the majority of market traders have been operating for 20 or more years, with Queen Victoria Market's recent decline in financial sustainability it is vital the market increases and diversifies its offer in order to boost its overall competitiveness in the retail market (as described in Problem 1). Attracting a more diverse mix of traders is critical but is unlikely to occur without appropriate investment in infrastructure at the market.

#### Underproductive central city land

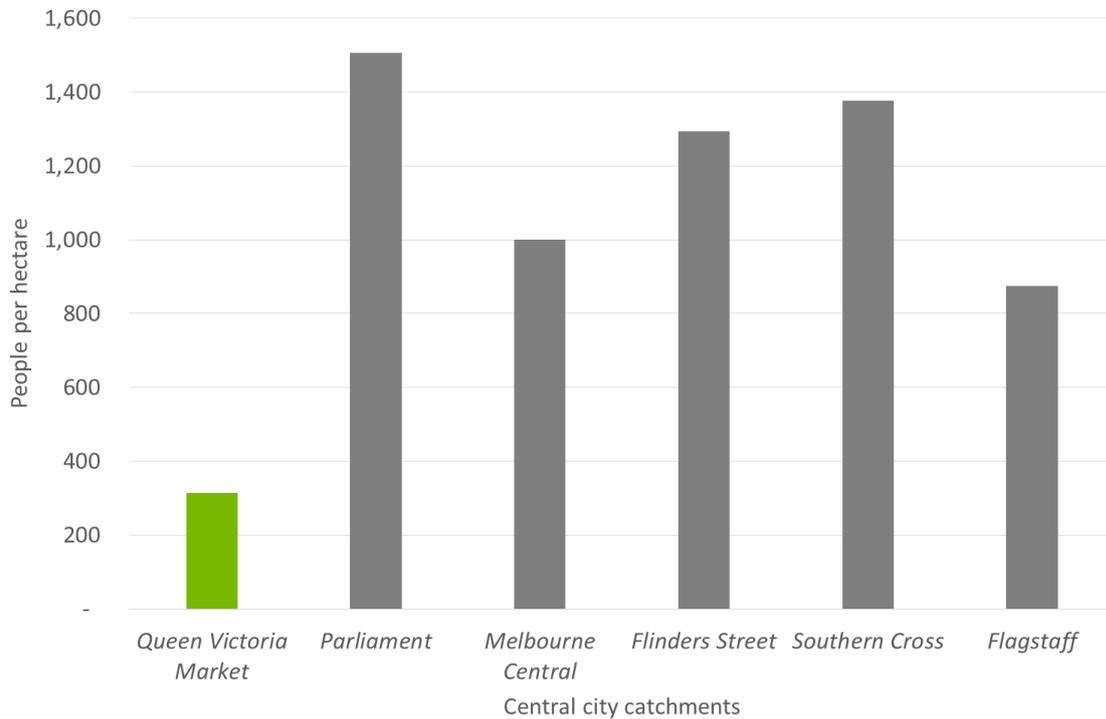
The inefficiencies relating to a lack of dedicated, functional back-of-house space result in prime retail space being used for essential but inappropriately located functions. Moreover, the only way to maintain a degree of flexibility for the marketplace is for general merchandise stalls and associated mobile storage units to be set up and packed down on a daily basis. Resourcing this activity, whether via trader's own staff or through sub-contracted box hire operators is onerous, adding to the cost of doing business at the market and diminishing its appeal as a place of business.

The market's lack of essential facilities are in part the result of the site's poor configuration, which does not provide enough space for back-of-house activities. This restrictive configuration is a remnant of previous buildings and uses. Today the site does not serve a specific purpose and is in fact quite inefficient. As mentioned in Problem 1, this compromises the market's capacity to accommodate a range of uses throughout the week as there is little available space for additional events and activities.

Inefficient use of space results in the Queen Victoria Market's productivity being far lower than its central city location would otherwise facilitate. As shown in the figure below, compared to other areas of the central city, the level of employment generated by the market is quite low. While the Queen Victoria Market has 314 jobs per hectare, other areas of the city accommodate 875 to 1,506 jobs per hectare. This underutilisation of land, and the consequently low level of employment it generates, is a suboptimal use of an important Council asset.

The underperformance of the Queen Victoria Market also has an impact on employment in surrounding areas. A number of businesses are located in the surrounding area of the market site in order to capitalise on a well-visited attraction. Their ability to do so, however, is restricted in many cases by the market's limited hours of operation, which in comparison to other areas of the central city, sees only a low level of activity at the market site and surrounding areas on weekdays.

FIGURE 12. GROSS EMPLOYMENT DENSITIES, CENTRAL CITY CATCHMENTS (2015)



Source: SGS (2017) from City of Melbourne’s ‘Places for People Local Liveability Study’ (2015)

Note: The Melbourne Central figure was incorrectly reported as 100, and has been revised to 1,000 as per Council advice.

Delayed or inadequate renewal of the Queen Victoria Market site could impede productivity on a broader scale. If the well-positioned 7 ha site continues to underperform, wider development (e.g. business, employment and housing) in the strategically-significant City North precinct could be slowed.

Given the high level of interstate and international tourism the market attracts, appropriate investment could generate a greater level of tourism, creating positive flow-on effects not only for the hundreds of small businesses at the market but for the wider City of Melbourne economy.

***Queen Victoria Market’s spatial inefficiencies and inadequate infrastructure compromise efforts to optimise the productivity of the market and its surrounds, while also contributing to the issues of poor retail competitiveness and visitor attractiveness described in Problem 1.***

# 4 BENEFITS

This section describes the benefits that will be delivered by Queen Victoria Market renewal as well as how these envisaged benefits align with Council policies.

## 4.1 Benefits to be delivered

### Improved visitor value

Improving the visitor amenity of the Queen Victoria Market site and widening the market's offer will not only improve the overall market experience but attract new visitors.

Introducing more seating and weather protection at the site, upgrading facilities and improving accessibility will give visitors a better experience at Queen Victoria Market. This will in turn help the market continue to function as a major public attraction for Melbourne.

Not only will expanded operating hours help create more activity at the northern end of the central city during the week, but it has the potential to attract and serve new visitor markets. One of these includes the 'weekday convenience' visitor market described in the Queen Victoria Market Retail Plan, which comprises workers, students and residents seeking convenient meal options, both in terms of groceries or ready-made food. A requirement of serving this visitor market is being "open and easy to get to en route". As such, extending opening hours to better meet evolving customer needs could attract those on their way home from work.

Other visitor groups that would benefit from expanded hours include tourists (all day), cheap eats and entertainment visitors (lunchtime and evenings), and local businesses requiring fresh produce and value added products (all day including before hours and after hours). Expanded hours would provide more flexibility and opportunities for programmed activities, events and festivals to occur at the market.

Increasing the diversity of the market's product offer would benefit from expanded hours of operation. This would improve the experience of recent and/or recurring visitors to the Queen Victoria Market, particularly as the need for more quality and choice on offer was identified as a visitor concern in market research. Moreover, given there is strong demand for produce and food-related products among visitor groups identified above, providing more options is likely to attract new visitors to the market.

### Improved City North liveability

The importance of providing sufficient access to quality public space is well-documented. This can "provide opportunities for social interaction, social mixing and social inclusion, and can facilitate the development of community ties", all of which contribute to enhanced liveability.<sup>28</sup> Making better use of the Queen Victoria Market site by converting part of it for use as public space would help ensure there is sufficient public open space available to the growing resident population in the City North precinct. This space could be used for community activities, events and festivals to complement and support market trade, and contribute to a more vibrant City North.

Other works to improve accessibility and connectivity in and around the market site would provide a safer, higher amenity, pedestrian friendly environment, and provide more balanced traffic flows across the City North precinct.

<sup>28</sup> Joseph Rowntree Foundation, 'The social value of public spaces'. Available at <https://www.jrf.org.uk/sites/default/files/jrf/migrated/files/2050-public-space-community.pdf>.

### **Improved precinct security, safety and compliance**

Addressing current facilities, infrastructure and access issues is anticipated to significantly improve trader and visitor safety and security. The creation of dedicated back-of-house facilities, with appropriate delivery areas, would minimise the risk of incidents relating to existing co-location of service vehicles, private vehicles and visitors, thereby improving safety and security across the site.

Moreover, the provision of appropriate vermin-proofed storage areas, food preparation areas and access to trader hand washing and trader facilities would significantly improve compliance with health and food safety regulations. This would not only have benefits for the comfort and health of traders and visitors, but curb negative commentary on the market and improve its local and international reputation.

### **Improved business (operator and tenant) viability**

By addressing outdated operating modes Queen Victoria Market is likely to experience significant productivity benefits well as improved visitor safety.

With the lack of a dedicated space for back-of-house activities a key concern for traders, providing a separate, conveniently-located area for loading activities and storage is expected to significantly improve the efficiency of trader operations. The time and costs associated with setting up and packing down stalls would reduce, making it possible to expand market opening hours at appropriate areas across the precinct. The resultant increase in usable space across the site would also allow for a greater flexibility of uses at different times of the day. Increasing the attractiveness of the market as a place to operate a business would result in more revenue from trader licences.

The removal of back-of-house operations from trading areas and the reconfiguration of the site has manifold benefits. Not only would this ensure the market was more appropriately and adequately utilised, it would also make space available for new traders. With additional space, areas of the market could be made available for hire or be used for additional programming such as community events.

Moreover, achieving greater efficiencies in back-of-house operations would create greater capacity for a wider diversity of product offering and programming across the site, and increase the market's overall competitiveness (as described in Benefit 1). Efficiencies relating to waste management would be delivered, which could significantly reduce the market's annual expenditure.

Supporting the ongoing trading function of the market is the key to upholding its longstanding purpose and tradition. Maintaining this function would preserve the market as a major tourism asset for Victoria. The Queen Victoria Market Retail Plan (2017) anticipates growth in annual visitation to the market from 9.5 million to more than 17 million by 2023 along with significant revenue growth.

The scale of this productivity opportunity is promising. Indeed the market's renewal would help drive a wider City North urban renewal process, promoting not only economic activity but also housing development in the precinct.

## **4.2 Importance of the benefits to Council**

In order to gauge the relative importance of the anticipated benefits of renewing the Queen Victoria Market site to Council, this section reviews City of Melbourne policy and formal commitments and key Queen Victoria Market Pty Ltd strategies.

The documents most relevant to this Business Case include:

- Future Melbourne 2026
- City of Melbourne Council Plan 2013-2017
- City of Melbourne Municipal Strategic Statement
- Municipal Public Health and Wellbeing Plan 2013-2017
- Queen Victoria Market Pty Ltd Strategic Brief (2015)
- Queen Victoria Market Long Term Strategy (2011)

- Queen Victoria Market Precinct Renewal Master Plan (2015) and Implementation Framework (2016)
- The City North Structure Plan (2012)
- Open Space Strategy (2012)
- Heritage Strategy (2013)
- Last Kilometre Freight Plan (2016), and
- Zero Net Emissions Strategy Update (2014).

### **Improved visitor value**

Making Melbourne a great place to visit is one of the priorities identified under Future Melbourne 2026. The plan outlines a vision for the city to be one that is engaging, dynamic, and which offers diverse experiences which are easy to navigate and enjoyable. Events to attract investment and stimulate the economy are also identified as priorities in making Melbourne “a prosperous city.”

The QVMPR Master Plan includes a vision for the Queen Victoria Market to provide a diverse mix of produce, retail and hospitality offerings, in order to make the Queen Victoria Market a special destination for visitors. The Master Plan’s priorities around greater pedestrian amenity, provision of public seating, and the establishment of public spaces, also align with improving the visitor experience of the market.

Providing value for visitors is one of the key directions under the Queen Victoria Market Strategic Brief, to provide “a Melbourne experience,” where visitors can experience the city’s local character, liveability and identity. The creation of interesting journeys and enhanced street life within the precinct are identified as key objectives to achieving this goal. Another of the Brief’s strategic objectives, to create a pedestrian heart within the precinct and transform it into a place primarily for people, and supports providing improved value for visitors.

The renewal and upgrade of the Queen Victoria Market precinct is recognised as an important part of the renewal of Melbourne’s broader City North precinct in the City North Structure Plan. The Plan seeks to ensure that “the role of the Queen Victoria Market as a local and regional retail, entertainment and tourist location is enhanced”.

The Queen Victoria Market Long Term Strategy further identifies the ‘renewed appeal’ of markets, asserting they provide an opportunity to offer what is perceived by many people as the ‘authentic’ retail experience. Markets are recognised moreover as being able to offer an entry point for small businesses or businesses selling highly specialised products not found elsewhere, and can act as meeting places within the community. In terms of improved choice, the Council Plan’s creative city goals align with the anticipated benefits of improving the visitor experience through diversifying the market’s offer.

As well as this, the City of Melbourne’s Municipal Strategic Statement (MSS) identifies the need to support the market as a retail and tourist facility, as well as a heritage asset of State significance. The conservation and enhancement of cultural heritage places and precincts is also a stand-alone objective under the MSS, with the restoration of heritage places and the maintenance of the key distinctive features of heritage identified as key strategies. The importance of protecting and responding to the city’s heritage is recognised in the Council Plan and Queen Victoria Market Precinct Strategic Brief.

### **Improved City North liveability**

Enhanced liveability is an important theme under Future Melbourne 2026, with the key goal of Melbourne being “a city for people”. Under this theme, priorities include that the city be designed for people, connected through well-designed precincts which reflect their heritage, and that public spaces encourage diverse activities and social connections. Capitalising on the benefits of urban density is also identified as an important aspect of keeping the city liveable.

The need to provide community spaces and facilities is recognised in the QVMPR Master Plan. Key priorities under the Plan which align with improving liveability in the precinct include creating a childcare

facility and family hub, the accommodation of civic meeting places and studio spaces, and the incorporation of environmental initiatives to complement active street frontages.

