

## Queen Victoria Market Precinct Renewal Program – Provision of Market Infrastructure and Car Parking

2 April 2019

**Presenter:** Rob Adams, Director City Design and Projects

### Purpose and background

1. The purpose is to report back to the Future Melbourne Committee (FMC) on the analysis of three recommendations in the Queen Victoria Market People's Panel Report (December 2018) in respect to the provision of market infrastructure (see below) and investigations into the minority report, including the overall impact of these recommendations on the business case and implementation strategy.
2. The three People's Panel recommendations requested by Council for further analysis are:
  - 2.1. Recommendation 4 – allow for car parking spaces for vans, buses and large vehicles
  - 2.2. Recommendation 5 – develop G Shed (current meat loading bay and recycling facility constructed in the 1980s) for various infrastructure improvements
  - 2.3. Recommendation 7 - dedicated recycling stations at ground level and/or below G Shed
3. Council also requested seven recommendations be immediately progressed and referred three to Queen Victoria Market P/L (QVM P/L) for consideration. An update against each of the 14 People's Panel recommendations and the minority report is provided at Attachment 2.
4. Since the FMC meeting Council has worked with NH Architecture to develop options for the provision of market infrastructure and car parking. Through a concept design process, two options have emerged that offer a clear way forward, with Option A the preferred concept. Refer to Attachment 3.
5. The preferred concept - Option A - proposes new market infrastructure and facilities in four locations:
  - 5.1. Former G Shed - dedicated loading/unloading facilities, trader storage and amenities, waste management facilities for Meat and Fish Hall and public amenities
  - 5.2. Queen Street North – centralised waste and recycling facilities
  - 5.3. Sheds A & B and H & I – storage within fruit and vegetable/fresh produce traders' stalls ie under-counter storage / refrigeration
  - 5.4. Queen Street south (proposed Queen's Corner building as per the 2015 Master Plan) – dedicated loading/unloading facilities, QVM P/L administration, operation and events storage and security control room facilities, public amenities and retail to activate the adjacent future public space
6. In addition to 500 carparks being provided for QVM customers in the Munro development, up to 500 carparks are proposed to be provided on the future Southern Development Site (to the south of the market stores on Franklin Street), with the current at grade carpark to become a Market Square once transitional parking is no longer required. Spaces for larger vehicles and vans would also be considered as part of this design stage.

### Key issues

7. An options analysis has been undertaken by SGS Economics and Planning to compare the performance of the new options against the recommended renewal option in the approved Queen Victoria Market Precinct Renewal (QVMPR ) Program Business Case (2017). Refer to Attachment 4. The revenue and cost inputs to the options analysis have been independently assessed for reasonableness by Price Waterhouse Coopers (PWC).
8. From the analysis, it can be concluded that each option aligns well with the strategic objectives outlined in the approved QVMPR Business Case (2017), however Option A costs the least to deliver, can be delivered in stages to minimise disruption to the market, will pay for itself financially, has no impacts on the open air heritage sheds and has manageable delivery risks. Under Option A, the QVMPR program would be delivered by end 2025, which remains within the timeframe outlined in the State Agreement (2014).
9. A cost plan prepared by Donald Cant Watts Corke to support the options analysis confirms the market infrastructure in Option A can be delivered for a cost estimate of approximately \$82.7 million. Refer to Attachment 5. This is marginally lower than the recommended option in the QVMPR Business Case (2017), noting the restricted footprint across multiple facilities as opposed to a larger single basement area in one location and increased service location costs. The number of car parks has increased from 720 car parks to 1,000 car parks, with up to 500 car parks proposed for the Southern Development Site at a cost of approximately \$19 million.

The total cost estimate for delivering the QVMPR program through the adoption of Option A for market infrastructure and car parking would be \$287 million gross, a reduction of more than \$20 million from the budget of \$308 million gross approved in the QVMPR Business Case (2017) and within the publicly announced net budget of \$250 million.

**Recommendation from management**

10. That the Future Melbourne Committee:

- 10.1. Notes the status of analysis of the three recommendations in the Queen Victoria Market People's Panel Report (December 2018) in respect to the provision of market infrastructure and investigations into the minority report, including the overall impact of these recommendations on the business case and implementation strategy.
- 10.2. Endorses Option A for the provision of market infrastructure.
- 10.3. Notes that compared to the approved QVMPR Business Case (2017), Option A costs the least to deliver, can be delivered in stages to minimise disruption to the market, has no impacts on the open air heritage sheds, has manageable delivery risks and can be delivered within the timeframe outlined in the State Agreement (2014).
- 10.4. Authorises the administration to undertake more detailed design, logistics and costings to advance the provision of market infrastructure in Queen Street to be presented to a future Council meeting in July – August 2019.
- 10.5. Notes the approved budget in the QVMPR Business Case (2017) includes allowance of approximately \$6 million for purpose built storage at traders' stalls which will be designed following extensive consultation with traders.
- 10.6. Notes that other projects identified in the Master Plan are progressing, including:
  - 10.6.1. Heritage shed restoration
  - 10.6.2. Munro site redevelopment delivering 500 market customer carparks
  - 10.6.3. Completion of String Bean Alley retail laneway
  - 10.6.4. Precinct amenity improvements to provide utility upgrades, more pedestrian friendly areas for people of all abilities and better lighting, toilets, outdoor seating, greening and weather protection for customers
  - 10.6.5. Preparation of a Charter and Design Brief for Market Square
  - 10.6.6. Reconfiguration of Southern Development Site land parcels to facilitate a new mixed use development and additional market car parking which integrates the market with the central city
- 10.7. Requests the administration to undertake ongoing consultation with key stakeholders.

**Attachments**

1. Supporting Attachment (page 3 of 57)
2. Report on People's Panel Recommendations (page 4 of 57)
3. Options A and B (page 8 of 57)
4. Updated Options Analysis Report – SGS Economics and Planning (page 10 of 57)
5. Cost Summary – Market Infrastructure and Car Parking (page 57 of 57)

## Supporting Attachment

---

### Legal

1. Legal advice has and will continue to be provided on all aspects of the QVMPR Program.

### Finance

2. Financial implications are contained in the body and attachment of this report.

### Conflict of interest

3. The Chief Executive Officer of the City of Melbourne is a Director of Queen Victoria Market Pty Ltd, and the Chief Financial Officer of the City of Melbourne is an Alternate Director of Queen Victoria Market Pty Ltd. No other 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.

### Health and Safety

4. In developing this report, no Occupational Health and Safety issues or opportunities have been identified.































### Stakeholder consultation

5. This report was developed with ongoing collaboration and consultation with the Queen Victoria Market Pty Ltd.

### Environmental sustainability

6. Delivery of the QVMPR Program is guided by the six sustainability principles identified in the QVMPR Master Plan, the Precinct Sustainability Plan and the precinct has received Six Star Green Star – Communities accreditation.

The Queen Victoria Market People's Panel was established to give traders, customers, and the community a greater say in how best to deliver critical market infrastructure through the renewal program. This is how we're progressing each of the recommendations developed in the People's Panel Report (November 2018).













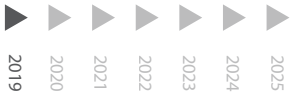
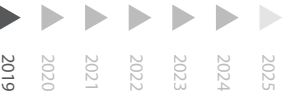

 <p><b>RECOMMENDATION 1</b> Review infrastructure for traders (storage and amenity).</p>  <p>COMPLETE</p>	 <p><b>RECOMMENDATION 2</b> Restore heritage fabric while preserving and enhancing tangible and intangible cultural heritage significance of the market.</p>  <p>ON TRACK</p>	 <p><b>RECOMMENDATION 3</b> REVISED BY COUNCIL RESOLUTION In addition to the 500 car parks in Munro, investigate an additional 500 car parks in the precinct with the current at grade car park to become an open space once transitional parking there is no longer required.</p>  <p>ON TRACK</p>
 <p><b>RECOMMENDATION 4</b> Allow for car parking spaces for vans, buses and large vehicles.</p>  <p>ON TRACK</p>	 <p><b>RECOMMENDATION 5</b> Develop G shed for various infrastructure improvements.</p>  <p>ON TRACK</p>	 <p><b>RECOMMENDATION 6</b> Improve infrastructure and amenities in the Food Court.</p>  <p>ON TRACK</p>
 <p><b>RECOMMENDATION 7</b> Dedicated recycling stations ground level or below G shed.</p>  <p>ON TRACK</p>	 <p><b>RECOMMENDATION 8</b> Provide appropriate and planned recreational space in Queen Street between upper and lower market.</p>  <p>ON TRACK</p>	 <p><b>RECOMMENDATION 9</b> Develop creative spaces throughout the market to attract and retain families and better engage customers.</p>  <p>UNDER ASSESSMENT</p>
 <p><b>RECOMMENDATION 10</b> Increased customer focus for the market.</p>  <p>ON TRACK</p>	 <p><b>RECOMMENDATION 11</b> Access of customers around the market and facilities.</p>  <p>ON TRACK</p>	 <p><b>RECOMMENDATION 12</b> Weatherproofing of the sheds.</p>  <p>UNDER ASSESSMENT</p>
 <p><b>RECOMMENDATION 13</b> Guarantee security of tenure for traders.</p>  <p>UNDER ASSESSMENT</p>	 <p><b>RECOMMENDATION 14</b> Southern development site.</p>  <p>ON TRACK</p>	 <p><b>MINORITY REPORT</b> Investigate above and below ground market infrastructure in Queen Street.</p>  <p>ON TRACK</p>

