

Management report to Council

Agenda Item 6.4

Queen Victoria Market Renewal Fund

29 July 2014

Presenter: Phu Nguyen, Chief Financial Officer

Purpose and background

1. The purpose of this report is to seek approval for the legal form and structure of the Queen Victoria Market (QVM) renewal fund. At the April 2014 meeting of Council, it was resolved that:
 - 1.1. A fund be established within Council to hold funds dedicated to be spent on the Queen Victoria Market renewal project. The cash balance held in the fund to be disclosed in Council's quarterly financial reports and the annual financial statements.
 - 1.2. The establishment of the above fund is to occur in the first quarter of the 2014–15 financial year, with any annual underlying surplus generated by Council in 2013–14 being deposited into the fund at that time.

Key issues

2. Management have reviewed alternative legal forms and structures for the QVM renewal fund. There are two suitable alternatives for Council consideration. A QVM renewal fund bank account or a QVM renewal fund unit trust. The benefits and shortcomings both alternatives are outlined below.
3. Bank Account (benefits and shortcomings)
 - 3.1. A bank account is cost effective and an administratively simple solution. The bank account would be in the name of the City of Melbourne and be reflected in Council's financial statements. The shortcomings of a bank account are that the funds are unable to be legally quarantined for the specific purpose of the QVM renewal project.
4. Unit Trust (benefits and shortcomings)
 - 4.1. A designated QVM renewal fund unit trust would be a separate legal entity overseen by Trustees and governed in accordance with an established trust deed. The trust deed would be structured to ensure the funds are dedicated for the sole purpose of the QVM renewal project. The funding would be effectively quarantined for the QVM renewal project while the unit trust structure was in place.
 - 4.2. Given the unit trust is a separate legal entity, the administrative and compliance costs are higher. It is estimated that the costs of running a separate unit trust structure for a project the size of QVM would be approximately \$20,000 per annum. These costs would be paid from the income generated by the fund.
5. If a unit trust structure is the preferred option, approval would be required by the State government.
6. As a unit trust structure is a separate legal entity, all funding held within the unit trust would be disclosed and accounted for separately from Council's financial statements. A separate set of accounts is required. On an annual basis, the Council's group consolidated position would be reflected in the Annual Report which also includes Council's subsidiary companies.
7. Both options presented are suitable. On balance, it is considered that a QVM renewal fund unit trust structure best meets Council's objective of having a designated fund for the specific purpose of renewing the Queen Victoria Market.

8. **Recommendation from management**

8.1. That Council:

- 8.1.1. approves the establishment of a Queen Victoria Market renewal fund unit trust and associated costs
- 8.1.2. notes that the first deposit into the QVM renewal fund will not occur until the trust deed has been prepared and the necessary approval obtained from the State for the trust's establishment.

SUPPORTING ATTACHMENT

Legal

1. The creation of a separate legal entity would require the approval of the State government in accordance with section 193 of the *Local Government Act 1989*.

Finance

2. The administrative and compliance costs of having a separate bank account would be minimal.
3. The administrative and compliance costs of having a separate unit trust the size of the QVM renewal project (up to \$250 million) is estimated conservatively at \$20,000 per annum.
4. The estimated costs are broken down as follows:
 - 4.1 monthly maintenance of unit trust structure financial statements, including monthly BAS statements and lodgement with ATO (\$7,000)
 - 4.2 annual legislative compliance costs including preparation of separate statutory returns and annual statutory financial statements (\$5,000)
 - 4.3 estimated external audit fees (\$7,000)
 - 4.4 administrative and incidentals costs (\$1,000).

Conflict of interest

5. No member of Council staff, or other person engaged under a contract, involved in advising on or preparing this report, has declared a direct or indirect interest in relation to the matter of the report.

Stakeholder consultation

6. A discussion with QVM management was undertaken on how a QVM renewal fund might be structured.

Environmental sustainability

7. There are no environmental impacts from the recommendation contained in this report.