The City North Community Infrastructure Assessment identifies the market as an important location for providing long-term community infrastructure facilities and ensuring that residents in this part of the city have adequate access to health services, family and social services, aged care, and art and cultural facilities. Similarly, the strategic directions under the Queen Victoria Market Strategic Brief include for the precinct to be a community meeting place, where people are brought together, and shared experiences and social connections are encouraged, and local needs are met through convenient access to services.

The Council Plan's 'city of people' goal supports the enhancement of resident liveability through public space, stating that "we plan and design for our growing city, including safe, healthy and high-quality public spaces". This is supported by the City North Structure Plan, which refers to increasing the provision of open space and community infrastructure in the City North precinct in its Strategies 6 and 7. The Plan's built form principles further describe the importance of cultivating a vibrant and distinct precinct, integrating heritage into urban renewal, regenerating the public realm, and a liveable local neighbourhood.

The City of Melbourne's Municipal Health and Wellbeing Plan further aligns with the anticipated benefit of enhanced resident liveability. This Plan's Healthy Cities Model seeks to ensure that human capital is supported through other types of capital, including social and cultural, built and economic.

The City North Structure Plan recognises the renewal of the Queen Victoria Market precinct as an important factor in the successful urban renewal and liveability of the wider precinct, identifying the market site as the location for a new "major civic space". The Queen Victoria Market Long Term Strategy envisages the market to be the "heart of Melbourne's inner north," acting as an important meeting place and focal point of the growing precinct. While activity and event areas are currently heavily weighted towards the southern end of the city, this strategy recognises a need to ensure a new "centre" in the north for city residents.

The Open Space Strategy also identifies the need to investigate the potential for open space in the vicinity of the market to complement existing cultural and retail activity, but also to cater to growing resident needs in the City North precinct.

The QVMPR Program is intended to retain and restore the market's heritage qualities, in line with the objectives of the Heritage Strategy. This strategy states that heritage lies at the heart of community identity and there is a need to protect heritage places in response to further urban development.

### **Improved precinct security, safety and compliance**

Improving safety at Queen Victoria Market is a priority under the QVMPR Master Plan, particularly with regard to resolving conflicts between public accessibility and delivery vehicles, better hygiene facilities for traders, and improved water and recycling management. Such improvements are intended to help make market shopfronts more welcoming to visitors.

Improvements to pedestrian infrastructure under the Master Plan also align with the goal of delivering improved safety across the precinct, with delineation between pedestrian and vehicular spaces to be better articulated and separated in some areas.

Long-term planning for infrastructure, including how goods are moved around the city, is recognised as a priority under Future Melbourne 2026, ensuring the City of Melbourne is able to effectively manage change and growth. Investigating ways to improve the movement of goods and produce is also identified

as important in the Last Kilometre Freight Plan<sup>29</sup>, including ensuring that new buildings are equipped to meet requirements for dispensing goods and services.

The Long Term Strategy identifies specific Council strategies for the future of the Queen Victoria Market, including the need to encourage better delineation of back-of-house and public/retail areas by creating an underground service area (Strategic Direction 4).

The anticipated benefits of improving the market's waste management system are supported by a number of Council strategic documents. On a broader scale, the Council Plan's eco-city goals support the development of a sustainable waste management system. The Long Term Strategy sees Queen Victoria Market becoming a "showcase of sustainable resource consumption", and a "leader in sustainable management and operations". This includes the market becoming the centre of a zero emissions neighbourhood, including 'tri-generation' and central city waste collection. The City North Structure Plan further asserts that City North is to become an energy, water and waste efficient precinct.

Improvements to existing market facilities, including back-of-house, logistics, storage and loading areas, are identified in the Queen Victoria Market Strategic Brief as important to ensuring the market is home to a range of sustainable businesses. Such upgrades are also intended to contribute to making the market more sustainable in terms of waste management and energy efficiency.

### **Improved business (operator and tenant) viability**

The attraction of new businesses and support for existing businesses are priorities under Future Melbourne 2026 and are linked to the goal of making Melbourne "a prosperous city". Incentives to allow businesses more flexibility, such as in operational hours, are identified as a priority under the plan.

The Council Plan's 'prosperous city' goals support investment in the market to optimise function and operations. The Long Term Strategy also recognises that intensifying and varying activities across the market site is an important part of encouraging urban densification in the City North precinct. The QVMPR Master Plan identifies that encouraging business opportunities and diversity is crucial to the economic and commercial sustainability of the precinct.

The Long Term Strategy further seeks to "secure the market's place as one of the world's great markets," while the opportunity to optimise the use of market land is recognised in the City North Structure Plan.

The City of Melbourne's MSS includes the objective of ensuring that development around the Queen Victoria Market does not detract from its existing amenity and its 24-hour functionality. The importance of retaining retailing and business uses generally within central city locations is also noted. Upgrades to the existing facilities at the market are identified in the Queen Victoria Market Strategic Brief as important to achieving the goal of the precinct being "a market of markets". Other key objectives towards this goal are the provision of support for emerging businesses, opportunities for new traders and businesses, programs to ensure vibrancy throughout the week, and measures to support customers staying longer in the precinct.

The Freight Plan similarly identifies the QVMPR Program as an opportunity to reinvigorate deliveries within the precinct, to meet evolving customer needs as well as to incorporate infrastructure to support innovation in the delivery of freight. Innovative freight and logistic solutions are identified as a priority for Future Melbourne 2026.

In terms of long term viability, including environmental sustainability, the Council Plan's 'eco city' goal aims to achieve a reduction in greenhouse gas emissions and less municipal waste-to-landfill. The City's Zero Net Emissions Strategy sets an ambitious target for Melbourne to become a carbon neutral city by 2020. The proposed QVMPR Program will contribute to these objectives.

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<sup>29</sup> City of Melbourne Last Kilometre of Freight Plan June 2016 <http://www.melbourne.vic.gov.au/parking-and-transport/transport-planning-projects/pages/last-kilometre-freight-plan.aspx>

### 4.3 Summary of policy alignment

A summary of how the envisaged benefits align with key Council policies is provided in the table below.

TABLE 4 POLICY ALIGNMENT OF QVM RENEWAL

	Improved visitor value	Improved City North liveability	Improved precinct security, safety & compliance	Improved business viability
<b>Community &amp; organisational policies</b>				
- Future Melbourne	✓	✓	✓	✓
- CoM Council Plan	✓	✓	✓	✓
- CoM Municipal Strategic Statement	✓			
- CoM Municipal Public Health & Wellbeing Plan		✓		
<b>Place based policies</b>				
- The Queen Victoria Market Long Term Strategy	✓✓		✓	✓✓
- The City North Structure Plan	✓	✓✓	✓	✓
- Queen Victoria Market Precinct Renewal Strategic Brief	✓✓	✓	✓	✓✓
- Queen Victoria Market Precinct Renewal Master Plan	✓✓	✓✓	✓✓	✓✓
<b>Specific initiative policies</b>				
- Open Space Strategy		✓		
- Heritage Strategy		✓		
- Last Kilometre Freight Plan			✓	✓
- Zero Net Emissions Strategy				✓

Source: SGS Economics & Planning (2017).

### 4.4 Evidence of benefit delivery

The following key performance indicators will be used to monitor efficiency at Queen Victoria Market.

TABLE 5 KEY PERFORMANCE INDICATORS

<b>Improved visitor value</b>	
Visitor numbers	Annual visitation to Queen Victoria Market precinct
Visitor spending	Average dollar spend per visitor at Queen Victoria Market precinct
Visitor satisfaction	% of visitors who are either fairly (7-8 out of 10) or extremely satisfied (9-10 out of 10) with Queen Victoria Market precinct overall
<b>Improved City North liveability</b>	
Land use diversity	Employment number to resident number ratio (City North precinct)
Population growth	Total resident and employment numbers (City North precinct)
Public open space	Square meterage of public open space (City North precinct)
<b>Improved precinct security, safety &amp; compliance</b>	
Incident numbers	Number of controllable hazards and incidents that are reported each year in Queen Victoria Market precinct
Infringement notices	Number of significant infringement notices issued each year to stallholders/ tenants by Queen Victoria Market PL.
Visitor perceptions of safety	% of visitors who are either fairly (7-8 out of 10) or extremely satisfied (9-10 out of 10) with Queen Victoria Market precinct safety
<b>Improved business (operator &amp; tenant) viability</b>	

Operating margin	Queen Victoria Market PL total revenues divided by Queen Victoria Market PL profits (before tax and dividends)
Revenue generation	Queen Victoria Market PL total revenues divided by Net Lettable Floorspace Area
Utilities expenditure	Queen Victoria Market PL annual expenditure on utilities divided by Total Floorspace Area

Source: SGS Economics & Planning (2017).

# 5 PROJECT OPTIONS

This section describes the context for the development of shortlisted program options, as well as two shortlisted options for program delivery, given this context.

## 5.1 Options identification

As outlined in the investment logic map, effective options for renewing the Queen Victoria Market precinct must respond by:

- improving the visitor experience and diversifying the offer
- improving amenity, connectivity and community services
- addressing operating conflicts, and
- modernising operating modes.

Having said this, feasible renewal options must also be developed in the context of the State Agreement (2014) and the QVMPR Master Plan (2015) and Implementation Framework (2016).

Under the State Agreement, the Victorian Government agreed that proceeds from the sale of public land parcels to the market's south would be reinvested into the market's renewal on the condition that Council commit to the full extent of the QVMPR Program, which included the following core outcomes:

- **Car parking:** Current open lot car park (minimum 720 car parking spaces) must be replaced by a new car parking facility to be developed elsewhere within the market precinct.
- **New public open space:** A new public open space must be created on the site of the current open lot car park.
- **Franklin Street connection:** Franklin Street must be realigned to replace Queen and Peel Street roundabouts with signalised intersections.
- **New and enhanced market facilities:** Market facilities must be enhanced and new facilities developed including a new Victoria Visitor Centre.
- **Adaptation of existing sheds:** Existing heritage sheds must be adapted to support a broader range of community events and markets.
- **Achievement of public policy benefits:** A range of public policy benefits must be achieved, including increased visitation and economic activities.

In simple terms, the only way that the State Government will allow the sales proceeds of public land to the market's south to be used by the City to fund works at the market is if the State Agreement is triggered and its terms fulfilled.

In October 2014 Council successfully acquired the Munro site, thereby expanding the area of the market precinct under the direct control of the City, serving to protect it from inappropriate development and opening up a broader range of possibilities for the achievement of the State Agreement outcomes. The Munro site was later integrated into the master planning for the market precinct with this site being intended as a potential location for new market car parking facilities outline in the QVMPR Master Plan (2015) and subsequently further articulated in the QVMPR Implementation Framework (2016).

Given this context, at a program level, there are two broad options that exist pertaining to car parking and market infrastructure delivery that could potentially satisfy the terms of the State Agreement. A 'do nothing' option has also been explored to provide a baseline for decision making purposes although it is acknowledged the case for change has been articulated and forms the basis of the rationale that underpins the State Agreement.

## 5.2 Shortlisted options

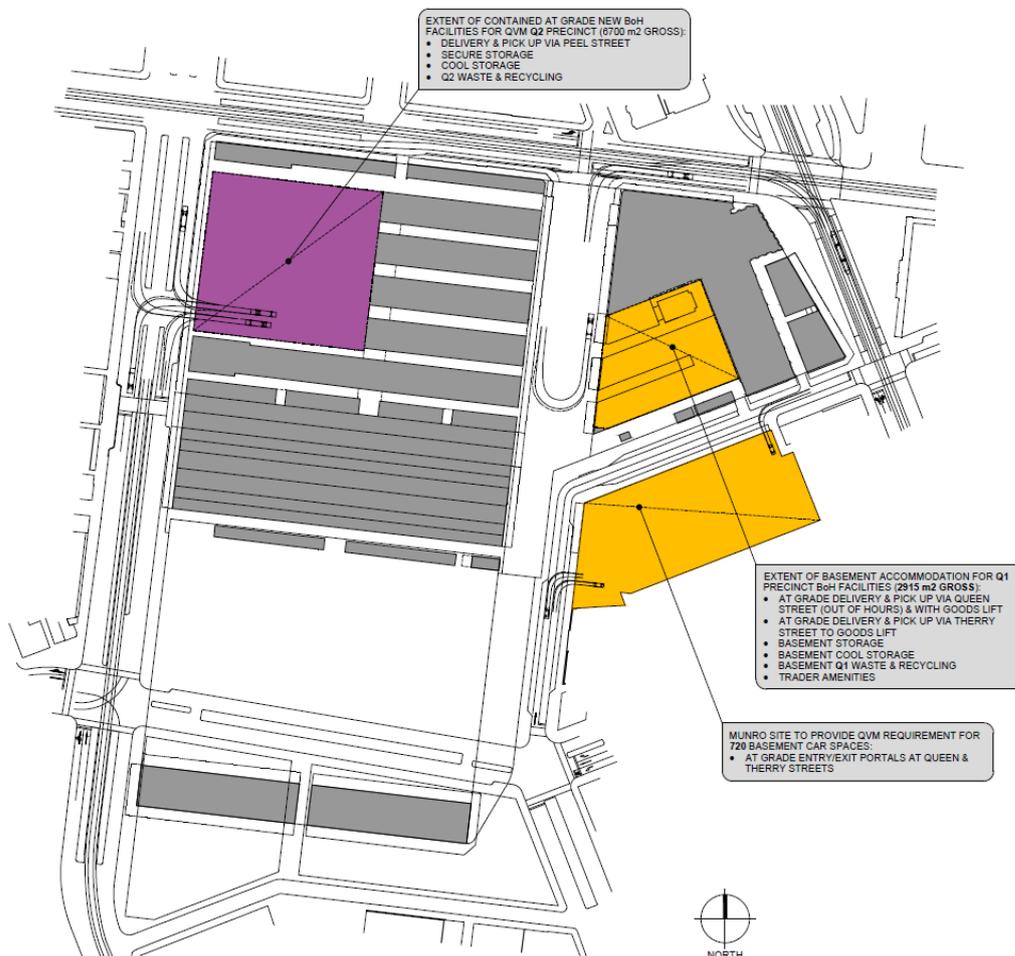
### Option 1 – Business as usual

Option 1 is a business as usual scenario where the City elects to not pursue the renewal program, and therefore does not initiate the terms of the State Agreement. Business as usual in this context is not doing nothing, but includes the progressively tackling of safety and food handling compliance issues, and the ongoing escalation of asset maintenance, as the ageing infrastructure within the precinct rapidly deteriorates.