STATUS

 ON TRACK 
  ON HOLD 
  UNDER ASSESSMENT 
  COMPLETE

# PEOPLE'S PANEL REPORT UPDATE

MARCH 2019

<p><b>RECOMMENDATION 1</b> </p> <p>Review infrastructure for traders (storage and amenity).</p>	<p><b>RECOMMENDATION 2</b> </p> <p>Restore heritage fabric while preserving and enhancing tangible and intangible cultural heritage significance of the market.</p>	<p><b>RECOMMENDATION 3</b>  REVISED BY COUNCIL RESOLUTION</p> <p>In addition to the 500 car parks in Munro, investigate an additional 500 car parks in the precinct with the current at grade car park to become an open space once transitional parking there is no longer required.</p>	<p><b>RECOMMENDATION 4</b> </p> <p>Allow for car parking spaces for vans, buses and large vehicles.</p>	<p><b>RECOMMENDATION 5</b> </p> <p>Develop G shed for various infrastructure improvements.</p>
<p>STATUS</p> <p> COMPLETE</p>	<p>STATUS</p> <p> ON TRACK</p>	<p>STATUS</p> <p> ON TRACK</p>	<p>STATUS</p> <p> ON TRACK</p>	<p>STATUS</p> <p> ON TRACK</p>
<p>TIMELINE*</p> <p> 2019</p>	<p>TIMELINE*</p> <p> 2019 2020 2021</p>	<p>TIMELINE*</p> <p> 2019 2020 2021 2022 2023 2024 2025</p>	<p>TIMELINE*</p> <p> 2019 2020 2021 2022 2023 2024 2025</p>	<p>TIMELINE*</p> <p> 2019 2020 2021 2022 2023 2024</p>
<p>CURRENT ACTIONS</p> <ul style="list-style-type: none"> <li>• Independent audit of trader wants and needs complete.</li> <li>• Results to inform market infrastructure analysis.</li> <li>• Results shared with traders and available on the City of Melbourne website.</li> </ul>	<p>CURRENT ACTIONS</p> <ul style="list-style-type: none"> <li>• Audit of all sheds complete.</li> <li>• Ongoing conversations with Heritage Victoria.</li> <li>• Project scope, planning and timing underway.</li> <li>• Permit exemption for Sheds A to D and H and I conservation works submitted to Heritage Victoria in March 2019.</li> </ul>	<p>CURRENT ACTIONS</p> <ul style="list-style-type: none"> <li>• Further analysis of parking options as directed by Council.</li> <li>• Management report due to Council in April.</li> </ul>	<p>CURRENT ACTIONS</p> <ul style="list-style-type: none"> <li>• Analysis underway.</li> </ul>	<p>CURRENT ACTIONS</p> <ul style="list-style-type: none"> <li>• Analysis underway.</li> <li>• Management report due to Council in April.</li> </ul>

**STATUS**

 ON TRACK  ON HOLD  UNDER ASSESSMENT  COMPLETE



# PEOPLE'S PANEL REPORT UPDATE

MARCH 2019

<p><b>RECOMMENDATION 6</b> </p> <p>Improve infrastructure and amenities in the Food Court.</p>	<p><b>RECOMMENDATION 7</b> </p> <p>Dedicated recycling stations ground level or below G shed.</p>	<p><b>RECOMMENDATION 8</b> </p> <p>Provide appropriate and planned recreational space in Queen Street between upper and lower market.</p>	<p><b>RECOMMENDATION 9</b> </p> <p>Develop creative spaces throughout the market to attract and retain families and better engage customers.</p>	<p><b>RECOMMENDATION 10</b> </p> <p>Increased customer focus for the market.</p>
<p>STATUS</p> <p> ON TRACK</p>	<p>STATUS</p> <p> ON TRACK</p>	<p>STATUS</p> <p> ON TRACK</p>	<p>STATUS</p> <p> UNDER ASSESSMENT</p>	<p>STATUS</p> <p> ON TRACK</p>
<p>TIMELINE*</p> <p> </p> <p>2019 2020</p>	<p>TIMELINE*</p> <p>   </p> <p>2019 2020 2021 2022</p>	<p>TIMELINE*</p> <p>     </p> <p>2019 2020 2021 2022 2023 2024</p>	<p>TIMELINE*</p> <p>      </p> <p>2019 2020 2021 2022 2023 2024 2025</p>	<p>TIMELINE*</p> <p>      </p> <p>2019 2020 2021 2022 2023 2024 2025</p>
<p>CURRENT ACTIONS</p> <ul style="list-style-type: none"> <li>• Toilets repainted.</li> <li>• Further analysis underway.</li> </ul>	<p>CURRENT ACTIONS</p> <ul style="list-style-type: none"> <li>• Analysis underway.</li> <li>• Management report due to Council in April.</li> </ul>	<p>CURRENT ACTIONS</p> <ul style="list-style-type: none"> <li>• Initial improvements in Queen Street (between car park and F Shed) scheduled to commence in April including greening, seating and weather protection.</li> </ul>	<p>CURRENT ACTIONS</p> <ul style="list-style-type: none"> <li>• Analysis underway.</li> <li>• New retail opportunities in Sting Bean Alley.</li> <li>• Investigating ideas for family friendly spaces.</li> </ul>	<p>CURRENT ACTIONS</p> <ul style="list-style-type: none"> <li>• Referred to QVM P/L.</li> <li>• Marketing campaign in progress.</li> <li>• Bi-annual customer research.</li> </ul>
















**STATUS**

 ON TRACK  ON HOLD  UNDER ASSESSMENT  COMPLETE





# PEOPLE'S PANEL REPORT UPDATE

MARCH 2019

<p><b>RECOMMENDATION 11</b> </p> <p>Access of customers around the market and facilities.</p> <p>STATUS</p> <p> ON TRACK</p>	<p><b>RECOMMENDATION 12</b> </p> <p>Weatherproofing of the sheds.</p> <p>STATUS</p> <p> UNDER ASSESSMENT</p>	<p><b>RECOMMENDATION 13</b> </p> <p>Guarantee security of tenure for traders.</p> <p>STATUS</p> <p> UNDER ASSESSMENT</p>	<p><b>RECOMMENDATION 14</b> </p> <p>Southern development site.</p> <p>STATUS</p> <p> ON TRACK</p>	<p><b>MINORITY REPORT</b> </p> <p>Investigate above and below ground market infrastructure in Queen Street.</p> <p>STATUS</p> <p> ON TRACK</p>
<p>TIMELINE*</p> <p></p> <p>2019 2020 2021 2022</p>	<p>TIMELINE*</p> <p></p> <p>2019 2020 2021</p>	<p>TIMELINE*</p> <p></p> <p>2019</p>	<p>TIMELINE*</p> <p></p> <p>2019 2020 2021 2022 2023 2024 2025</p>	<p>TIMELINE*</p> <p></p> <p>2019</p>
<p>CURRENT ACTIONS</p> <ul style="list-style-type: none"> <li>• Referred to QVM P/L.</li> <li>• Further investigations underway including delivery of a Changing Places facility as part of proposed market infrastructure plans.</li> </ul>	<p>CURRENT ACTIONS</p> <ul style="list-style-type: none"> <li>• Further investigation and audit required.</li> </ul>	<p>CURRENT ACTIONS</p> <ul style="list-style-type: none"> <li>• Referred to QVM P/L.</li> <li>• QVM P/L will resolve by May.</li> </ul>	<p>CURRENT ACTIONS</p> <ul style="list-style-type: none"> <li>• Review State Government Agreement.</li> <li>• Initial planning and investigation.</li> <li>• Management report due to Council in April.</li> </ul>	<p>CURRENT ACTIONS</p> <ul style="list-style-type: none"> <li>• Analysis of market infrastructure options in Queen Street.</li> <li>• Management report due to Council in April.</li> </ul>