### Option 2 – Limited below ground

Option 2 consolidates replacement car parking to a new below ground facility to be developed at the Munro site (Quarter 4). The State Agreement obligation to improve market facilities in Quarter 1 is achieved by the construction of a new below ground area, to significantly improve public and workplace safety across the site.

FIGURE 13 OPTION 2 SUMMARY DEPICTION



Source: City of Melbourne (2017).

Under Option 2, back-of-house facilities are provided 'at grade' in Quarter 2, necessitating the dedication and separation of a substantial area for back-of-house activities and replacement storage facilities. This also necessitates the possible removal of sections of heritage sheds to accommodate high vehicles.

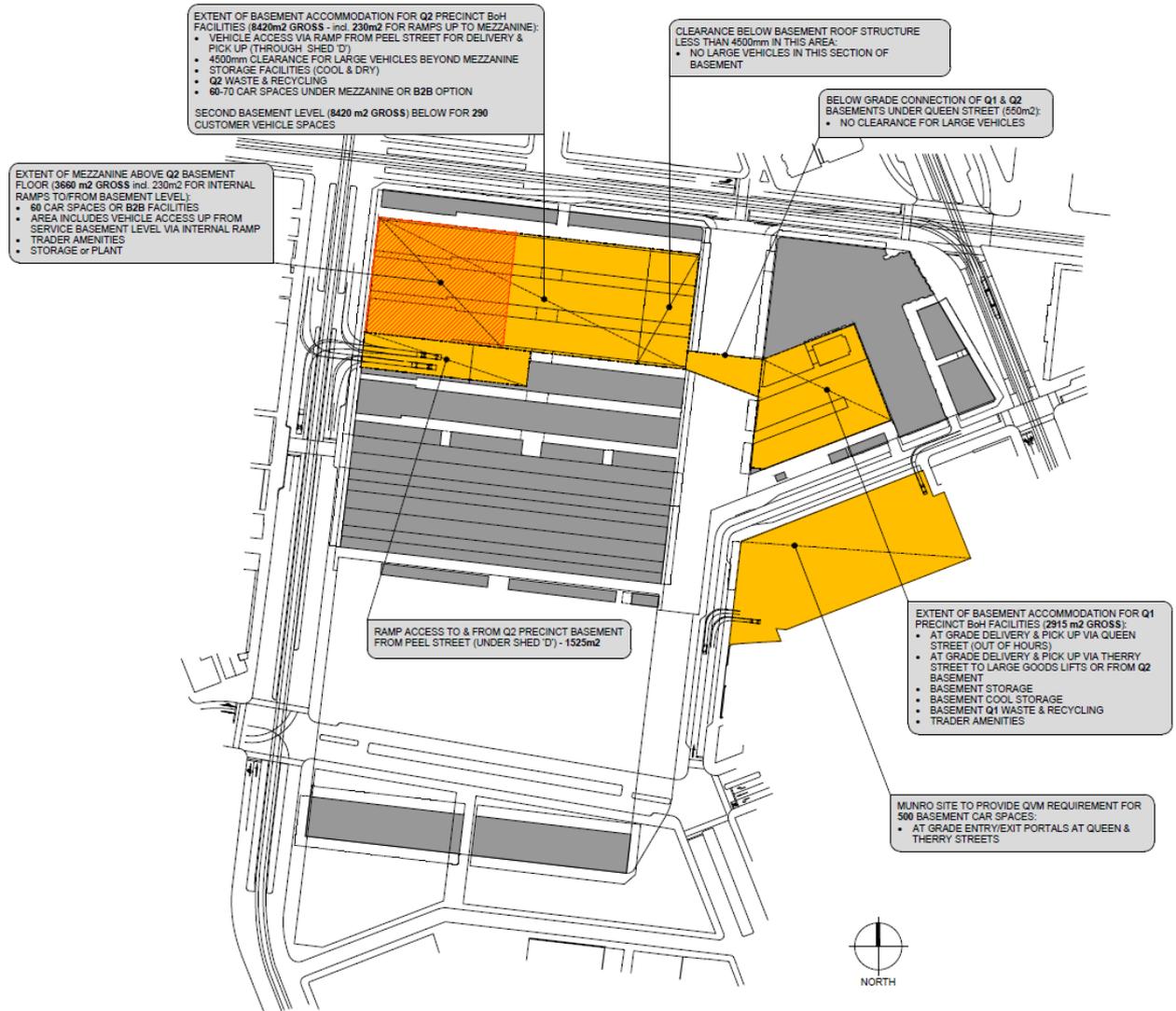
Option 2 would see the upgrade of Sheds E, F, J, K, L and M with new infrastructure and facilities; the creation of a major new open space within Quarter 3, with construction of a new Market Square, and a new Queens Corner building, along with the realignment of Franklin Street; improvement works on

adjoining city streets with more trees and room for pedestrians and cyclists; and the subsequent commercial redevelopment of the southern sites land parcels.

### Option 3 – Below ground

Option 3 creates two new car parking areas that combine to replace the existing facility, distributing customers between a new below ground facility to be developed at the Munro site or Quarter 4, and a second below ground facility to be developed beneath Sheds A, B and C. A proposed entrance from Peel Street at Shed D is currently considered the most viable entry and exit point for vehicles (subject to Council decision in 2017).

FIGURE 14 OPTION 3 SUMMARY DEPICTION



Source: City of Melbourne (2017).

The Quarter 2 below ground area is combined with new back-of-house facilities meaning that both core parts of the market precinct (Quarter 1 and 2) are served by below ground facilities, in addition to Quarter 4.

The provision of essential market infrastructure and replacement storage via these below ground areas serves to expand the potential retail trading area and ensure public access to the heritage sheds is maintained and the sheds can be fully restored and retained.

In line with Option 2, Option 3 would also see the upgrade of Sheds E, F, J, K, L and M with new infrastructure and facilities; the creation of a major new open space within Quarter 3, with construction

of the new Market Square and Queens Corner building, along with the realignment of Franklin Street; construction of a new Queens Corner building, along with the realignment of Franklin Street; adjoining city streets improved with more trees and room for pedestrians and cyclists; and the subsequent commercial redevelopment of the southern sites land parcels.

### 5.3 Comparative scope of options

Table 6 describes how Option 2 and 3 address each of the core outcomes of the State Agreement.

TABLE 6 STATE AGREEMENT SCOPE EXPECTATIONS (OPTIONS 2 AND 3)

State Agreement Core outcome	Option 2 Scope	Option 3 scope
<b>Car parking</b>	<ul style="list-style-type: none"> <li>One new below ground car parking facility is developed at Q4 (‘the ‘Munro’ site) delivering 720 car parking spaces.</li> <li>No dedicated provision for trader parking is envisaged.</li> </ul>	<ul style="list-style-type: none"> <li>Two new below ground car parking facilities are developed. One is located at Q4 (the ‘Munro site) delivering approx. 500 car parking spaces.</li> <li>A second is located at Q2 (under Sheds A, B, C with an entrance off Shed D) delivering a minimum of a further 220 car parking spaces.</li> <li>The opportunity to provide up to 120 trader parking spaces within the Q2 below ground area is also envisaged.</li> </ul>
<b>New public open space</b>	<ul style="list-style-type: none"> <li>A new 1.5ha Market Square would be created.</li> </ul>	<ul style="list-style-type: none"> <li>A new 1.5ha Market Square would be created.</li> </ul>
<b>Franklin Street realignment</b>	<ul style="list-style-type: none"> <li>Franklin Street would be realigned.</li> </ul>	<ul style="list-style-type: none"> <li>Franklin Street would be realigned.</li> </ul>
<b>Market facilities enhancement</b>	<ul style="list-style-type: none"> <li>Q1 (the ‘Lower Market’) facilities would be enhanced with the provision of a basement. Other restoration would also be undertaken.</li> <li>Market Sheds in Q2 and Q3 (the ‘Upper Market’) would be refurbished.</li> <li>A new dedicated back-of-house area would be created at grade in Q2 to cater for the market’s storage and waste management requirements. This area would be closed to the public and necessitate the permanent adaptation or removal of heritage fabric to adequately accommodate trader and service vehicles.</li> </ul>	<ul style="list-style-type: none"> <li>Q1 (the ‘Lower Market’) facilities would be enhanced with the provision of a basement. Other restoration would also be undertaken.</li> <li>Market Sheds in Q2 and Q3 (the ‘Upper Market’) would be refurbished.</li> <li>A new below ground area would be created in Q2 providing dedicated back-of-house facilities, and catering to the market’s storage and waste management requirements. This area would also feature lettable facilities for traders to enable business diversification and expansion. This area would be secure and inaccessible to the public and enable market operations to take place at all times with no impact to the retail trading areas at ground level and nearby residents and businesses. The construction would cause the temporary removal of heritage fabric (subject to approvals) but this would be restored.</li> </ul>
<b>Existing sheds adaptation</b>	<ul style="list-style-type: none"> <li>Market sheds would be refurbished with improved essential services such as access to power, water and sewer. Cold storage and mobile storage units held at grade would continue to accommodate trader needs.</li> </ul>	<ul style="list-style-type: none"> <li>Market sheds would be refurbished with improved essential services such as access to power, water and sewer. New below ground areas would accommodate trader requirements for supplementary storage as well as provide a logistic solution for managing the market’s multiple uses.</li> </ul>
<b>Public policy benefits</b>	<ul style="list-style-type: none"> <li>Overall reduction in Net Lettable Area compared to Option 1</li> <li>Visitation increase on Option 1.</li> </ul>	<ul style="list-style-type: none"> <li>Overall increase in Net Lettable Area compared with Option 1 and Option 2.</li> <li>Visitation increase on Option 1 and 2.</li> </ul>

## 5.4 Response to investment logic map

Table 7 recasts these options in terms of how they align with the changes envisaged in the Investment Logic Map.

TABLE 7 RESPONSE TO INVESTMENT LOGIC MAP (OPTIONS 2 AND 3)

Strategic response	Changes/ assets	Option 2 scope	Option 3 scope
<b>Improve visitor experience &amp; diversify offer</b>	- Increase precinct activation	<p>Ultimately the establishment of at-grade back of house (BOH) facilities in the north-western corner of Q2 will limit the potential for customers to move freely through the Queen Victoria Market. With accessibility to the west presently an important feature of Queen Victoria Market, Option 2 is likely to result in reduced activity through the market.</p> <p>Further, around half of all customers arrive by private vehicle and Option 2 proposes only a single car parking location (in Q4). Combined with the fact that access from the west is to be blocked by the BOH facilities, Q2 is likely to suffer from insufficient accessibility, and the associated risk of ongoing lack of activation in Q2.</p> <p>Assessed score: <b>MEDIUM</b></p>	<p>Q2 below ground areas enable market to operate concurrently with trading and activities without compromising precinct activation.</p> <p>Maintaining the 'open' nature of Queen Victoria Market's western edge will facilitate activity across the market.</p> <p>The existence of an additional customer car park underneath Q2 will generate an additional source of activation within this part of the market.</p> <p>Assessed score: <b>HIGH</b></p>
	- Responsively program precinct	<p>A renewed Queen Victoria Market will be more adaptable and better placed to alter its programming to accommodate new event and retail types/ formats. An enhanced ability to responsively program the market spaces would be common to both options.</p> <p>Assessed score: <b>HIGH</b> under both options.</p>	
	- Diversify product mix	<p>Option 2 will deliver a greater diversity of retail space types, which should translate into greater diversity of product at Queen Victoria Market.</p> <p>The number of visitors is expected to increase as a result of Option 2 (though only around 60 per cent the increase associated with Option 3). That said, this option will deliver a quantity of floorspace that is lower than what is presently available. Ultimately this creates a capacity constraint on market activities that may adversely impact diversity of offer.</p> <p>Assessed score: <b>MEDIUM</b></p>	<p>Option 3 will deliver a greater diversity of retail space types, which should translate into greater diversity of product at Queen Victoria Market. Option 3 will also deliver more retail space than Option 2.</p> <p>Growth of retail product diversity is likely to be driven by growth in the overall quantum of retail activity taking place at Queen Victoria Market.</p> <p>Option 3, with a combination of growth in floorspace and visitation, is best-placed to deliver this.</p> <p>Assessed score: <b>HIGH</b></p>
	- Create flexible spaces	<p>Option 2 proposes to create a range of flexible spaces to cater to demand associated with a variety of retail types. This will help ensure that Queen Victoria Market is attractive to a range of retail types and that retail diversity</p>	<p>Under Option 3, a range of flexible spaces to cater to demand associated with a variety of retail types is proposed. These will help ensure that Queen Victoria Market is attractive to a wide variety of retail types and that retail</p>

Strategic response	Changes/ assets	Option 2 scope	Option 3 scope
		<p>is maximised.</p> <p>This loss of floorspace to at-grade BOH facilities will mean a loss of some flexibility in regard to the use of market spaces.</p> <p>Assessed score: <b>MEDIUM</b></p>	<p>diversity is maximised.</p> <p>Car parking spaces delivered in Q2 and Q4 are intended to be adaptable for other uses; in the event demand for car parking spaces is reduced in the future due to changes in technology and/or consumer behaviour.</p> <p>Assessed score: <b>HIGH</b></p>
	– Diversify trading facilities	<p>Improved facilities and lettable back-of-house areas in Q2 create a broader range of opportunities for traders, enhancing the market as a place to trade and helping it attract a more diverse range of trader groups.</p> <p>Assessed score: <b>HIGH</b> under each option</p>	
	– Improve visitor facilities/ amenities	<p>Option 2 will involve substantial upgrades to visitor facilities. This will result from, among other things, an increase in the number of eateries, ATMs, and public toilets. In addition, the quality of public spaces will be complemented with improved weather protection and pedestrian friendly spaces for ease of movement through the market.</p> <p>This option will have only one location for car parking – under Q4. This reduced choice will mean customers wanting to access Q2 in particular will be faced with long walks.</p> <p>Assessed score: <b>MEDIUM</b></p>	<p>As with Option 2, Option 3 will lead to vast improvement in the quality of public spaces and the availability of public amenities.</p> <p>As it relates to the existence of visitor amenity, car parking areas located underneath Q2 and Q4 represent a vast improvement on the status quo, and also Option 2, where car parking is to be located in a single location.</p> <p>Assessed score: <b>HIGH</b></p>
<b>Improve amenity, connectivity &amp; community services</b>	– Improve precinct amenity	<p>Renewal under each option will substantially improve amenity in the precinct. An increase in the number and availability of customer amenities, improved weather protection and redesigned market spaces will ensure the market becomes a more appealing place to shop and recreate.</p> <p>Assessed score: <b>HIGH</b> under each option</p>	
	– Coordinate community services	<p>Under both options, community floorspace is proposed with the Munro site development project. Council will coordinate the use of this site by community service providers under both options.</p> <p>Assessed score: <b>NOT APPLICABLE</b> under both options.</p>	
	– Improve precinct navigability/ connectivity	<p>Redesigned market spaces and walkways will ensure the market is more navigable than is presently the case, ultimately resulting in a better shopping experience for customers.</p> <p>Under Option 2, however, connectivity is reduced with the establishment of ‘at grade’ back-of-house facilities in Q2. This will prevent clear passage to</p>	<p>Redesigned market spaces and walkways will ensure that the market is more navigable than is presently the case, ultimately resulting in a better shopping experience for customers.</p> <p>Option 3 would retain the ‘openness’ of the Peel Street frontage, facilitating the movement of customers through the site.</p>

Strategic response	Changes/ assets	Option 2 scope	Option 3 scope
		<p>market spaces from Peel Street. Further, the connectivity is threatened by the transfer of car parking, which is presently at-grade in Q3 to a multi-level car park in Q4. This will result in reduced connection between retail spaces across the market and the car parks that serve it.</p> <p>Assessed score: <b>MEDIUM</b></p>	<p>Further, car parking facilities below Q2 will help connect those customers that arrive by private vehicle with market spaces in Q2 in particular.</p> <p>Assessed score: <b>HIGH</b></p>
	<ul style="list-style-type: none"> <li>– Improve public realm/ streetscapes</li> </ul>	<p>A renewed market precinct will incorporate redesigned public spaces that respond more effectively to the needs of customers for a high quality public realm. Vehicles and back-of-house facilities will be removed from the trading floor, thereby reducing conflict between uses/functions and improving the public realm.</p> <p>Under this option, there will be degradation of the Peel Street frontage which will change from its presently permeable state, to a hard edge, with little opportunity for street-front activation.</p> <p>Assessed score: <b>MEDIUM</b></p>	<p>A renewed market precinct will incorporate redesigned public spaces that respond more effectively to the needs of customers for a high quality public realm. Vehicles and back-of-house facilities will be removed from the trading floor, thereby reducing conflict between uses/functions and improving the public realm.</p> <p>These benefits will be optimised under Option 3, in which back-of-house facilities are located underground, and in which the Peel Street frontage is permeable and activated by retail uses.</p> <p>Assessed score: <b>HIGH</b></p>
	<ul style="list-style-type: none"> <li>– Develop community infrastructure</li> </ul>	<p>Under both options, community floorspace is proposed with the Munro site development project. Council will coordinate the use of this site by community service providers under both options.</p> <p>Assessed score: <b>HIGH</b> under both options.</p>	
	<ul style="list-style-type: none"> <li>– Realign pedestrian/ traffic pathways</li> </ul>	<p>Realigned pedestrian/traffic pathways will make Queen Victoria Market more navigable, and alleviate the present situation in which conflict between modes results in risks to health and safety, as well as inconvenience and reduced amenity.</p> <p>Assessed score: <b>MEDIUM</b></p>	<p>Realigned pedestrian/traffic pathways will make Queen Victoria Market more navigable, and alleviate the present situation in which conflict between modes results in risks to health and safety, as well as inconvenience and reduced amenity.</p> <p>Option 3 would address this optimally, with two customer car parking facilities creating a better flow of pedestrians and vehicle traffic throughout the market precinct and minimising impact to the surrounding street network during busy periods and events.</p> <p>Assessed score: <b>HIGH</b></p>
<b>Address operating conflicts</b>	<ul style="list-style-type: none"> <li>– Facilitate movement/ congregation of large crowds</li> </ul>	<p>Option 2 would incorporate better designed internal spaces that facilitate the flow of people through the market precinct. BOH facilities in Q2 will substantially restrict the flow of people through this part of the market.</p> <p>Assessed score: <b>MEDIUM</b></p>	<p>Option 3 retains the open Peel Street frontage, facilitating the movement of crowds into and through the north-western part of the market.</p> <p>A second car park will reduce pressure on the Q4 facility, ensuring that vehicles are able to enter and exit the market precinct relatively easily at peak times.</p>

Strategic response	Changes/ assets	Option 2 scope	Option 3 scope
			Assessed score: <b>HIGH</b>
	– Separate/ underground back of house	At present back-of-house activities are conducted on the market floor, compromising amenity and presenting a series of risks. Each of the options successfully separates back-of-house facilities from activities in the marketplace. Option 2 seeks to replace existing floorspace with an at-grade back-of-house facility, while for Option 3 existing floorspace is retained by relocating back-house facilities underground.  Assessed score: <b>HIGH</b> under both options.	
<b>Modernise operating modes</b>	– Transform trader practices	At present traders practice in a way that is out of step with contemporary retail practices elsewhere in Melbourne. A lack of dedicated back-of-house facilities mean that traders often park their vehicles on the trading floor, a practice which results in a risk to customer health and safety, adversely impacts amenity and has reduces Queen Victoria Market’s ultimate capacity.  Assessed score: <b>HIGH</b> under both options.	
	– Improve trader facilities	Each option will deliver expanded and better facilities for traders, primarily through the delivery of state-of-the-art back-of-house facilities in both Q1 and Q2.  The removal of vehicles from the trading floor will mean that traders have to park their vehicles in Q4. In the sense that they represent trader facilities, there will be a reduction in quality under Option 2.  Assessed score: <b>MEDIUM</b>	Each option will deliver expanded and better facilities for traders, primarily through the delivery of state-of-the-art back-of-house facilities in both Q1 and Q2.  Unlike in Option 2, this option will also deliver conveniently-located car parking facilities for traders, particularly those based in Q2.  Assessed score: <b>HIGH</b>
	– Provide sustainability infrastructure	The renewed Queen Victoria Market will result in a more environmentally sustainable market. The precinct will be guided by a sustainable resource plan, and will be rated through the use of the <i>Green Star - Communities</i> rating tool. The design will enhance resilience to changes in climate, and will be resource efficient with embedded renewable energy sources, and a focus on the minimisation and recycling of organic waste.  Assessed score: <b>HIGH</b> under both options.	

## 5.5 Comparative outcomes of options

The table below outlines some of the key outcomes delivered by each option.

TABLE 8 OUTCOMES UNDER OPTIONS 1, 2 AND 3

	Option 1	Option 2	Option 3
Total floorspace (m <sup>2</sup> )	46,310	68,193	85,867
Net lettable floorspace (m <sup>2</sup> )	24,531	25,661	29,940
Lettable trader back of house (m <sup>2</sup> )	1,915	3,015	6,215
Capital costs (\$ million)	Negligible	222.83*	308.77*
2022/23 annual rents/ fees \$ (million)	15.97	20.81	25.74**
Stallholder rental increases (per m2)	3.0% p.a. ***	3.0% p.a. ***	3.0% p.a. ***

Source: City of Melbourne (2017)

\*excludes funding contributions from other asset sales.

\*\*this increase is driven by the addition of net lettable floorspace combined with the commercial activation of other spaces.

\*\*\* average annual increases in lease and licence fees for existing traders will be no greater than 3% per annum, and this is the basis upon which this Business Case has been modelled.

The figures below trace the capital expenditure program and net revenue position (profitability) envisaged for each option.

FIGURE 15 COMPARATIVE CAPEX OUTCOMES UNDER OPTIONS 1, 2 AND 3

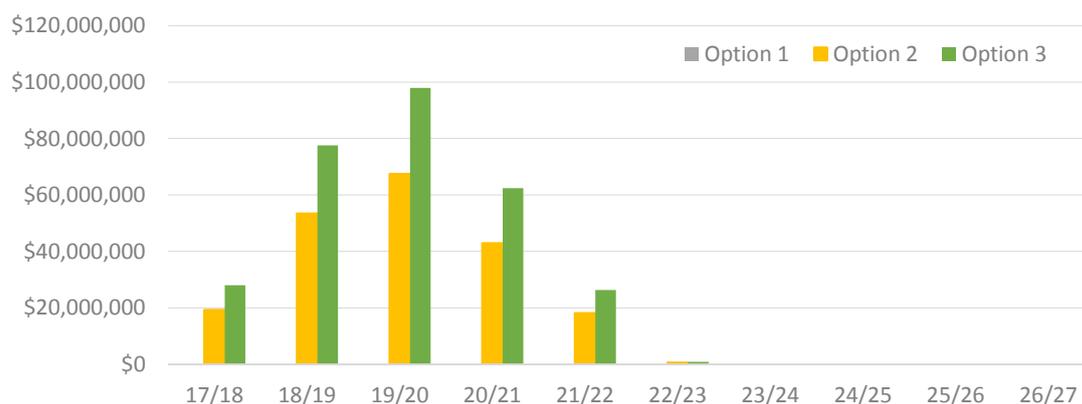
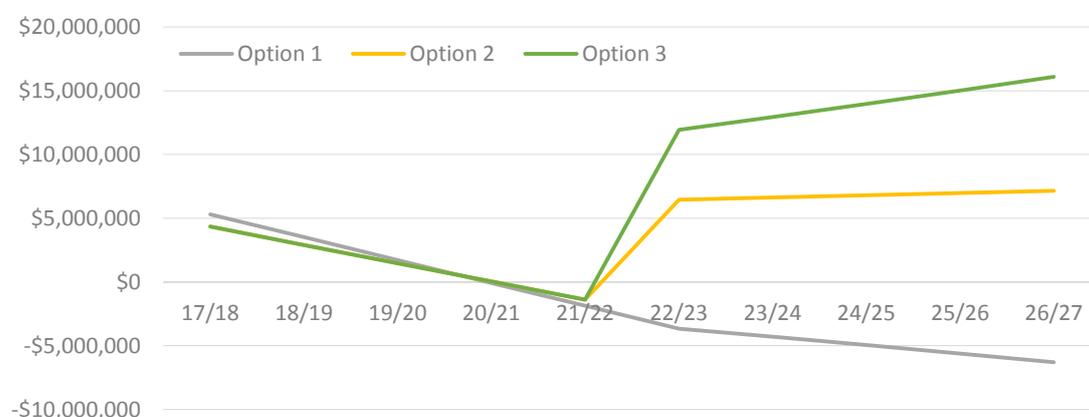


FIGURE 16 COMPARATIVE NET REVENUE OUTCOMES UNDER OPTIONS 1, 2 AND 3\*



Source: SGS based on City of Melbourne (2017)

\*Net revenues before the payment of any licence fees or dividends to Council.

While Option 1 involves limited capital expenditure, it fails to address the deteriorating financial performance of Queen Victoria Market Pty Ltd. This risks the social and economic contributions the market generates and threatens its long term sustainability as a working, traditional marketplace. Indeed, given recent performance, the net revenues forecast for Option 1 may be optimistic as they assume real revenue growth over the long term.

# 6 OPTIONS ANALYSIS

This section analyses the performance of each option from a strategic, financial, community welfare and risk perspective, prior to identifying the preferred option.

## 6.1 Strategic analysis

Drawing on the detailed discussion in Section 5.4, the renewal options have been assessed in terms of their respective alignment with the strategic responses outlined in the Investment Logic Map.

TABLE 9 STRATEGIC PERFORMANCE OF OPTIONS 1 AND 2

Strategic response	Option 2	Option 3	Changes/ assets	Option 2	Option 3
<b>Improve visitor experience &amp; diversify offer</b>	Medium-High	High	- Increase precinct activation	Medium	High
			- Responsively program precinct	High	High
			- Diversify product mix	Medium	High
			- Create flexible spaces	Medium	High
			- Diversify trading facilities	High	High
			- Improve visitor facilities/ amenities	Medium	High
<b>Improve amenity, connectivity &amp; community services</b>	Medium	High	- Improve precinct amenity	Medium	High
			- Coordinate community services	NA	NA
			- Improve precinct navigability/ connectivity	Medium	High
			- Improve public realm/ streetscapes	Medium	High
			- Develop community infrastructure	High	High
			- Realign pedestrian/ traffic pathways	Medium	High
<b>Address operating conflicts</b>	Medium-High	High	- Facilitate movement/ congregation of large crowds	Medium	High
			- Separate/ underground back of house	High	High
<b>Modernise operating modes</b>	Medium-High	High	- Transform trader practices	High	High
			- Improve trader facilities	Medium	High
			- Provide sustainability infrastructure	High	High

## 6.2 Financial analysis

### Scope of analysis

The financial analysis uses discounted cashflow analysis to generate financial performance measures of each project option (Option 2 and 3) compared with the business as usual option (Option 1). That is, an incremental analysis has been performed to estimate how taking proactive steps impact Council's finances.