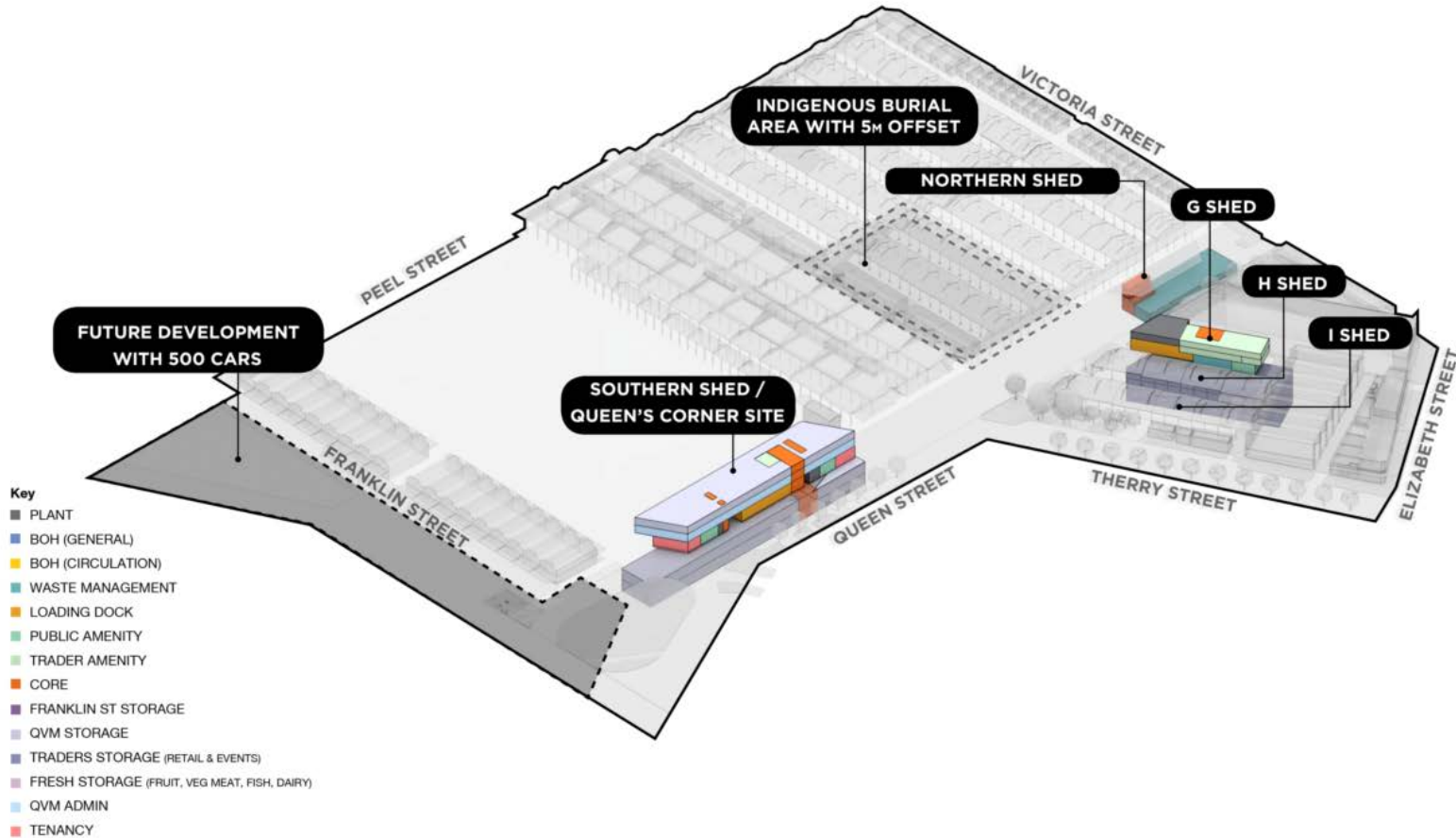
**STATUS**

 ON TRACK  ON HOLD  UNDER ASSESSMENT  COMPLETE

\* Indicative only.

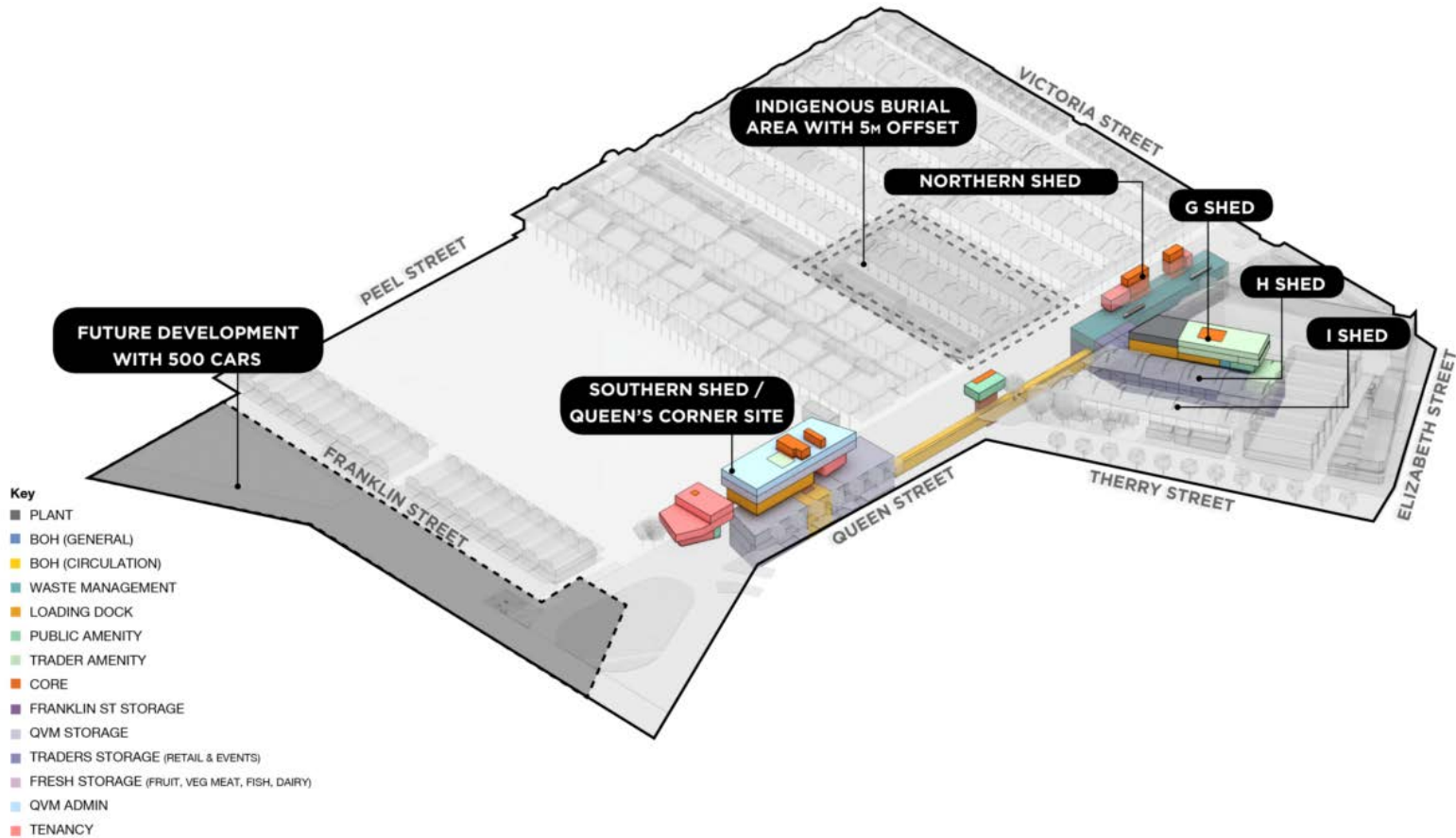


## OPTION A





## OPTION B





## QUEEN VICTORIA MARKET PRECINCT RENEWAL PROGRAM: UPDATED OPTIONS ANALYSIS

FINAL REPORT  
21 MARCH 2019

Prepared for  
City of Melbourne

Independent  
insight.



© SGS Economics and Planning Pty Ltd 2019

This report has been prepared for City of Melbourne. SGS Economics and Planning has taken all due care in the preparation of this report. However, SGS and its associated consultants are not liable to any person or entity for any damage or loss that has occurred, or may occur, in relation to that person or entity taking or not taking action in respect of any representation, statement, opinion or advice referred to herein.

SGS Economics and Planning Pty Ltd  
ACN 007 437 729  
[www.sgsep.com.au](http://www.sgsep.com.au)  
Offices in Canberra, Hobart, Melbourne, Sydney

# TABLE OF CONTENTS

---

<b>EXECUTIVE SUMMARY</b>	<b>ii</b>
<b>1. INTRODUCTION</b>	<b>5</b>
1.1 Purpose	5
1.2 Outline	5
<b>2. OPTIONS</b>	<b>6</b>
2.1 Preamble	6
2.2 Competing options	7
2.3 Comparative scope of options	12
2.4 Response to investment logic map	15
<b>3. OPTIONS ANALYSIS</b>	<b>23</b>
3.1 Strategic analysis	23
3.2 Financial analysis	24
3.3 Cost benefit analysis	30
3.4 Sensitivity analysis	34
3.5 Key risk analysis	37
<b>4. INTEGRATED ASSESSMENT</b>	<b>43</b>

---



# EXECUTIVE SUMMARY

---

This report responds to the resolution (10 December 2019) by the Melbourne City Council to test proposed new options for the provision of market infrastructure and car parking as one of thirteen packages of works to be delivered through the Queen Victoria Market Precinct Renewal (QVMPR) Program. The new options for the provision of market infrastructure and car parking have been developed in response to recommendations from the People's Panel Report (November 2018). This report compares the new options against the recommended renewal option as identified in the approved QVMPR Business Case (June 2017).

In this report, the proposed new options (Options A and B) and the previously recommended option (Option C) are briefly described, before being analysed in comparison to the business as usual option (Option 0). This incremental approach is taken so that the impacts of taking proactive action to renew the market are clearly isolated from the effects of not taking action, which are represented by the business as usual option.

The following analytical perspectives are taken:

- Strategic – how well do each of the options address the interventions that are considered necessary to address the QVM precinct's underlying problems? These interventions were identified in the investment logic map in the QVMPR Business Case (June 2017), and include:
  - Improve visitor experience and diversify offer
  - Improve amenity, connectivity and community services
  - Address operating conflicts
  - Modernise operating modes
- Financial – how do each of the options impact Council's finances, recognising the whole of life capital costs required to deliver each option, borrowing costs, sales proceeds for the South Development Site, and the underlying financial position of QVM Pty Ltd that results?
- Cost benefit – how do each of the options impact community welfare, after considering the above-mentioned financial impacts, as well as the broader economic, social and environment impacts, which are experienced by Victorian community members?
- Key risks – what are the key risks of progressing each of the options and how material are these risks?