The analysis has been conducted over a 30 year timeframe (to 2047) to reflect the longevity of infrastructure works, recognising that periods outside this period are tenuous to model.

A nominal discount rate of 5 per cent is used to convert future costs and revenues to present day figures.

The financial analysis includes the following items:

- **Capital costs.** Substantial upfront expenditure is required to bring each of the project options to fruition. These expenditures are outlined in the Retail Plan. SGS has used the timeline provided within the QVMPR Implementation Framework to estimate the likely timing of capital expenditure. Capital works are assumed to begin in 2017-18 and be completed within five years, with the upgraded Queen Victoria Market precinct fully operational in the 2022.
- **Operating costs.** Analysis of historical records shows that expenditures associated with Queen Victoria Market are growing rapidly – at a nominal annual rate of 5.2 per cent. Under Option 1 this rate of increase is projected forward to the end of the cash flow period. Under each of the renewal options, the rate of increase is assumed to grow at this rate until full implementation in 2022, when a modern, more efficient market setup drives a reduction in the rate of cost increase to 2.5 per cent p.a. SGS also assumes that the market operates at 80 per cent capacity over the capital works period, and operating costs are reduced accordingly.
- **Interest payments:** Annual debt balances are assumed to accrue interest. A 4.25 per cent nominal interest rate has been assumed.
- **Operating revenues.** Revenues are also detailed in the Retail Plan. This Plan sets out projected revenues for the first full year in which the renewed Queen Victoria Market precinct is operational. Large increases in revenues under each of the renewal options (Option 2 and 3) reflect enhanced operational capacity. Over the past five years, Queen Victoria Market Pty Ltd revenues have grown at a nominal rate of around 3 per cent p.a. Under Option 1 these are projected forward at this rate to 2047. Under Option 2 the same growth rate is assumed, i.e. on the expanded revenue base incorporated within the model from 2022/23. Under Option 3 a nominal increase of 4 per cent p.a. per annum is assumed on the expanded revenue base, reflecting the new market's superior layout and expanded capacity. SGS assumes that the market runs at 80 per cent capacity over the capital works period, and revenues are adjusted accordingly.
- **Proceeds of asset sales:** Proceeds of assets sales are assumed as cash inflows in 2022.
- **Residual value of assets.** SGS takes into consideration the residual value in 2047 of the assets generated under each option. As they age over the course of the valuation period, these assets are expected to decline in value. Adopting standard approaches to calculating depreciation, SGS has reduced the value of these assets on a 'straight-line' basis.

It is noted the actual financial performance of Option 1 is very poor. Continuation of business as usual would require Council to subsidise the operations of the market at a cost of more than \$100 million over the next 30 years. Moreover, the underlying issues of the Queen Victoria Market precinct will remain unaddressed and the ongoing financial viability of the market would be threatened. As already stated,

this means the current financial, economic and social contributions made by the market precinct would be undermined.

### Summary of results

The table below summarises the financial analysis in present value terms. It reveals that Option 3 is projected to yield a net present value quadruple that of Option 2, albeit with a similar internal rate of return. This superior performance stems from the operating revenues generated by Option 3, given its greater area of lettable space combined with its commercial activation of other market areas.

Having said this, both options meet traditional financial hurdle requirements, i.e. they both have a positive NPV and an IRR greater than the discount rate (5 per cent).

TABLE 10. SUMMARY OF FINANCIAL ANALYSIS\*

	Option 2 Present value (\$000)	Option 3 Present value (\$000)
Capital costs	\$175,141 **	\$254,277 **
Operating cost savings	(\$114,908)	(\$114,908)
Interest payments	\$87,445	\$99,820
Total costs	\$147,678	\$239,190
Residual value	\$26,172	\$37,149
Operating revenues	\$97,006	\$263,859
Proceeds of other assets sales	\$54,847	\$54,847
Total revenues	\$178,025	\$355,855
NET PRESENT VALUE (NPV)	\$30,347	\$116,665
INTERNAL RATE OF RETURN (IRR)	6.07%	7.31%

Source: SGS Economics & Planning

\*nominal discount rate of 5% is used to convert future costs and revenues to present day figures

\*\*excludes funding contributions from other asset sales.

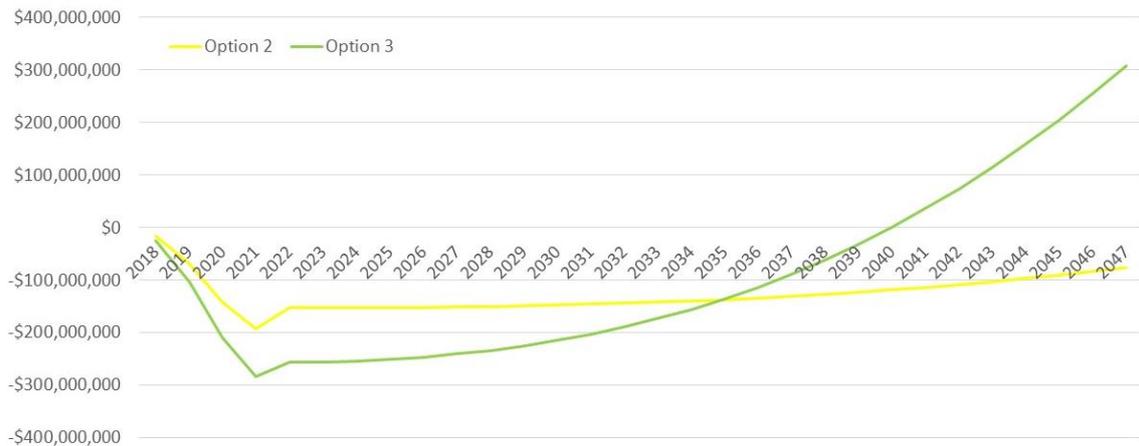
### Cash flow analysis

The figure below shows that Option 3 achieves its peak debt, of approximately \$284 million<sup>30</sup>, in 2021. This debt will reduce relatively rapidly thereafter as a result of the proceeds from other asset sales in 2022, and high incremental operating revenues combined with a reduction in incremental operating costs. The figure below shows an anticipated 'payback period' of 23 years, with payback of capital costs projected to occur around 2040.

Although the peak debt associated with Option 2 is substantially lower than for Option 3 (around \$192 million), this option will take far longer to be paid back, and is not projected to occur by the end of the cash flow period.

<sup>30</sup> Council's funding strategy also includes additional revenue items generated within the Queen Victoria Market precinct, limiting Council's financial commitment to the publicly announced maximum of \$250 million.

FIGURE 17. CASH FLOW ANALYSIS



Source: SGS Economics & Planning

### 6.3 Cost benefit analysis

#### Scope of analysis

The ultimate goal of cost benefit analysis is to assess the broad community welfare impacts of proposed projects taking a triple bottom line (i.e. an economic, social and environmental) perspective. In essence, if the assessed benefits outweigh the costs, the project is worth doing from an ‘efficiency’ perspective.

However, there are some important riders on this overall conclusion:

- not all costs and benefits can be quantified and then monetised (that is, expressed in dollar terms) precisely given their inherent intangibility, often forcing decision makers to integrate quantitative and qualitative results, and
- the distribution of costs and benefits or the ‘equity’ of outcomes may be unevenly experienced throughout the community, rendering a potentially ‘efficient’ outcome unworkable, assuming those adversely affected cannot be appropriately compensated for their losses.

By convention, the CBA does not include the proceeds of land sales or interest payments, as these are considered to be transfers of wealth between parties, not net changes to aggregate level of wealth. The CBA builds on the adjusted financial analysis by monetising the following benefits, recognising that significant social, economic and environmental costs are not envisaged.

#### Local area benefits

Existing shopper enhanced experience

The renewed Queen Victoria Market precinct is expected to attract new customers and provide a better shopping experience for those already regularly visiting the market precinct for their retail needs.

The value which *new* customers might place on the improved retail experience would be reflected in the additional travel cost – both in terms of *time* and *out-of-pocket expenses* – they bear in diverting from alternative sources for retail goods and services. This has been estimated at \$3.46 per visit.

It is assumed this benefit is also enjoyed by existing shoppers and will be realised once renewal is complete.

## Induced shopper benefit

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The value of the 'improved experience' benefit developed above has been used to estimate the value generated as a result of induced visitation to Queen Victoria Market precinct. This refers to the shoppers that are 'induced' to shop at market as a result of the improved facilities.

Based on estimates of customer growth associated with a renewed Queen Victoria Market precinct (Option 3)<sup>31</sup>, there is potential for an increase in the number of people visiting the market precinct to around 15 million p.a. by 2035.

In order to estimate the induced number of customers under Option 2, SGS has used the forecast increase in revenues under Options 2 and 3<sup>32</sup> as proxies for increases in visitation. Here it is estimated that Option 2 will deliver revenue increases equivalent to 60.8 per cent of those achieved under Option 3.

SGS assumes the increase in visitation to 15 million occurs evenly between 2023 and 2035, with growth in visitation continuing at prevailing rates beyond 2035.

## Tourism yields

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Of the additional visitors to Queen Victoria Market precinct, a proportion is likely to comprise tourists, from either interstate or overseas. Based on visitor numbers recorded in the past, SGS estimates the proportion of total visits attributable to tourists will be 34 per cent. While the benefit generated by Queen Victoria Market precinct for non-Victorian residents cannot be considered a community benefit, the yields derived from their expenditure benefits the Victorian community.

SGS assumes that tourists will enjoy the same improvement in their shopping/visit experience as domestic visitors. This enjoyment was conservatively valued at \$3.46 per visit, as detailed above. Furthermore, if tourists enjoy this boost in 'visit value' versus their outlay (which in the first instance is unpriced), they can be induced to part with around \$3.46 in additional spending compared to the current market experience, provided an appropriate merchandise or hospitality offer is made available to them.

The quantity of tourists induced to visit the Queen Victoria Market precinct is multiplied by this expenditure figure, and then multiplied by 25 per cent to estimate the yield derived from this expenditure.

## Wider area benefits

### Productivity enhancements

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Employment projections indicate that an additional 11,560 workers will be accommodated within the Market Core area<sup>33</sup>, as a result of the full renewal within 15 years, an implied growth rate of around 722 per annum.

It is now generally accepted that aggregating firms (jobs) in highly concentrated and connected locations delivers productivity benefits. For Melbourne as a whole, a doubling of Effective Job Density (EJD) – a measure of spatial concentration of firms which counts the jobs in a given small area plus all the jobs in other small areas accessible to that location divided by the travel time – yields a 7 per cent boost to productivity. That is, a doubling of EJD on average generates a 7 per cent increase in total value added per hour worked. This includes both profits and wages/salaries. Notably, however, knowledge intensive sectors gain a much greater lift in productivity from agglomeration, sometimes as high as 15 per cent with a doubling of EJD.

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<sup>31</sup> Essential Economics (2017)

<sup>32</sup> Revenue comparison, in Forecast Options Review produced by Queen Victoria Market on April 24, 2017.

<sup>33</sup> The Market Core area includes the CBD and the suburbs of North Melbourne, Parkville and Carlton.

SGS has adopted a conservative stance around improved productivity associated with these new jobs, applying a 3 per cent productivity increase under each option. Under Option 2, growth in Queen Victoria Market precinct revenue (used as a proxy for broader economic activity) is 60.8 per cent of that achieved under Option 3. Based on this, SGS estimates the contribution of Option 2 to growth in full-time employment in the broader precinct is also 60.8 per cent of that achieved under Option 3.

#### Urban consolidation

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Council projections show that the QVMPR Program has the potential to generate a net addition of 7,000 dwellings in the Market Core area over a 20 year period compared to Option 1. Allowing for the construction phase of the renewal, this translates to around 438 additional dwellings p.a. compared to Option 1.

SGS makes the conservative assumption that the market renewal leads will lead to no net increase in housing in Victoria, assuming there will essentially be a redistribution of housing from the urban fringe to the Market Core area. This is not to say that infill housing built in the Market Core area will be a direct substitute for greenfield housing. Rather, through the vacancy chain effect, it is reasonably assumed that an additional infill unit (versus business as usual) created through the renewal program ultimately leads to one fewer dwelling being built in fringe areas.

The weight of the literature clearly shows there are significant net infrastructure cost savings in accommodating households in infill situations compared to outward growth, after taking into account infrastructure renewal costs.<sup>34</sup> While the value of these savings has been put as high as \$80,000 per dwelling, SGS has adopted a figure of \$40,000 per dwelling.

Once again adopting revenues as a proxy for retail activity in the Queen Victoria Market precinct, and noting this is likely to be a key driver of greater dwelling densities, SGS has estimated the effect of Option 2 on urban consolidation is 60.8 per cent of that achieved under Option 3.

### Summary of results

SGS has presented the results in two forms. The first takes a more conservative view, and includes only the results of the adjusted financial analysis combined with the local area benefits. The second adds the wider area benefits onto these initial results.

The following table summarises the present value of each element of the cost benefit analysis, showing the net present value (NPV), benefit cost ratio (BCR) and the internal rate of return (IRR) generated by each option.

Both options pass traditional cost benefit hurdle requirements (i.e. positive NPVs, BCRs > 1, EIRRs > discount rate). Indeed both options perform very strongly from a cost benefit perspective, even before wider area benefits and other non-quantified benefits (e.g. heritage values) are considered.

The BCR under each renewal option is similar, with lower capital expenditure under Option 2 offset by the greater flow of benefits generated by Option 3. In turn, the overall rate of return (EIRR) is also similar. What makes Option 3 superior to Option 2 is the sheer scale of the NPV result.

While the above analysis takes an incremental approach (i.e. compared to Option 1), it is worth noting the business as usual option will likely see a marked deterioration in the social and economic benefits generated by the Queen Victoria Market precinct. This deterioration will include the role Queen Victoria Market plays as a shopping, visitor and tourist destination, as well as the role the precinct plays in contributing to community welfare within the broader City North precinct and further afield.

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<sup>34</sup> Infracplan (2013) summarises and evaluates this literature base.

TABLE 11. SUMMARY OF COST BENEFIT ANALYSIS (PRESENT VALUES \$000)

	Option 2 Present value (\$000)	Option 3 Present value (\$000)
<b>TOTAL CAPITAL COSTS</b>	<b>\$175,141</b>	<b>\$254,277</b>
Operating revenues	\$97,006	\$263,859
Operating cost savings	\$114,908	\$114,908
Induced shopper benefit	\$52,890	\$87,217
Existing shopper enhanced experience	\$244,536	\$244,536
Tourism yields	\$38,993	\$43,201
Residual value	\$26,052	\$37,029
<b>TOTAL LOCAL AREA BENEFITS</b>	<b>\$574,384</b>	<b>\$790,750</b>
<b>NET PRESENT VALUE (NPV)</b>	<b>\$399,244</b>	<b>\$536,472</b>
<b>BENEFIT COST RATIO (BCR)</b>	<b>3.28</b>	<b>3.11</b>
<b>ECONOMIC INTERNAL RATE OF RETURN (EIRR)</b>	<b>15.56%</b>	<b>14.44%</b>
Productivity benefits	\$252,352	\$415,052
Urban consolidation benefits	\$117,632	\$193,473
<b>TOTAL LOCAL AND WIDER AREA BENEFITS</b>	<b>\$944,368</b>	<b>\$1,399,275</b>
<b>NET PRESENT VALUE (NPV)</b>	<b>\$769,227</b>	<b>\$1,144,997</b>
<b>BENEFIT COST RATIO (BCR)</b>	<b>5.39</b>	<b>5.50</b>
<b>ECONOMIC INTERNAL RATE OF RETURN (EIRR)</b>	<b>20.94%</b>	<b>20.56%</b>

Source: SGS Economics and Planning

## Non-quantified benefits

The previous section excludes from consideration a number of benefits that SGS has not quantified. These nonetheless are important considerations.

### Heritage/existence value

Queen Victoria Market is a Victorian landmark with a history that dates back to the 1870s. It is the last remaining market within central Melbourne and its continued presence allows visitors to engage in the 'shared experience' of market shopping in a similar way to previous generations of Melburnians. Even people who don't use the site are likely to place substantial value on its continued operation as a market.

An important consideration in assessing the incremental benefit associated with the options listed above is that the model under which the market presently operates is unsustainable, and that a continuation under present circumstances ultimately threatens the market's ongoing viability. While Option 2 would deliver a significantly improved market, it would do so at the cost of the 'open' nature of Q2, which is a unique feature of the market and an important heritage consideration.

Furthermore, Q2 would remain relatively hard to access for people arriving by private transport, which ultimately limits the market's ability to compete with other retail institutions and may mean its ongoing viability is threatened. Option 3 is most capable of ensuring key features of the existing market remain in place. Also, by providing the best platform for overall financial viability, Option 3 will ensure the heritage value of the market is retained into the future.

## Option value

Queen Victoria Market is renowned for its diverse community of market traders and unique offer, with affordability, authenticity and fresh produce underpinning the long held traditions of Melbourne's marketplace. There is significant value in retaining and enhancing the traditional market as a key destination in Victoria. Option 3 would leave the market best-placed to remain operational into the future and therefore the value associated with this option is likely to be highest.

### 6.4 Sensitivity analysis

SGS has assessed the likely impact on the performance of each option linked with:

- a 25 per cent increase in the costs of construction, reflecting a range of risks associated with the development of major infrastructure
- a reduced rate of market visitation growth in which the level of activity induced under each of the options is 75 per cent of that anticipated. This reflects risk associated with a downturn in local, national or global economic conditions that might lead to reduced local and/or tourist expenditure.
- a variation in the nominal discount rates real interest rates using to convert future costs, revenues and benefits to present day values.

SGS also tested the combined impact of increased construction costs, reduced visitation and movements in discount rates.

The table below shows the impact of each of the scenarios on the performance of Option 2. This analysis reveals Option 2's financial performance is sensitive to an increase in capital costs and discount rates. From a cost benefit perspective, however, the sensitivity analysis suggests the BCR remains high, dropping to a reasonably healthy 1.92 under the combination of adverse circumstances modelled in scenario E.

TABLE 12. SENSITIVITY ANALYSIS – OPTION 2

	NPV	IRR/ EIRR	BCR
<b>FINANCIAL ANALYSIS</b>			
A) Base scenario	\$30.3m	6.07%	-
B) Increase in development costs (+25%)	(\$65.4m)	2.93%	-
C) Reduction in visitation (-25%)	\$26.9m	5.96%	-
D) Discount rate to 7%	(\$20.5m)	6.07%	-
E) B), C) and D)	(\$103.0m)	2.80%	-
<b>COST BENEFIT ANALYSIS (Local area benefits only)</b>			
A) Base scenario	\$399.7m	15.58%	3.29
B) Increase in development costs (+25%)	\$356.0m	13.19%	2.63
C) Reduction in visitation (-25%)	\$373.8m	15.19%	3.14
D) Discount rate to 7%	\$250.1m	15.58%	2.51
E) B), C) and D)	\$190.8m	12.82%	1.92

Source: SGS Economics and Planning

The sensitivity analysis for Option 3 reveals it is less sensitive to changes in capital costs and the discount rate. The resilience of the cost benefit performance is also confirmed.

TABLE 13. SENSITIVITY ANALYSIS – OPTION 3

	NPV	IRR/ EIRR	BCR
<b>FINANCIAL ANALYSIS</b>			
A) Base scenario	\$116.7m	7.31%	-
B) Increase in development costs (+25%)	(\$18.1m)	4.68%	-
C) Reduction in visitation (-25%)	\$73.5m	6.55%	-
D) Discount rate to 7%	\$12.0m	7.31%	-
E) B), C) and D)	(\$132m)	3.80%	-
<b>COST BENEFIT ANALYSIS (Local area benefits only)</b>			
A) Base scenario	\$537.1m	14.46%	3.12
B) Increase in development costs (+25%)	\$394.5m	10.27%	2.00
C) Reduction in visitation (-25%)	\$465.2m	13.71%	2.83
D) Discount rate to 7%	\$325.4m	14.46%	2.35
E) B), C) and D)	\$141.3m	9.56%	1.38

Source: SGS Economics and Planning

## 6.5 Key risk analysis

A major construction project such as that envisaged for Queen Victoria Market precinct, while the market continues to operate, faces a wide array of risks. Section 7.7 identifies, evaluates and proposes management controls for these risks.

However, while both Options 2 and 3 face significant implementation risks, there is some difference between these two options given the path Council has taken for the QVMPR Program:

- Option 2 will not fully deliver the objectives as set out in the QVMPR Master Plan and Implementation Framework.
- Option 2 does not ensure the long term viability of the market as it does not address all of the key challenges currently occurring within the market precinct.
- Option 2 will have a greater impact on the heritage character, including the permanent loss of heritage sheds in the upper market to accommodate at-grade back of house facilities.
- Option 3 poses a greater short-term risk due to the degree of below-ground infrastructure works, however this risk is manageable and the outcome will ensure the long-term viability of the market.
- Only Option 3 will preserve the open air trading format of the market and ensure the long term retention of heritage infrastructure and buildings.

The table below outlines how these risks fall across the program options.

TABLE 14. KEY RISK ANALYSIS OF OPTIONS

	Option 2	Option 3
- Reputational risks for Council as publicly announced renewal plans are not delivered	High	Low
- Stakeholders being dissatisfied with Queen Victoria Market precinct once renewal is complete	Medium	Low
- The long term viability of the market not being future proofed by the renewal project	Medium	Low
- Underground construction requirements causing unbudgeted costs or time delays.	Medium	High
- Continuity of market operations during the construction process	Medium	Medium
- Heritage risks associated with the construction process, and envisage precinct outcomes	Medium	Low

Source: SGS Economics and Planning

Although the implementation of Options 2 and 3 requires the management of significant risks, the business as usual Option 1 potentially poses extreme risks in relation to Council’s reputation, stakeholder satisfaction and the long term viability of the market precinct (which also increases the heritage risks faced by the market).

## 6.6 Integrated analysis and options ranking

The table below presents the results of the aforementioned in an integrated manner.

TABLE 15. INTEGRATED ANALYSIS

	Option 2 Present value (\$'000)*	Option 3 Present value (\$'000)*
<b>FINANCIAL ANALYSIS</b>		
- Capital costs	\$175,141	\$254,277
- Operating cost savings	(\$114,908)	(\$114,908)
- Interest payments	\$87,445	\$99,820
<b>Total costs</b>	<b>\$147,678</b>	<b>\$239,190</b>
- Residual value	\$26,172	\$37,149
- Operating revenues	\$97,006	\$263,859
- Proceeds of asset	\$54,847	\$54,847
<b>Total revenues</b>	<b>\$178,025</b>	<b>\$355,855</b>
<b>Net Present Value (\$'000)</b>	<b>\$30,347</b>	<b>\$116,665</b>
<b>Internal Rate of Return</b>	<b>6.07%</b>	<b>7.31%</b>
<b>Payback period</b>	<b>More than 30 years</b>	<b>23 years</b>
<b>COST BENEFIT ANALYSIS</b>		
<b>Capital costs</b>	\$175,141	\$254,277
- Operating revenues	\$97,006	\$263,859
- Operating cost savings	\$114,908	\$114,908
- Induced shopper benefit	\$52,890	\$87,217
- Existing shopper enhanced experience	\$244,536	\$244,536
- Tourism yields	\$38,993	\$43,201
- Residual value	\$26,052	\$37,029
<b>Total local area benefits</b>	<b>\$574,384</b>	<b>\$790,750</b>
<b>Net Present Value (\$'000)</b>	<b>\$399,244</b>	<b>\$536,472</b>
<b>Benefit Cost Ratio (local area benefits only)</b>	<b>3.28</b>	<b>3.11</b>
<b>Economic Internal Rate of Return</b>	<b>15.56%</b>	<b>14.44%</b>
- Productivity benefits	\$252,352	\$415,052
- Urban consolidation benefits	\$117,632	\$193,473
<b>TOTAL LOCAL AND WIDER AREA BENEFITS</b>	<b>\$944,368</b>	<b>\$1,399,275</b>
<b>Net Present Value (\$'000)</b>	<b>\$769,227</b>	<b>\$1,144,997</b>
<b>Benefit Cost Ratio</b>	<b>5.39</b>	<b>5.50</b>
<b>Economic Internal Rate of Return</b>	<b>20.94%</b>	<b>20.56%</b>
<b>SENSITIVITY ANALYSIS</b>	Sensitive to changes in capital costs & discount rates	Somewhat sensitive to changes in capital costs.
<b>RISK ANALYSIS</b>		
- Reputational risks	High	Low
- Stakeholders dissatisfaction	Medium	Low
- Long term viability risks	Medium	Low
- Underground construction risks	Medium	High
- Business continuity risks	Medium	Medium
- Heritage risks	Medium	Low
<b>INTEGRATED ASSESSMENT</b>		
<b>Ranking</b>	<b>2<sup>nd</sup></b>	<b>1<sup>st</sup></b>

Based on this integrated evaluation, the preferred option is clearly Option 3 given its superior strategic, financial and risk-based performance, combined with its strong community welfare benefits.

# 7 PROGRAM DELIVERY

This section outlines the key implementation arrangements that will enable delivery of Option 3 and the benefits envisaged under this option.

## 7.1 Detailed scope

The scope of Option 3 is provided below broken down by market quarter location (Quarter 1-4) and by procurement package (Number 1-15).<sup>35</sup>

### Transitional

Pack- age #	Project	Project description
1	New market pavilion	New market site developed to house traders during renewal works and provide opportunities for participating market traders to trial new trading formats, technologies, hours and offers before they are incorporated into the renewed market place.

### Quarter 1

Pack- age #	Project	Project description
2	Below ground operational area	Delivery of part of an integrated below ground infrastructure system that will address the specific back of house requirements of traders located in the Q1 area.
2	Sheds H & I	Restoration of the heritage fabric of Sheds H & I, enabling the area to continue to support traditional market trading in line with the Queen Victoria Market Pty Ltd Retail Plan.
3	Dairy Produce Hall enhancements	Facelift of the Dairy Produce Hall that will not only improve the functionality of this iconic Melbourne interior, but position it to take a night time role in events and extended trading.
4	Meat and Fish Hall enhancements	Revitalise the iconic exterior of the Meat and Fish Hall along with upgrades to the interior, made possible by the provision of dedicated below ground back of house areas, relieving the pressure on public circulation routes and improving customer amenity.
4	Victoria Street Terraces enhancements & Food Court integration	Transform the Victoria Street Terraces and Food Court areas to host new styles of market trading that combine fresh food with hospitality to complement the Meat and Fish Hall and showcase Queen Victoria Market's diversity.
5	Deli Lane enhancement	The provision of back of house facilities in below ground infrastructure will provide an opportunity to recast Deli Lane as a public space with improved paving, greening, lighting, furniture and weather protection.
5	Elizabeth Street Terraces enhancements.	Transform the Elizabeth Street Terraces to utilise first floor space freed up through the relocation of market management offices. The Terraces can be reimagined to incorporate a greater diversity of retail and hospitality or complementary uses that bring added life to the precinct.

<sup>35</sup> Additional elements are included in some packages but their scope/ fees are limited compared to the featured projects.