It should be noted that some of the assumptions around the business as usual option (Option 0) and Option C are not the same as what they were in the QVMPR Business Case (June 2017). In the 2017 analysis, SGS forecasted market operating costs and revenues over the long term (30 years) using QVM Pty Ltd's historic performance and short term (5 years) financial projections as a base. In this updated analysis, QVM Pty Ltd has produced medium term (10 year) operating costs and revenues for all options, and SGS has extended these over the long term.

QVM Pty Ltd's updated financial projections for the Market's operations are:

- Less dire than SGS's (June 2017) business as usual (Option 0) projections
- More conservative than SGS's (June 2017) projections for Option C.

Collectively these altered assumptions reposition the financial performance of Option C substantially; meaning that its updated financial performance has deteriorated markedly from the 2017 assessment.

It should also be noted that in March 2018 Heritage Victoria refused a permit application from the City of Melbourne for Option C; leading to the eventual establishment of the People’s Panel.

The analysis undertaken is summarised in the following integrated assessment table.

TABLE 1. INTEGRATED ANALYSIS

	Option A (March 2019)	Option B (March 2019)	Option C (March 2019)	Option C results in Business Case (June 2017)
<b>Strategic benefit delivery</b>				
▪ Improved visitor value	High	Very High	Very High	Very High
▪ Improved CBD North liveability	Very High	Very High	Very High	Very High
▪ Improved precinct security, safety & compliance	High	Very High	High	Very High
▪ Improved business (operator & tenant) viability	Very High	Very High	Very High	Very High
<b>Financial analysis</b>				
▪ Net Present Value (\$000)	\$3,115	(\$12,208)	(\$21,215)	\$116,665
▪ Internal Rate of Return	5.09%	4.67%	4.43%	7.31%
<b>Cost benefit analysis (local area benefits only)</b>				
▪ Net Present Value (\$000)	\$582,539	\$542,312	\$636,243	\$536,472
▪ Benefit Cost Ratio (BCR)	3.69	3.31	3.62	3.11
▪ Economic Internal Rate of Return	16.20%	14.62%	15.05%	14.44%
<b>Cost benefit analysis (local and wider area benefits)</b>				
▪ Net Present Value (\$000)	\$1,384,995	\$1,344,769	\$1,682,330	\$1,144,997
▪ Benefit Cost Ratio (BCR)	7.39	6.74	6.75	5.50
▪ Economic Internal Rate of Return	22.44%	20.84%	20.12%	20.56%
<b>Sensitivity analysis</b>	Financial results are sensitive to all key variables. Financial performance improves significantly if interest payments are excluded from the discounted cashflow (financial) analysis. BCR remains robust under all conditions.			Somewhat sensitive to changes in capital costs.
<b>Risk analysis</b>				
▪ Stakeholders dissatisfaction	Low	Low	Medium	Low
▪ Long term viability risks	Medium	Medium	Medium	Low
▪ Construction risks	Medium	High	High	High
▪ Business continuity risks	Low	High	High	Medium
▪ Heritage risks	Low	Low	High	Low
▪ Reputational risks	Low	Medium	High	Low
<b>Integrated assessment</b>				
▪ Ranking	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	NA

Source: SGS and City of Melbourne (2019).

Notes:

In the financial analysis, Net Present Value (NPV) equals the present value of cash inflows (revenues) less the present value of cash outflows (costs). If the NPV is a greater than zero, then the project is considered worthwhile. If the NPV is less than zero, then the project is not considered worthwhile. Because future dollars are worth less than today's dollars, all future cashflows need to be converted to today's values to make a balanced conclusion about project merit. The NPV measure does this by converting all future cashflows to present day values using an annual discount rate. It then deducts the cash outflows from the cash inflows to generate a net result.

Internal Rate of Return (IRR) is the discount rate that makes the NPV zero. That is, it is the maximum discount rate that generates a positive net result for the project. If the IRR is greater than the Council's discount rate, then the project is considered worthwhile.

In the cost benefit analysis, benefits include cash inflows plus quantified socioeconomic benefits. The NPV, in this context, equals the present value of benefits less the present value of costs. If the NPV is a greater than zero, then the project is considered worthwhile. If the NPV is less than zero, then the project is not considered worthwhile.

Benefit Cost Ratio (BCR) equals the present value of benefits divided by the present value of costs. If the BCR is greater than one, then the project is considered worthwhile. If the BCR is less than one, then the project is not considered worthwhile. Like the NPV measure, the BCR uses discount rates to convert future dollars into today's dollars. The BCR then divides the benefits by the costs to establish if a ratio of 1 or more results.

The cost benefit analysis results have been presented using: a) local area benefits only; and b) local area plus wider area benefits. The first lens takes a more conservative view and includes only the benefits generated within the QVM precinct, whereas the second includes wider area benefits that are expected beyond the immediate precinct including the CBD, North Melbourne, Parkville and Carlton.

From the table above, it can be concluded that each renewal option aligns well with strategic objectives and generates similar and significant benefits for Victorians. However, Option A costs the least to implement, is the only option likely to pay for itself financially, and has the most manageable delivery risks.

Consequently, Option A is the favoured option.

# 1. INTRODUCTION

---

## 1.1 Purpose

This report responds to the resolution by the Melbourne City Council to test new options for the provision of market infrastructure and car parking as one of thirteen packages of works to be delivered through the Queen Victoria Market Precinct Renewal (QVMPR) Program. The new options for the provision of market infrastructure and car parking have been developed in response to recommendations from the People’s Panel Report (November 2018). This report compares the new options against the recommended renewal option as identified in the approved QVMPR Business Case (June 2017).

## 1.2 Outline

This report has been structured as follows:

- Section 2 describes three options (Options A, B and C) for precinct renewal that are examined in this report along with the business as usual option:
  - Option 0 – Business as usual
  - Option A – New option arising from focus on the former G Shed and Queen Street
  - Option B – New option arising from focus on the former G Shed and Queen Street, connected underground
  - Option C – Recommended option in Business Case (June 2017).<sup>1</sup>

It then assesses how Options A, B and C perform in terms of the requirement of the State Agreement (2014) and the underlying issues that were identified in the investment logic map prepared in the QVMPR Business Case (June 2017), recognising that these issues remain unchanged.

- Section 3 then includes a strategic, financial, cost benefit and key risk assessment of progressing Options A, B and C. That is, an incremental approach is adopted in the analysis so that the impacts of taking proactive action to renew the market are clearly isolated from the effects of not acting, which are represented by the business as usual option.
- Section 4 draws all the analysis presented in Section 3 into an integrated options assessment table, highlighting the superior option.

---

<sup>1</sup> It should be noted that some of the assumptions around the business as usual option (Option 0) and Option C are not the same as what they were in Business Case (June 2017). In the 2017 analysis, SGS forecasted market operating costs and revenues over the long term (30 years) using QVM Pty Ltd’s historic performance and short term (5 years) financial projections as a base. In this updated analysis, QVM Pty Ltd has produced medium term (10 year) operating costs and revenues for all options, and SGS has extended these over the long term.

QVM Pty Ltd’s updated financial projections for the Market’s operations are:

- Less dire than SGS’s (June 2017) business as usual (Option 0) projections
- More conservative than SGS’s (June 2017) projections for Option C.

These collective assumptions substantially reposition the financial performance of Option C; meaning that its financial Net Present Value and Internal Rate of Return have deteriorated markedly.



## 2. OPTIONS

---

### 2.1 Preamble

As outlined in the investment logic map which underpinned the QVMPR Business Case (June 2017), effective options for renewing the Queen Victoria Market (QVM) precinct must respond by:

- Improving the visitor experience and diversifying the offer
- Improving amenity, connectivity and community services
- Addressing operating conflicts
- Modernising operating modes.

Feasible renewal options must also be developed in the context of the State Agreement (2014) which forms part of the scope of the market renewal program. 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 the City of Melbourne commits to the full extent of QVM precinct renewal, which included the following core outcomes:

- **Car parking:** Current at-grade market car park (minimum 720 car parking spaces) must be replaced by new car parking facilities 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 at-grade car park.
- **Improved traffic conditions:** Replacement of the roundabouts with intersections and the creation of new connections between Dudley and Franklin streets to meet the future needs of the area.
- **New and enhanced market facilities:** Market facilities must be enhanced and new facilities developed including the delivery of operational and trader infrastructure for the market and a new Queen's Corner building for municipal or market purposes.
- **Adaptation of existing sheds:** Restoration and conservation of the heritage sheds in the upper market and transformation of J, K, L and M sheds 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 sale proceeds of public land to the market's south (known as the 'Southern Development Site') to be used by City of Melbourne to fund works at the market, is if the State Agreement is triggered and its terms fulfilled.

With the exception of the market car parking provision, the mixed-use development of the 'Munro' site is excluded from the scope of this report. In October 2014, Council purchased the 'Munro' site in an on-market transaction, expanding the area of the market precinct under the direct control of the City of Melbourne, 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 the intention of this site being a potential location for new market car parking facilities made clear in the QVMPR Master Plan (2015) and subsequently further articulated in the QVMPR Implementation Framework (2016). A mixed-use development at the 'Munro' site is underway with the delivery of 500 market customer car parking spaces forming part of the development. The balance of the community and private components of this development are excluded from the scope of this report.

A Business Case by SGS Economics & Planning was released in July 2017. This Business Case considered three options for addressing the challenges facing the Queen Victoria Market: business as usual with no increased investment; limited intervention measures; and Council's full scale renewal program including below-ground operations. Following a rigorous assessment, it concluded that Council's \$250 million net investment in renewal is the only way to secure the market's long-term viability. It also showed that doing nothing is not an option, and simple structural improvements or a quick facelift are not enough to deal with the Market's ageing heritage buildings and infrastructure.