## Quarter 2

Pack- age #	Project	Project description
6	Below ground operational area	Delivery of the fundamental part of an integrated below ground infrastructure system that will not only address the requirements of traders located in the Q2 area, but will position the Queen Victoria Market precinct to play a broader role in servicing the needs of Melbourne's residents and businesses as it grows. This project will also provide customer car parking to fulfil Council's obligations under the State Agreement
6	Temporary removal and restoration of Sheds A-C and western end of D shed	Restore the market's iconic heritage sheds following the construction of below ground infrastructure to support a greater range and intensity of market trading and potential customer car parking.
6	Victoria Street Terraces enhancements	Transform the Victoria Street Terraces to enable them to act as portals to the market experience, drawing a better connection between Victoria Street and Shed A behind it.
6	Fresh Food Market	Design of a new Fresh Food Market place in Q2, positioning Queen Victoria Market's iconic fruit and vegetables in a refreshed environment that combines the restored heritage sheds with quality presentation stalls, lighting and ambient climate control.
7	Sheds E and F enhancement	Restore F Shed and E Shed while maintaining the distinctive open air feel of this important pedestrian connection within the market place.

## Quarter 3

Pack- age #	Project	Project description
8	Sheds J, K, L, M enhancement	Adapt J and M Sheds to enhance the market experience while maintaining the distinctive open air feel of pedestrian connections; equip K & L Sheds with a broader range of infrastructure to enable it to assume its role as the Market Events Shed.
9	Market Cross	Transform the intersection of Queen and Therry streets into the 'Market Cross', an iconic public space that acts to draw the quarters of the market precinct together, creating a pedestrian friendly community meeting place that can host markets, festivals, busking and programmed activities, plus informal activities.
10	Market Square	Convert existing open lot car park into a quality public open space that recognises the significance of its history, provides for the diverse needs of the community, and complements existing market activities.
10	Queen's Corner building	Create a new building at the edge of the new open space, incorporating a new visitor information centre, providing a unique opportunity for a contemporary addition to this historic part of the city.
11	New Franklin Street	Reconfigure Franklin Street from Queen to Peel streets and incorporate the replacement of roundabouts at Queen and Peel streets with new intersections.
12	Southern site	Development of the Southern site and integration with the Franklin Street stores following the reconfiguration of land as enabled by the State Government Agreement.

## Quarter 4

Pack- age #	Project	Project description
13	New customer car park	Develop a customer car park within the Munro site development to fulfil the obligations of the State Agreement.
13	Community facilities	Develop the Munro site as an exemplar mixed use development incorporating child care, family services, commercial and retail uses, affordable housing, hotel and residential development, and the latest in environmentally sustainable infrastructure.
13	Complementary retail and hospitality offer	
13	Mixed use development	

Source: City of Melbourne (2017).

### 7.2 Detailed costings

The gross cost of delivering the QVMPR Program is \$308 million, excluding funding contributions from other asset sales. Accounting for these proceeds, and in accordance with the State Agreement which requires reinvestment of these funds back into the renewal program, the QVMPR Program will be delivered for approximately \$238 million. This is within Council's publicly announced commitment to spend up to \$250 million on renewal.

These costs have been professionally estimated by a quantity surveyor and include:

- 10 per cent consultant fees
- archaeological fees
- 10 per cent design contingency
- 6 per cent construction contingency
- 0.5 per cent authority fees and charges
- builders' preliminaries and margins, and
- escalation.

To ensure the budget commitment is achieved, a value engineering approach will be adopted by the Program Office throughout the delivery of the QVMPR Program. This will involve regular reviews of the scope of Program elements to determine how value can be optimised; recognising the function that each element is envisaged to play within the broader program scope and the relative cost of delivering these functions.

TABLE 16 OPTION 3 COST SUMMARY

Area	Cost (\$000)
Transitional accommodation (New Market Pavilion) & Precinct Enhancements	6,801
Quarter 1	43,528
Quarter 2	107,913
Quarter 3	83,669
Quarter 4	39,750
Utilities and contaminated soil removal	6,393
Program delivery	20,710
<b>GROSS TOTAL</b>	<b>308,764</b>
Less asset sales	70,000
<b>NET TOTAL</b>	<b>238,764</b>

Source: City of Melbourne (2017) using DCWC (2017).

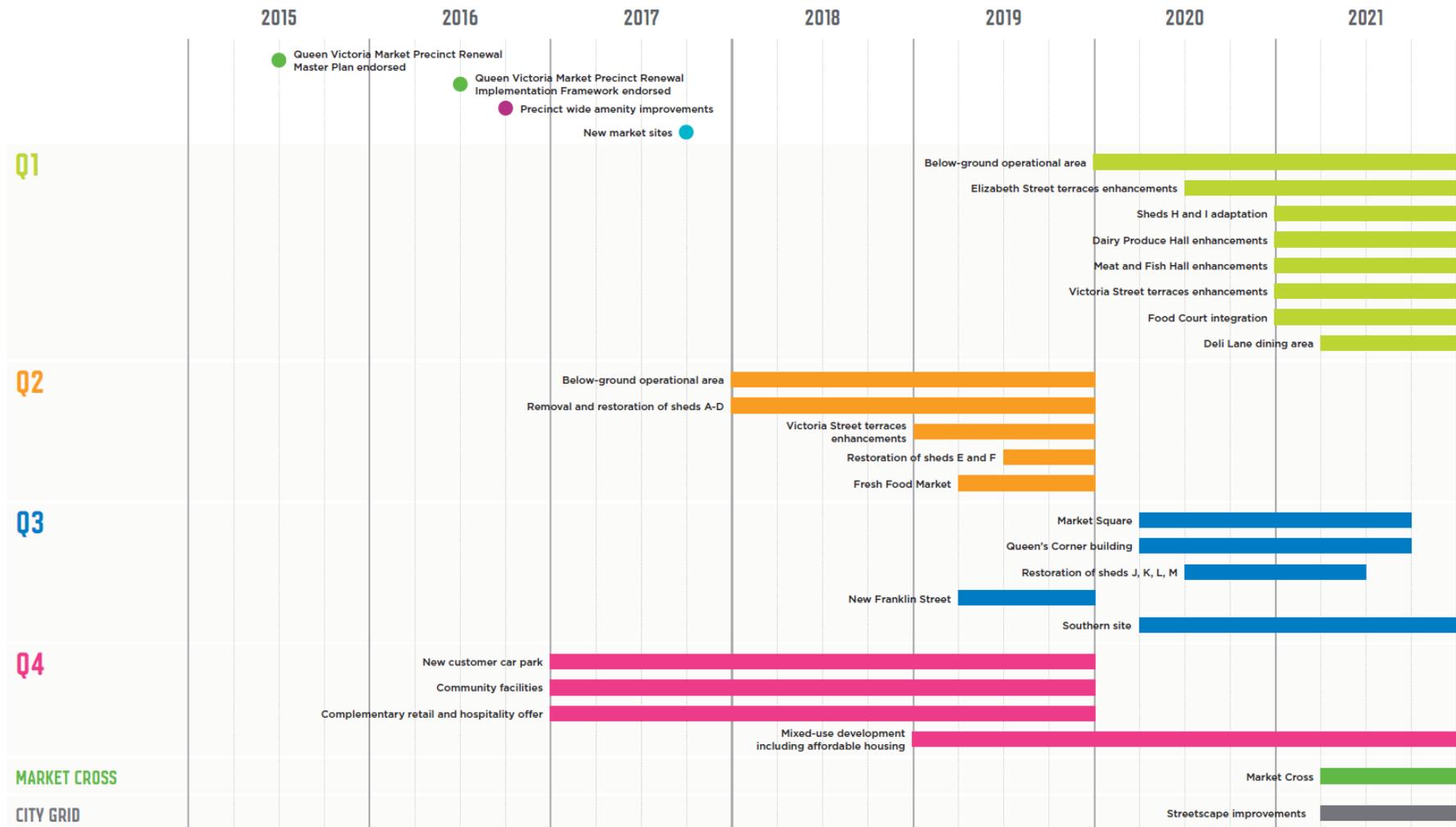
### 7.3 Implementation plan

The implementation schedule for the QVMPR Program is outlined in the QVMPR Implementation Framework.<sup>36</sup>

A summary of the Implementation Framework is provided in the figure below, outlining how each of the key elements of the program will be delivered over the 2015 to 2021 period.

<sup>36</sup> <http://www.melbourne.vic.gov.au/SiteCollectionDocuments/com-qvm-implementation-framework.pdf>

FIGURE 18 IMPLEMENTATION FRAMEWORK

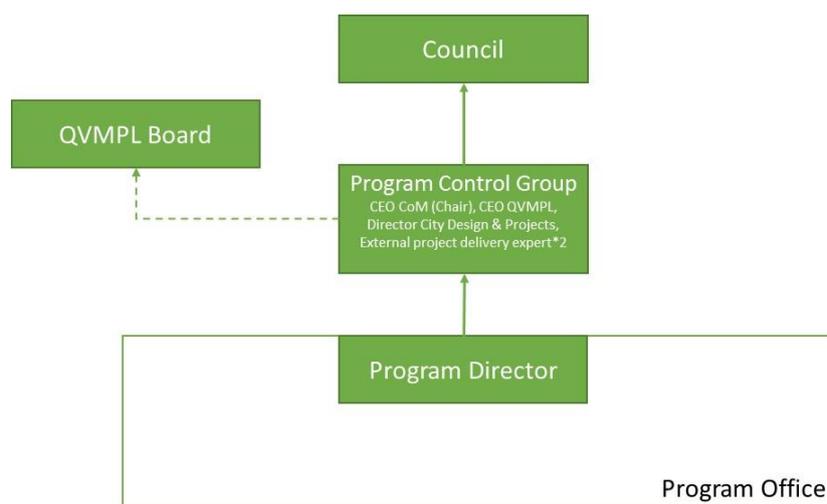


## 7.4 Governance arrangements

Governance arrangements for the QVMPR Program are detailed in the Program Governance Plan (July 2015). This Plan describes some of the principles on which the governance arrangements are based, including but not limited to:

- The QVMPR Program and its multiple components will be delivered through a dedicated governance structure based on a partnership between the Council and Queen Victoria Market Pty Ltd (refer figure below).
- The QVMPR Program is a long term program that will require resources to be allocated for consultation, planning, operations and building to ensure continuity and consistency over the program duration.
- Council is the single point of overall accountability, while the Board of Queen Victoria Market Pty Ltd has ongoing accountability for the successful operations of the market and its strategic direction.
- The QVMPR Program will have an integrated delivery model with a single point of accountability for successful overall program delivery and single team mindset and structure. All staff of both organisations working on renewal matters will form part of this integrated delivery team.

FIGURE 19 GOVERNANCE FRAMEWORK



Source: City of Melbourne (2017).

The roles and responsibilities of each part of the governance framework are detailed in the Program Governance Plan. The key role of each of the entities is summarised in the table below.

TABLE 17 KEY GOVERNANCE ROLES

Governance party	Key role
<b>Council</b>	As the owner of the market and the municipal manager of the Queen Victoria Market precinct, Council is accountable for decisions to commit public funds and for the outcomes of that public investment. Council will take responsibility for delivering the program as the capital works program in liaison with the Queen Victoria Market Pty Ltd board and management.
<b>Queen Victoria Market Pty Ltd</b>	Queen Victoria Market Pty Ltd is responsible for the overall management of market operations. Queen Victoria Market Pty Ltd will represent the 'user/customer' interests in the QVMPR Program and as such will define quality to ensure that outputs are fit for purpose and capable of achieving the planned outcomes and benefits for Queen Victoria Market and its stakeholders. The market's strategic brief is the primary reference

Governance party	Key role
	document for the 'user/customer' interests. It will support and collaborate in delivery of the QVMPR Program and will deliver the business transformation component in liaison with the City of Melbourne.
<b>Program Control Group</b>	Through the Program Director, the Program Control Group (PCG) ensures that the program is designed and delivered within the QVMPR Program budget as agreed by Council and will minimise any negative impacts of the program on the operations of the Market. The PCG is the formal point of accountability and control for the Program Director, and reports through the Chair to the Council. The PCG also ensures that the Queen Victoria Market Board has a full and complete understanding of program status, and that the Board has the opportunity to provide feedback.
<b>Program Director and Director City Design and Projects</b>	The Program Director's role is to manage the delivery of the QVMPR Program. The Program Director will be employed by the City of Melbourne and will report through the Director City Design and Projects to the CEO of the City of Melbourne. The Director City Design and Projects will effectively manage and support the Program Director on a day-to-day basis in the setting up and running of the program through the Program Office.

Source: City of Melbourne (2017).

## 7.5 Procurement strategy

The QVMPR Program consists of a number of work packages and projects for delivery at different timeframes over a number of years (as illustrated in Sections 7.1 to 7.3).

In order to deliver the QVMPR Program within intended timeframes a specialist procurement consultant and construction law advisors were engaged to assess the suitability of various contracting models and to recommend a preferred procurement approach.

The procurement approach considered the sequence of works, as outlined in the Implementation Framework, the need to continue market trading throughout the renewal program, minimising disruption to traders and customers, and to provide a contract framework that provides the best value for money outcome to the City of Melbourne within existing constraints.

Several contracting models were explored for delivery of the QVMPR Program including:

- **Construct Only** – City of Melbourne undertake full design responsibility then engage a contractor to build the works.
- **Design & Construct** – City of Melbourne undertake a portion of the design then transfer the design responsibility to the contractor to complete the detailed design and documentation.
- **Managing Contractor Model** – City of Melbourne provide a fee comprising of preliminaries and margin to a head contractor who will procure and manage trade packages within a budget and take on cost and time risk.
- **Managing Contractor – Guaranteed Maximum Price** - Similar to the model above however the Managing Contractor takes on design risk and provides a Guaranteed Maximum Price providing there is a well-defined scope and documentation to support it.
- **Construction Management** – City of Melbourne pay a fee to a Construction Manager to manage the works, however do not take on any time, cost or design risk.
- **Alliance Contract** - Where the City of Melbourne including designers and constructors form a separate project entity (the Alliance) based on a legally enforceable business relationship that share all the risks and rewards.