One of the 13 packages of works to address the challenges facing the Market was to construct a below-ground operations area under the western section of Sheds A to D. In March 2018, Heritage Victoria refused a permit application from the City of Melbourne to temporarily dismantle and restore off site Sheds A to D whilst constructing a three-level basement (plus mezzanine) facility to accommodate customer car parking, operational and trader facilities, with the sheds then later reinstated in their original location. Following this decision, Council resolved to work closely with Heritage Victoria, traders, customers and key stakeholders, establishing a 40-person People's Panel to deliberate on how to deliver facilities for Queen Victoria Market Pty Ltd, traders and customers as well as car parking. At the end of deliberations the panel developed the People's Panel Report, outlining 14 recommendations plus a minority report.

The People's Panel Report was presented at the 10 December 2018 Future Melbourne Committee Meeting (FMC) with Council requesting management prepare a report for a future Council meeting, including analysis of the provision of market infrastructure at G Shed and in Queen Street, and market car parking in the precinct including parking for trader vans and large vehicles. Part of this report to Council is an analysis of the overall impact of these recommendations and the minority report on the approved Business Case.

**The purpose of this document is to provide analysis of the proposed new options for market infrastructure at the former G Shed and in Queen Street against the Council endorsed 2017 Business Case. This is not a new business case, rather a comparative analysis of existing and proposed options to enable Council to effectively evaluate the provision of market infrastructure at G Shed and in Queen Street.**

The rationale for undertaking the renewal program remains predicated on securing the Market's place as a traditional open-air market – retaining its heritage, traditions, unique offer and authenticity by making it financially viable and equipped to support contemporary business requirements into the future.

## 2.2 Competing options

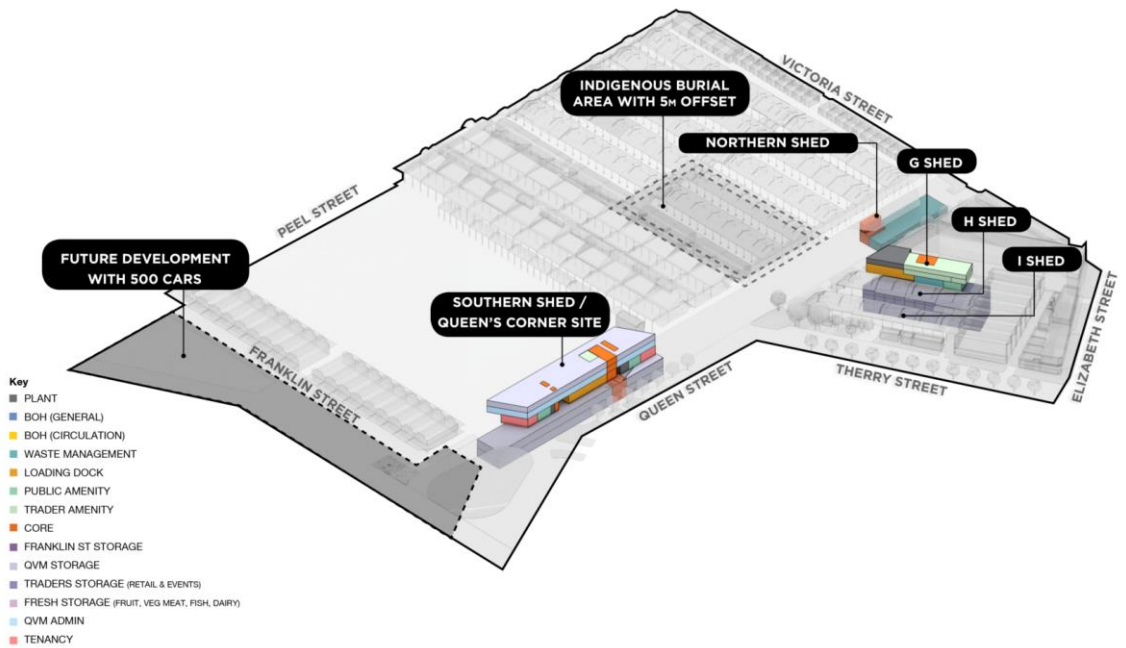
### Option 0 – Business as usual

Option 0 is a business as usual scenario where Council 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 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.

The 'business as usual' option has been explored to provide a baseline for decision making purposes, although it is acknowledged that the case for change has been articulated and forms the basis of the rationale that underpins the State Agreement. It will not address the problems facing the market and will result in Council being required to accept poor financial returns and poor long-term outcomes for the community from this important CBD location and asset.

Option A – New option arising from focus on the former G Shed and Queen Street

FIGURE 1 OPTION A SUMMARY DEPICTION



NHArchitecture T A N D E M MOTT MACDONALD trethowan

Source: City of Melbourne (2019).

Option A provides 1000 car parks in two new car parking areas, 500 of which are located at the ‘Munro site’ and a further 500 car spaces located at the ‘Southern Development Site’ on Franklin Street. The existing at-grade car park is transformed in two stages into new public open space to support the growing City North population and Queen Victoria Market activities.

New market infrastructure and facilities are proposed in four locations, being the former G Shed (current meat annex and recycling bay), Queen Street north, Queen Street south (the site of the proposed Queen’s Corner building), supplemented by under counter refrigeration and storage in Sheds A-B and H and I.

Back-of-house facilities (including loading facilities, trader storage, waste management and trader and customer amenities) are created in a two level building plus mezzanine and three level basement at the site of the former G Shed.

A new below-ground area will be constructed within the northern Queen Street reservation to provide centralised waste management including a bin lift. A lightweight canopy is proposed over this space to protect both loading and unloading and offering retail and other uses during trading hours.

In addition, a new flexible multi-level building will be constructed for QVM Pty Ltd administration, storage, events infrastructure and amenities on the site of the proposed Queen’s Corner building identified in the Masterplan (2015). This building, which is adjacent to the proposed new open space but which sits outside the Old Melbourne Cemetery, will include a two-level basement and three level building.

The new below-ground areas in Queen Street and the former G Shed do not provide for vehicular traffic, meaning the rate of change of operations (particularly in respect to formalised logistics and storage activities) will need to be accelerated.

These new below-ground areas will:

- Provide some separation of pedestrians from the back-of-house activities, hence improving current safety and site security practices
- Not directly impact heritage sheds – the former G Shed is not one of the sixteen buildings identified on the Victorian Heritage Register.

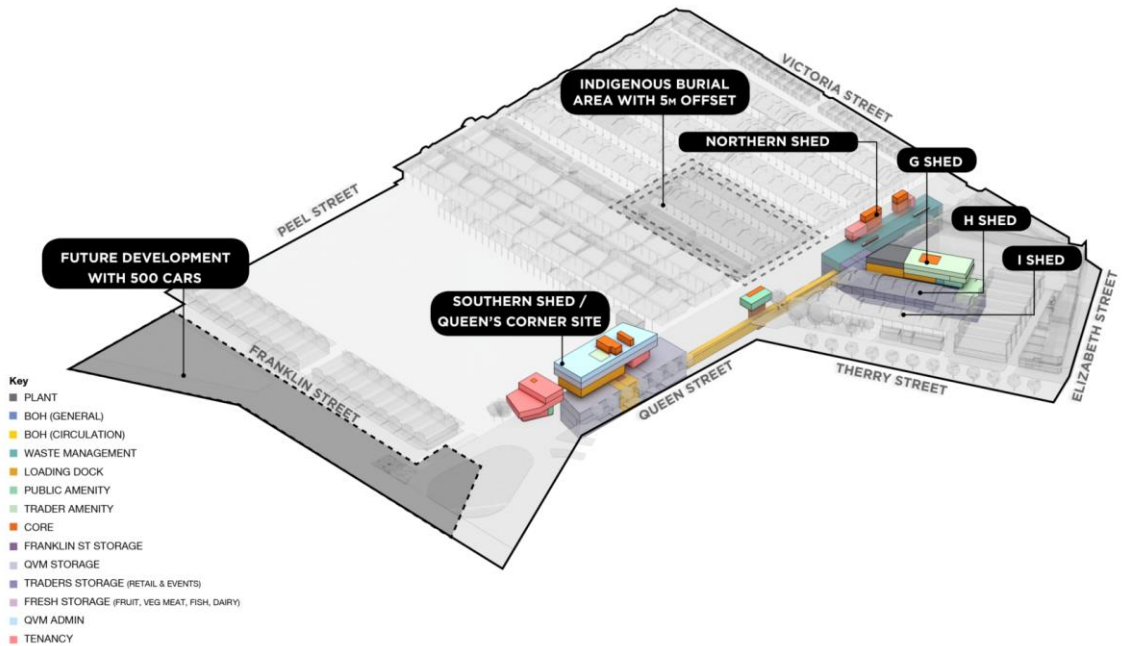
Option A would see all of the open air heritage sheds conserved, restored and enhanced in-situ.

Option A would also see the enhancement of the public realm in the precinct through improved streetscapes, the progressive development of new open space on the current at-grade car park and allow for mixed-use redevelopment of the ‘Southern Development Site’ on Franklin Street.

This option addresses the challenges facing the market and delivers the strategic, financial and community benefits required to sustain the future viability of the market.

### Option B – New option arising from focus on the former G Shed and Queen Street, connected underground

FIGURE 2 OPTION B SUMMARY DEPICTION



Source: City of Melbourne (2019).

Option B provides 1000 car parks in two new car parking areas, 500 of which are located at the ‘Munro site’ and a further 500 car spaces located at the ‘Southern Development Site’ on Franklin Street. The existing at-grade car park is transformed in two stages into new public open space.

Back-of-house facilities (including loading facilities, trader storage, waste management and trader and customer amenities) are created in a two level building plus mezzanine and three level basement at the site of the former G Shed, connected via a service tunnel to the Queen Street south building for the purpose of transferring goods between the two operational areas.

A new below-ground area will be constructed within the northern Queen Street reservation to provide centralised waste management including a bin lift. A lightweight canopy is proposed over this space to protect both loading and unloading and offering retail and other uses during trading hours.

In addition, a new flexible multi-level building will be constructed for QVM Pty Ltd administration, storage, events infrastructure and amenities on the site of the proposed Queen’s Corner building identified in the Masterplan (2015). This building, which is adjacent to the proposed new open space but which sits outside the Old Melbourne Cemetery, will include a three-level basement and three level building.

The new below-ground areas in Queen Street and the former G Shed do not provide for vehicular traffic, meaning the rate of change of operations (particularly in respect to formalised logistics and storage activities) will need to be accelerated. These will require technological solutions to improve the transfer and storage of goods around the precinct, such as automated guided vehicles and robotic storage and retrieval systems. The new operational areas will be designed with these technological advancements in mind while transitioning from current operating systems.

These new below-ground areas will:

- Allow for the expansion of retail trading spaces under the sheds by removing ad-hoc back of house functions to below-ground areas
- Separate pedestrians from the back-of-house activities, hence improving current safety and site security practices
- Not directly impact heritage sheds – the former G Shed is not one of the sixteen buildings identified on the Victorian Heritage Register

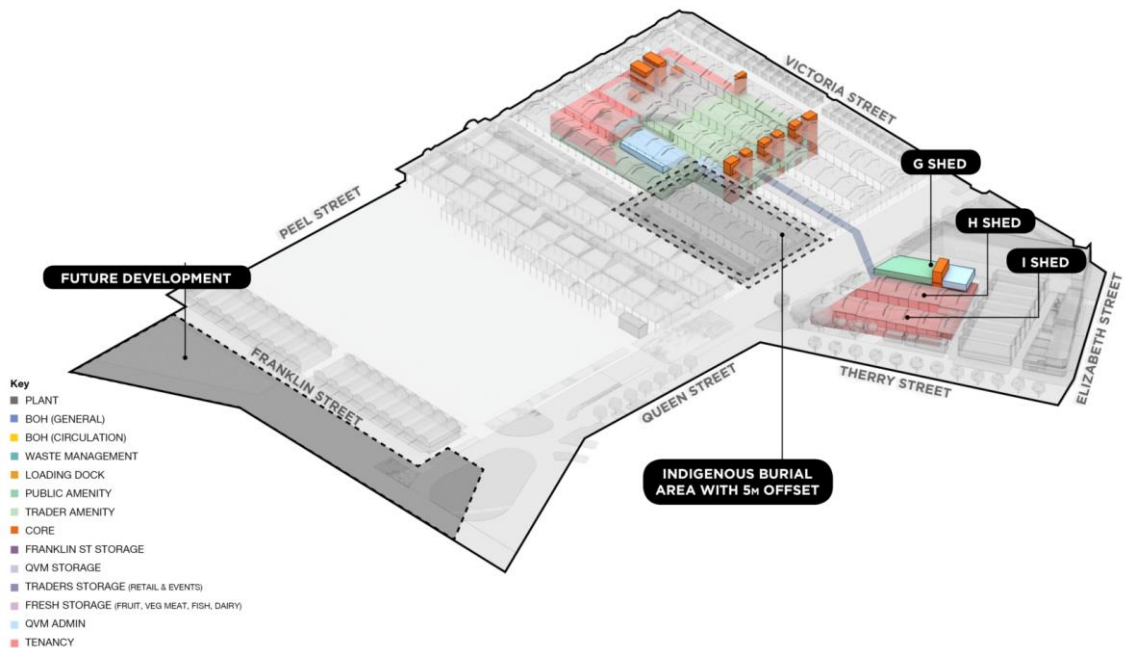
Option B would see all heritage sheds conserved, restored and enhanced in-situ.

Option B would also see the enhancement of the public realm in the precinct through improved streetscapes, the progressive development of new open space on the current at-grade carpark and allow for mixed-use redevelopment of the ‘Southern Development Site’ on Franklin Street.

This option addresses the challenges facing the market and delivers the strategic, financial and community benefits required to sustain the future viability of the market.

**Option C – Recommended option in Business Case (July 2017)**

FIGURE 3 OPTION C SUMMARY DEPICTION



NHArchitecture T A N D E M MOTT MACDONALD trethowain

Source: City of Melbourne (2019).

*Please note: In March 2018 Heritage Victoria refused a permit application from the City of Melbourne for this option. This option was also not a recommendation identified by the People's Panel for further exploration. As the recommended option in the 2017 Business Case, this option is being used to enable a comparative analysis of new options only.*

Option C provides for 720 car parking spaces in two new car parking areas, distributing customers between a new below-ground facility at the 'Munro site' (500 carparks), and a second below-ground facility to be developed beneath Sheds A - D (220 carparks) with a proposed entrance from Peel Street. These below-ground facilities would be connected via a service corridor to new below-ground operational facilities beneath Sheds H and I. To construct these below-ground areas, Sheds A-D and later H and I would be dismantled, taken offsite for conservation and restoration and then later reinstated.

The below-ground area is combined with new back-of-house facilities meaning that both core parts of the market precinct (upper and lower market) are served by below-ground facilities.

The provision of market infrastructure and replacement storage via these below-ground areas expands the potential retail trading area. Public access to heritage sheds A-D and H and I is available following the conservation, restoration and enhancement of these sheds.

Option C also sees the on-site conservation, restoration and enhancement of Sheds E, F, J, K, L and M with new infrastructure and facilities; the creation of a major new open space at the current at-grade car park, with construction of a new Queen's Corner building; adjoining city streets improved with more trees and room for pedestrians and cyclists; and the subsequent commercial redevelopment of the 'Southern Development Site'.

This option addresses the challenges facing the market and delivers the strategic, financial and community benefits required to sustain the future viability of the market.

### 2.3 Comparative scope of options

Table 2 describes how Options A, B and C address each of the core outcomes of the State Agreement.

TABLE 2 STATE AGREEMENT SCOPE EXPECTATIONS (OPTIONS A, B AND C)

State Agreement Core outcome	Option A New option arising from focus on the former G Shed and Queen Street	Option B New option arising from focus on the former G Shed and Queen Street, connected underground	Option C Recommended option – Business Case 2017
Car parking	<p>Two new car parking facilities are developed accommodating a total of 1000 market customer car parking spaces.</p> <p>One facility is located in the Munro site delivering 500 car parking spaces.</p> <p>The second facility, accommodating 500 car parking spaces, would be in the ‘Southern Development Site’ on Franklin Street with a staged relocation from the existing car park.</p> <p>All existing car parking in the at-grade car park would be eventually removed.</p>		<p>Two new below-ground car parking facilities are developed accommodating a total of 720 customer car parking spaces. One is located in the Munro development delivering approx. 500 car parking spaces. A second would be located under the western ends of Sheds A- D (with an entrance off Shed D at Peel Street) delivering approximately 220 car parking spaces.</p> <p>All existing car parking in the at-grade car park would be eventually removed.</p>
New public open space	<p>A new 1.5 hectare Market Square would be created in two stages following the relocation of car parking from the existing car park to the Munro development (2021) and Southern Development site (c. 2025). The full completion of the Market Square will likely occur in 2026.</p>		<p>A new 1.5ha Market Square would be created in two stages following the relocation of car parking from the existing car park to Munro development (2021) and under the western ends of Sheds A - D (c. 2023). The completion of the full square is likely to occur in 2024, two years sooner than under Options A and B.</p>
Improved traffic conditions	<p>Two roundabouts would be removed to improve traffic movements (Queen Street–Franklin Street and Peel Street–Dudley Street roundabouts).</p> <p>Franklin Street can be realigned, however it is no longer considered necessary to construct a new dedicated road to the north of the Franklin Street stores.</p>		