In considering the tight delivery timeframes of the QVMPR Program, the need for consistency in delivery of multiple projects across the site, City of Melbourne's preference for early contractor involvement,

flexibility in managing the phases of work, and appropriateness of options in managing ongoing market operations, the Managing Contractor model was selected as the best value model.

This model is best suited to the delivery of the balance of the program works as it allows:

- the engagement of the managing contractor earlier than a traditional construction only or design and construct contractor. Early contractor input will be vital during the planning and design process and input from the managing contractor can be used to inform the design and transition processes that will be required during the works
- the ability to provide early stakeholder and trader planning
- the ability to provide early traffic and pedestrian planning
- improved collaboration between design, construction and stakeholders to ensure the best value is achieved over the life of the program.

The appointment of a Managing Contractor is programmed to occur in late 2017.

## 7.6 Funding strategy

A program funding strategy has been developed by the City of Melbourne based on Option 3.

The funding strategy envisages the QVMPR Program will be funded through a combination of the following:

- City of Melbourne Cash reserves
- prioritisation of future funding available for City of Melbourne capital works projects
- asset sales
- future increased returns from Queen Victoria Market Pty Ltd based on its Retail Plan. Existing traders will not need to pay more to fund renewal, rather future revenue growth is underpinned by improved infrastructure, creation of more net lettable area for new traders and programmed activation of spaces. Average annual increases in lease and licence fees for existing stallholders will be no greater than 3 per cent per annum, and
- additional funding.

The future funding will require progressive drawing down to fund the capital works over the 5 year program to 2021-22. Any debt will require servicing and assumes a 4.25 per cent interest rate.

The future funding requirements will be repaid through:

- proceeds of asset sales
- dividends generated by Queen Victoria Market Pty Ltd (commencing after renewal works)
- prioritisation of Capital Works Contributions, Open Space & Parking Levy funds (commencing in 2018-19).

The funding strategy envisages a peak funding requirement of approximately \$200 million<sup>37</sup> in 2020-21, with this being progressively repaid within a maximum of 19 years and possibly sooner.

In addition to the Business Case, the Option 3 funding model's key variables (capital outlays and future returns based on the Queen Victoria Market Pty Ltd Retail Plan) have been independently reviewed for reasonableness by Price Waterhouse Coopers (PwC). The recommendations contained within the PwC review have informed the funding model.

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<sup>37</sup> This is lower than the funding requirements estimated in the financial analysis, as the funding strategy also includes contributions from cash reserves, and prioritisation of future funding available for capital works projects.

## 7.7 Risk mitigation

The QVMPR Program maintains a detailed risk register, consistent with the Australian and International Standards for risk management. In essence, the process for developing and updating the risk register includes the following steps:

### Step 1: Establish context

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Establish the strategic, organisational and risk management context in which the rest of the process takes place.

### Step 2: Identify risks

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Identify risks across eight categories,<sup>38</sup> along with the underlying cause or source of that risk.

### Step 3: Analyse risks

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Analyse risks in terms of their likelihood<sup>39</sup> and consequence<sup>40</sup>, and the controls that are available for mitigating each of the respective risks. Consequence and likelihood scores are combined to produce an initial estimate of the level of potential risk to the program, i.e. either Low, Medium, High or Very High.

### Step 4: Evaluate risks

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Evaluate the estimated levels of risks after management controls are effected. Effectively this means identifying how adequately the management controls reduce the initial risk scores derived in Step 3, as specified in residual risk scores.

Management controls are thus scored as:

- adequate – controls address the risk, little scope for improvement. No convincing cost/benefit justification to change approach
- opportunities for improvement – controls have inadequacies, improvements identified. Some cost/ benefit justification to change approach, or
- inadequate – controls do not appropriately address the risk, immediate need for improvement actions. Large cost/benefit justification to change approach.

### Step 5: Treat risks

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Accept and monitor low priority risks. For other risks identified, develop and implement specific management controls including the resource allocated to mitigate the risks to an acceptable level.

### Step 6: Monitor and review risks

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Monitor and review the performance of the risk management system and changes to business initiatives and other internal processes, which may affect it.

### Step 7: Communicate and consult

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Provide regular reports to senior management (and external parties as required) at each phase of the risk management process and also on the effectiveness of the processes as a whole.

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<sup>38</sup> Including 1) business continuity, 2) liability, 3) environmental, 4) financial and economic, 5) political, 6) OHS, 7) infrastructure, assets and systems, and 8) reputation.

<sup>39</sup> Ranging from 1) Rare, 2) Unlikely, 3) Possible, 4) Likely to 5) Almost certain.

<sup>40</sup> Ranging from 1) Negligible, 2) Minor, 3) Moderate, 4) Major to 5) Catastrophic.

## 7.8 Stakeholder engagement & communications

### Stakeholder interests

The QVMPR Program has a Communications and Engagement Strategy (Dec 2016) which identifies the range of stakeholders that will be impacted, involved and interested in different ways in the program. The figure below identifies these stakeholders alongside the level of engagement expected and a summary of engagement tools and intent for each group.

FIGURE 20 PROGRAM STAKEHOLDERS – ENGAGEMENT LEVELS, INTENT & TOOLS

WHO WE ARE SPEAKING WITH	QVM P/L, COM, STATE GOVERNMENT	TRADERS	MARKET VISITORS	LOCAL RESIDENTS & BUSINESSES	INTEREST GROUPS	UNIONS	GENERAL PUBLIC	COMMUNITY GROUPS	MEDIA
WHAT DO WE WANT THEM TO THINK AND FEEL	Confident Informed Accountable Supportive	Informed Engaged Listened to Trusted Wanted	Aware Safe Excited Connected	Informed Understanding Respected	Informed Supportive Listened to Cooperative	Informed Respected Listened to Accountable	Confident Proud Informed	Confident Proud Informed	Aware Understand Picture Supportive
HOW WILL WE ENGAGE WITH THEM (CHANNELS)	F2F Committees, Regular updates and meetings Media Social media	F2F Trader advisory meetings Trader forums Trader bulletins/letters	Signage Website Social media F2F "Hub" Displays and flyers	Public forums F2F Website Social media	F2F Media Public forums Website Media Social media	F2F Trader forums Website Media Social media	Public forums Website Media Social media	F2F Public forums Website Media Social media	Special briefings Social media Site tours Media releases

## **Engagement objectives**

The communications objectives for the QVMPR Program include:

- continually and clearly articulate a compelling case for renewal, to build advocacy and champion the renewal program from planning through to completion with those people who matter most – the traders, customers and broader community
- provide open, honest and timely communications that inform, inspire and excite people about the program
- support all program delivery partners to advocate for the program in all forums by ensuring ‘no surprises’ and providing clear, regular and creative communications opportunities.

For each partner, priorities include:

### **Queen Victoria Market Pty Ltd**

- maintain awareness and relevance of market as a unique destination for shopping, socialising, exploring and trading
- support renewal of market and manage the case for change with customers and traders
- ensure public awareness of the market's continual operation throughout renewal program.

### **City of Melbourne**

- drive acceptance, engagement and understanding of the need for renewal and the plan: This includes proper renewal of heritage assets so that they can continue to serve and be enjoyed by future generations, and improved safety and amenity for traders and customers.

## 7.9 Benefits realisation plan

The QVMPR Program aims to deliver four key benefits. KPIs for each of these benefits are listed below, as are measures of their current and target results, alongside the data source for these KPIs and responsibility for collection.

### Improved visitor value

TABLE 18 IMPROVED VISITOR VALUES KPIS

	Current value (2016)	Target value (2020)	Target value (2022)	Data source	Collection responsibility
<b>KPI 1 Visitor numbers</b>	9,476,400	9,476,400	10,370,000	Visitor counts	Queen Victoria Market Pty Ltd
= annual visitation to Queen Victoria Market precinct					
<b>KPI 2 Visitor spending</b>	Base <sup>^</sup>	Base	Base + 10% real growth	Visitor survey	Queen Victoria Market Pty Ltd
= average dollar spend per visitor at Queen Victoria Market precinct					
<b>KPI 3 Visitor satisfaction</b>	83%*	83%	90%	Visitor survey	Queen Victoria Market Pty Ltd
= % of visitors who are either fairly (7-8 out of ten) or extremely satisfied (9-10 out of ten) with Queen Victoria Market overall					

Notes:

1. Base means that the measure is not currently known with sufficient precision to quantify for monitoring purposes, and action will be taken to close this gap.

<sup>^</sup> Sweeney Research (2013) Queen Victoria Market Pty Ltd Visitor Report collects this data but the existing report does not specify result.

\*Sweeney Research (2013) Queen Victoria Market Pty Ltd Visitor Report.

Additional performance indicators that may be monitored to provide insights regarding overall benefit delivery include:

- visitor length of stay in minutes
- visitor satisfaction with specific market categories, e.g. delicatessen; meat & fish; fruit & vegetables; organic produce etc.
- visitor satisfaction with overall aspects of Queen Victoria Market precinct e.g. atmosphere; overall variety; range of things to see and do; appearance; cleanliness
- baseline data for each of these measures are available in Sweeney Research (2013) Queen Victoria Market Visitor Report
- improved City North liveability.

TABLE 19 IMPROVED CBD NORTH LIVEABILITY KPIS

	Current value (2016)	Target value (2020)	Target value (2022)	Data source	Collection responsibility
<b>KPI 1 Land use diversity</b>	1.69	NA	<1.69	Census of Land Use & Employment	City of Melbourne
= employment number to resident number ratio in the City North Precinct					
<b>KPI 2 Population growth</b>	600 p.a.	NA	> 600 p.a.	Census of Land Use & Employment	City of Melbourne
= total resident and employment numbers in the City North precinct					
<b>KPI 3 Public open space<sup>^</sup></b>	33.25ha	NA	34.75ha <sup>^^</sup>	Census of Land Use & Employment	City of Melbourne
= square meterage of public open space in the City North precinct					

Notes:

1. Base means that the measure is not currently known with sufficient precision to quantify for monitoring purposes, and action will be taken to close this gap.

<sup>^</sup> Open space is the publicly owned land that is set aside primarily for recreation, nature conservation, passive outdoor enjoyment and public gatherings.

<sup>^^</sup> Existing Queen Victoria Market precinct car park converted to open space.

Additional performance indicators that may be monitored to provide insights regarding overall benefit delivery include:

- essential land uses compared to total land uses within the City North precinct
- baseline data for each of these measures are available in City of Melbourne Places for People 2015 - Local Liveability Study (part 1).

### Improved precinct security, safety and compliance

TABLE 20 IMPROVED PRECINCT SECURITY, SAFETY & COMPLIANCE KPIS

	Current value (2016)	Target value (2020)	Target value (2022)	Data source	Collection responsibility
<b>KPI 1 Incident numbers</b>	Base	Base	Base - 50%	Queen Victoria Market Pty Ltd Salesforce program	Queen Victoria Market Pty Ltd
= number of controllable* hazards and incidents that are reported each year in Queen Victoria Market precinct.					
<b>KPI 2 Infringement notices</b>	Base	Base	Base - 50%	Queen Victoria Market Pty Ltd Infringement Register	City of Melbourne
= number of significant <sup>^</sup> infringements notices issued each year to stallholders/ tenants by Queen Victoria Market PL					
<b>KPI 3 Visitor perceptions of safety</b>	Base	Base	Base +	Visitor survey <sup>^^</sup>	Queen Victoria Market Pty Ltd
= % of visitors who are either fairly (7-8 out of ten) or extremely satisfied (9-10 out of ten) with Queen Victoria Market precinct safety					

Notes: 1. Base means that the measure is not currently known with sufficient precision to quantify for monitoring purposes, and action will be taken to close this gap.

\*includes hazards and incidents in the following categories: environmental; injuries; near misses; property damage; regulatory activity.

<sup>^</sup>includes infringements relating to awnings, forklifts, litter, parking, permitted use, set up and pack up, storage boxes.

<sup>^^</sup>Additional questions required to be added to existing survey.

## Improved business (operator) and tenant viability

TABLE 21 IMPROVED BUSINESS (OPERATOR) & TENANT VIABILITY KPIS

	Current value (2016)	Target value (2020)	Target value (2022)	Data source	Collection responsibility
KPI 1 Operating margin	0%	0%	10%	Queen Victoria Market Pty Ltd Annual Report	Queen Victoria Market Pty Ltd
= Queen Victoria Market PL total revenues divided by Queen Victoria Market PL profits (before tax and dividends)					
KPI 2 Revenue generation	\$933	NA	\$1,323	Queen Victoria Market Pty Ltd Annual Report	Queen Victoria Market Pty Ltd
= Queen Victoria Market PL total revenues divided by Net Lettable Floorspace area					
KPI 3 Utilities expenditure	\$11.80	NA	\$16.63	Queen Victoria Market Pty Ltd Annual Report	Queen Victoria Market Pty Ltd
= Queen Victoria Market PL annual expenditure on utilities divided by Total Floorspace area					

Additional performance indicators that may be monitored to provide insights regarding overall benefit delivery include:

- trader perceptions of Queen Victoria Market precinct as a venue for trade
- trader overall satisfaction with Queen Victoria Market precinct
- trader expressions of interest in establishing presence at Queen Victoria Market precinct
- annual Queen Victoria Market precinct electricity consumption
- annual Queen Victoria Market precinct mains gas consumption
- annual Queen Victoria Market precinct greenhouse gas emissions.

Baseline data for each of these measures are available in Sweeney Research (2012) Queen Victoria Market Trader Report, Queen Victoria Market Expression of Interest Register, and Queen Victoria Market Property Footprint – ENERGY reports.

# 8 APPENDICES

## 8.1 Appendix: Queen Victoria Market Pty Ltd Melbourne's Marketplace Retail Plan

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