State Agreement Core outcome	Option A New option arising from focus on the former G Shed and Queen Street	Option B New option arising from focus on the former G Shed and Queen Street, connected underground	Option C Recommended option – Business Case 2017
Market facilities enhancement	<p>The ‘Lower Market’ is provided with new back-of-house areas allowing for deliveries, trader storage and storage of meat and fish offal (waste) located within a new G Shed building and basement. A new below-ground area beneath Queen Street north will accommodate a dedicated waste management facility including storage and processing of other waste streams.</p> <p>Heritage shed conservation and restoration would be undertaken to all sheds in-situ.</p> <p>Queen Street north would retain at-grade delivery zones prior to market day trading (i.e. before 8am). This would require a change to existing operations to manage and limit deliveries to these times.</p> <p>A new operational, logistics and commercial building with below-ground area would be created in Queen Street south adjacent to the Market Square providing back-of-house facilities and storage for events and retail. Vehicular traffic would not be allowed in the below-ground areas.</p> <p>Investment and effective operations within this arrangement would require early transition to technology-based logistics (e.g. to book delivery times) managed by the market operator with traders.</p> <p>Briefed trader storage requirements cannot be met in below-ground areas due to a lack of floor space. This shortfall will be met through under-counter storage at fruit and vegetable trader stalls under the open-air sheds.</p> <p>This option does not require the removal of heritage</p>	<p>The ‘Lower Market’ is provided with new back-of-house areas allowing for deliveries, trader storage and waste management facilities located within a new G Shed building and in a basement beneath this building that extends below Queen Street. A new above-ground building in Queen Street will link these facilities with the upper market.</p> <p>Heritage shed conservation and restoration would be undertaken to all sheds in-situ.</p> <p>Queen Street north would retain at-grade delivery zones prior to market day trading (i.e. before 8am).</p> <p>A new operational, logistics and commercial building with below-ground area would be created in Queen Street adjacent to the Market Square providing dedicated 24/7 trader deliveries, back-of-house facilities and-storage, necessitating a change to existing operations. Vehicular traffic would not be allowed in the below-ground areas. The two basements will be linked by a service corridor under Queen Street.</p> <p>Investment and effective operations within this arrangement would require early transition to technology-based logistics (e.g. to book delivery times) managed by the market operator with traders.</p> <p>The below-ground areas feature lettable storage and preparation areas for traders to enable more efficient operations, business diversification and expansion. These areas would create separation between the public and market operations, allowing market operations to take place at all times with limited impact to the retail trading areas at ground level and</p>	<p>The ‘Lower Market’ is provided with new back-of-house areas with the provision of a new G Shed building and a basement under this building and sheds H and I, requiring the temporary removal of heritage sheds.</p> <p>The below-ground facilities under Sheds H and I would be connected via a service corridor under Queen Street to new below-ground facilities under the western end of Sheds A-D (the ‘Upper Market’).</p> <p>New below-ground areas under Sheds A – D would accommodate vehicular traffic and provide dedicated customer parking, trader deliveries and parking, back-of-house facilities, and catering to the market’s storage and waste management requirements, allowing for a progressive change to existing operations.</p> <p>The large basement floorplates allows for flexible use. This area would also feature lettable facilities for traders to enable business diversification and expansion. This area would create separation between the public and market operations, allowing market operations to take place at all times with limited impact to the retail trading areas at ground level and nearby residents and businesses.</p> <p>The construction would cause the temporary removal of some heritage fabric which would be later reinstated.</p> <p>All other works proposed to the Dairy Produce Hall, Meat and Fish Halls, Victoria Street and Elizabeth Street would be carried out in accordance with the approved Master Plan.</p>



State Agreement Core outcome	Option A New option arising from focus on the former G Shed and Queen Street	Option B New option arising from focus on the former G Shed and Queen Street, connected underground	Option C Recommended option – Business Case 2017
	<p>fabric.</p> <p>All other works proposed to the Dairy Produce Hall, Meat and Fish Halls, Victoria Street and Elizabeth Street would be carried out in accordance with the approved Master Plan.</p>	<p>nearby residents and businesses.</p> <p>This option does not require the removal of heritage fabric.</p> <p>All other works proposed to the Dairy Produce Hall, Meat and Fish Halls, Victoria Street and Elizabeth Street would be carried out in accordance with the approved Master Plan.</p>	
Existing sheds adaptation (Sheds E – M)	Heritage sheds E-M would be restored and refurbished with improved essential services such as access to power, water and sewer to support a broader range of community events, festivals and markets.		
Visitor centre	The Victorian visitor centre envisaged in the State Agreement will be reduced in size when delivered in conjunction with market infrastructure. It will still support events and activities adjacent to the new public open space (Market Square).	The Victorian visitor centre envisaged in the State Agreement will be reduced in size when delivered in conjunction with market infrastructure. The visitor centre would be integrated in a mixed-use building in Queen Street in a central location between the upper and lower markets.	A new stand-alone Victorian visitor centre would be delivered in Queen Street adjacent to the new public open space (Market Square).
Public policy benefits	<p>Options A, B and C will result in an overall increase in Net Lettable Area compared with Option 0 as back of house functions are located below-ground in new facilities.</p> <p>Options A, B and C are expected to result in a visitation increase compared with Option 0.</p> <p>Options A, B and C provide for the delivery of social, economic and environmental sustainability benefits. Planning for the program has received Six Star Green Star Communities accreditation from Green Building Council Australia which will be implemented under all renewal options.</p> <p>Public realm improvements will be realised under all renewal options.</p> <p>Flexible spaces will be created under all renewal options to host community festivals and events.</p> <p>A mixed-use development on the Southern Development Site on Franklin Street will be created under all options. Options A and B will include 500 market customer car parking bays in this development.</p>		

## 2.4 Response to investment logic map

Table 3 recasts these options in terms of how they align with the changes envisaged in the Investment Logic Map.

TABLE 3 RESPONSE TO INVESTMENT LOGIC MAP (OPTIONS A, B AND C)

Strategic response	Changes/ assets	Option A New option arising from focus on the former G Shed and Queen Street	Option B New option arising from focus on the former G Shed and Queen Street, connected underground	Option C Recommended option – Business Case 2017
Improve visitor experience and diversify offer	Increase precinct activation	<p>A new public open space ('Market Square') will open in two stages and fully complete in 2026.</p> <p>A new building in Queen Street south (Queen's Corner building), adjacent to the Market Square), will provide commercial and public functions and activation to Queen Street south and Market Square.</p> <p>500 customer car parking spaces will be delivered in the Southern Development Site, generating pedestrian movement through the new Market Square activating this public open space and increasing the viability of community events held on the square.</p> <p>Requires significant changes in logistics and storage operations due to delivery times being limited to outside of core trading hours. This will increase the activation of Queen Street north where vehicle traffic is currently present during market trading hours.</p> <p>There is potential to reduce the set-up times for traders due to storage proximity which could facilitate extended trading and precinct activation. It is anticipated that by increasing trading hours and substantially reducing service vehicle movements in public areas, a greater number of visitors will be attracted to the precinct increasing activity over an</p>	<p>A new public open space ('Market Square') will open in two stages and fully complete in 2026.</p> <p>New buildings between the upper and lower markets and adjacent to the Market will provide commercial and public functions and activation to Queen Street.</p> <p>500 customer car parking spaces will be delivered in the Southern Development Site, generating pedestrian movement through the new Market Square activating this public open space and increasing the viability of community events held on the square.</p> <p>Delivers significant changes in logistics and storage operations which will result in improved precinct activation. These changes have the potential to reduce the set-up times for traders due to storage proximity which could facilitate extended trading and precinct activation. It is anticipated that by increasing trading hours and removing forklifts and other service vehicles from public areas, a greater number of visitors will be attracted to the precinct increasing activity over an extended period.</p> <p>Assessed score: HIGH</p>	<p>A new public open space ('Market Square') will open in two stages and fully complete in 2024.</p> <p>The 220 customer car parking spaces underneath the western ends of Sheds A – D would generate an additional source of activation within this part of the market.</p> <p>There is some loss of precinct activation in the upper market due to the impact of vehicular ramps and new customer amenities in Shed D.</p> <p>The below-ground areas (including those under sheds H and I) will result in more efficient back-of-house activities including logistics and stock management during trading hours, particularly for traders located in the upper market. These changes have the potential to reduce the set-up times for traders due to storage proximity which could facilitate extended trading and precinct activation. It is anticipated that by increasing trading hours and removing forklifts and other service vehicles from public areas, a greater number of visitors will be attracted to the precinct increasing activity over an extended period.</p> <p>Assessed score: HIGH</p>

Strategic response	Changes/ assets	Option A New option arising from focus on the former G Shed and Queen Street	Option B New option arising from focus on the former G Shed and Queen Street, connected underground	Option C Recommended option – Business Case 2017
		<p>extended period.</p> <p>Assessed score: HIGH</p>		
	Responsively program the precinct	<p>A renewed QVM 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 Options A, B and C.</p> <p>Assessed score: HIGH under Options A, B and C</p>		
	Diversify product mix	<p>Increased opportunity for some new retail space, albeit on a smaller scale than Option B, with the potential for product diversification in the new fixed retail and hospitality tenancies in Queen Street south.</p> <p>Growth of retail product diversity is likely to be driven by growth in the overall quantum of retail activity taking place at QVM.</p> <p>A greater diversity of product mix will be realised under Options A, B and C through the introduction of improved, vermin-proofed cool and dry storage.</p> <p>Some fixed refrigeration and storage would be delivered at trader stalls in Sheds A-B and H and I to support fruit and vegetable traders.</p> <p>Assessed score: HIGH</p>	<p>Increased opportunity for new retail space with the potential for appropriate product diversification in the new fixed buildings in Queen Street.</p> <p>Growth of retail product diversity is likely to be driven by growth in the overall quantum of retail activity taking place at QVM.</p> <p>A greater diversity of product mix will be realised under Options A, B and C through the introduction of improved, vermin-proofed cool and dry storage.</p> <p>Assessed score: HIGH</p>	<p>Growth of retail product diversity is likely to be driven by growth in the overall quantum of retail activity taking place at QVM.</p> <p>A greater diversity of product mix will be realised under Options A, B and C through the introduction of improved, vermin-proofed cool and dry storage.</p> <p>Assessed score: HIGH</p>
	Create flexible spaces	<p>A range of flexible spaces to cater to demand associated with a variety of retail types is proposed. These will help ensure that QVM is attractive to a wide variety of retail types and that retail diversity is maximised.</p> <p>Car parking spaces delivered in the Southern Development Site and Munro development are</p>	<p>A range of flexible spaces to cater to demand associated with a variety of retail types is proposed. These will help ensure that QVM is attractive to a wide variety of retail types and that retail diversity is maximised.</p> <p>Car parking spaces delivered in the Southern Development Site and the Munro development are</p>	<p>A range of flexible spaces to cater to demand associated with a variety of retail types is proposed. These will help ensure that QVM is attractive to a wide variety of retail types and that retail diversity is maximised.</p> <p>Car parking spaces delivered in Q2 and the Munro development are intended to be adaptable for other</p>

Strategic response	Changes/ assets	Option A New option arising from focus on the former G Shed and Queen Street	Option B New option arising from focus on the former G Shed and Queen Street, connected underground	Option C Recommended option – Business Case 2017
		<p>intended to be adaptable for other uses in the event of the demand for car parking spaces reducing in the future.</p> <p>The open air nature of all market sheds is permanently maintained under this option.</p> <p>The mixed-use nature of the development on the Southern Development site is compromised by the encumbrance of 500 customer car parking bays and truck parking.</p> <p>The new building in Queen Street south is partly open-air allowing for flexible use in keeping with other market sheds.</p> <p>In order to meet the briefed trader storage requirements, some under-counter storage will be required for fruit and vegetable traders. While this storage will be relocatable, there will still be some loss of flexibility to the space within the heritage sheds.</p> <p>Assessed score: MEDIUM</p>	<p>intended to be adaptable for other uses in the event of the demand for car parking spaces reducing in the future.</p> <p>The open air, flexible nature of all market sheds is permanently maintained under this option.</p> <p>The mixed-use nature of the development on the Southern Development site is compromised by the encumbrance of 500 customer car parking bays and truck parking.</p> <p>The new building in Queen Street south is an enclosed building to allow 24 hour deliveries to take place, with hospitality and/or retail providing active frontages to Queen Street and the Market Square. This limits the flexibility of this building.</p> <p>Assessed score: MEDIUM</p>	<p>uses in the event of the demand for car parking spaces reducing in the future.</p> <p>The flexibility of some sheds in the upper market is compromised by the customer and goods lifts, and vehicle portal to the below-ground area in Shed D. The vehicle ramp will reduce ground level retail trading space beneath the sheds by approximately 1980m<sup>2</sup>.</p> <p>Assessed score: MEDIUM</p>
Diversify trading facilities		<p>Improved facilities and lettable back-of-house storage areas 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>Business to business trade will be accommodated at trader stalls under Option A with designated goods collection points (vehicle pick-up) envisaged around the edge of the market.</p>	<p>Improved facilities and lettable back-of-house areas 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>Non-exclusive areas for business to business trade would be provided under Option B with goods collected from the Queen Street south loading dock.</p> <p>Assessed score: MEDIUM</p>	<p>Improved facilities and lettable back-of-house areas 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>A below-ground area for business to business trade would be available under this option.</p> <p>Assessed score: MEDIUM</p>

Strategic response	Changes/ assets	Option A New option arising from focus on the former G Shed and Queen Street	Option B New option arising from focus on the former G Shed and Queen Street, connected underground	Option C Recommended option – Business Case 2017
Assessed score: LOW				
	Improve visitor facilities/ amenities	<p>Options A and B will lead to an improvement in the quality of public spaces and the availability of public amenities including Changing Places facilities.</p> <p>The cleanliness of the site will improve under Options A, B and C through the provision of centralised, contemporary waste management facilities.</p> <p>Visitor amenity will be improved due to the creation of Market Square following the relocation of market car parking to areas located underneath the Southern Development Site on Franklin Street and Munro development.</p> <p>500 customer car parking spaces are provided at the Southern Development Site with less constrained access from Franklin, William/Peel and Queen streets.</p> <p>Overall these options provide 1000 market customer car parking spaces.</p> <p>Assessed score: HIGH under both Options A and B</p>		<p>Option C will lead to an improvement in the quality of public spaces and the availability of public amenities.</p> <p>The cleanliness of the site will improve under options A, B and C through the provision of centralised, contemporary waste management facilities.</p> <p>Visitor amenity will be improved due to the creation of Market Square following the relocation of market car parking to areas located underneath the western ends of sheds A –D and the Munro development.</p> <p>The location of 220 car parking spaces under the western ends of sheds A- D is conveniently placed for market shopping, notwithstanding vehicle access being restricted to Peel Street which is often congested.</p> <p>Overall this option provides 720 customer car parking spaces.</p> <p>Assessed score: HIGH</p>
Improve amenity, connectivity and community services	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>The delivery of 500 car parking spaces in the Southern Development Site results in the Market Square being delivered in two phases over five years</p>	<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>The delivery of 500 car parking spaces in the Southern Development Site results in the Market Square being delivered in two phases over five years</p>	<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>The program delay to the delivery of 220 car parking spaces beneath Q2 results in the Market Square being delivered in two phases over two years and</p>

Strategic response	Changes/ assets	Option A New option arising from focus on the former G Shed and Queen Street	Option B New option arising from focus on the former G Shed and Queen Street, connected underground	Option C Recommended option – Business Case 2017
		<p>concluding in 2026.</p> <p>The amenity of Queen Street south and Market Square will be impacted due to vehicle movements for loading/unloading activities within the Queen Street south building.</p> <p>Assessed score: HIGH</p>	<p>concluding in 2026.</p> <p>The location of market operations and trader facilities in G Shed and Queen Street is more central, however some operational facilities are now located in Market Cross which will require careful design and management.</p> <p>The amenity of Queen Street south and Market Square will be impacted due to vehicle movements for loading/unloading activities with the Queen Street south building including a logistics centre under this option.</p> <p>Assessed score: HIGH</p>	<p>completed in 2024.</p> <p>Shed D would be constrained by an access portal to the below-ground area resulting in an impact to Peel Street.</p> <p>Assessed score: HIGH</p>
	Coordinate community services	<p>Under Options A, B and C, community floor space is only proposed within the Munro development. Council will coordinate the use of this site by community service providers under all options.</p> <p>Assessed score: NOT APPLICABLE under all options.</p>		
	Improve precinct navigability/connectivity	<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>The location of customer car parking between Munro development and the Southern Development Site provides good visibility to the market sheds.</p> <p>No significant loss of view lines under the sheds.</p> <p>Assessed score: MEDIUM under both Options A and B</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>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>View lines within sheds A-D would be impacted marginally through the provision of new structures to accommodate lifts, mechanical services and the D Shed vehicular ramp to the below-ground area.</p> <p>Assessed score: MEDIUM</p>	

Strategic response	Changes/ assets	Option A New option arising from focus on the former G Shed and Queen Street	Option B New option arising from focus on the former G Shed and Queen Street, connected underground	Option C Recommended option – Business Case 2017
	<p>Improve public realm/ streetscapes</p>	<p>A renewed market precinct will incorporate redesigned public spaces that respond more effectively to the needs of customers. Vehicles and back-of-house facilities will be removed from the trading floor under the sheds, thereby reducing conflict between uses/ functions and improving the public realm.</p> <p>The delivery of 500 car parking spaces in the Southern Development Site results in the Market Square being delivered in two phases over five years.</p> <p>There will be no need to disturb heritage fabric or streetscapes.</p> <p>Assessed score: HIGH under both Options A and B</p>		<p>A renewed market precinct will incorporate redesigned public spaces that respond more effectively to the needs of customers. Vehicles and back-of-house facilities will be removed from the trading floor under the sheds, thereby reducing conflict between uses/ functions and improving the public realm.</p> <p>This option would require the temporary removal of heritage fabric, which potentially impact heritage structures. The Peel Street streetscape will be encumbered by a vehicular ramp.</p> <p>Assessed score: MEDIUM</p>
	<p>Develop community infrastructure</p>	<p>Under all options, community floor space is proposed with the Munro development. Council will coordinate the use of this site by community service providers under all options.</p> <p>Assessed score: HIGH under all options.</p>		
	<p>Realign pedestrian/ traffic pathways</p>	<p>Realigned pedestrian/ traffic pathways will make the 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>Options A, B and C would address this, 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. Pedestrian and vehicle egress and access from Southern Development Site parking will result in good functionality.</p> <p>Options A and B will result in some back-of-house activities (loading/unloading) taking place in Queen Street north between sheds A-D and the Meat Hall outside of trading hours, potentially limiting the pedestrian movements on Queen Street during these times.</p> <p>Assessed score: HIGH under both Options A and B</p>		<p>Realigned pedestrian/ traffic pathways will make the 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>Options A, B and C would address this, 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>Pedestrian and vehicle egress and access from Q2 parking will result in good functionality, however traffic movements may be constrained by congestion</p>

Strategic response	Changes/ assets	Option A New option arising from focus on the former G Shed and Queen Street	Option B New option arising from focus on the former G Shed and Queen Street, connected underground	Option C Recommended option – Business Case 2017
Address operating conflicts	Facilitate movement/ congregation of large crowds	The provision of customer car parking at the Southern Development Site provides greater flexibility for the movement of crowds and management of events. Assessed score: HIGH under both Options A and B		in Peel Street. Pedestrian movements along the Q2 Peel Street edge and between sheds C to E will be compromised due to the presence of vehicle portal (egress and access) to the below-ground areas from Peel Street in Option C. Assessed score: HIGH  Access to the car park below the western ends of sheds A – D via trading areas under the sheds could result in some congestion at peak times.  Assessed score: MEDIUM
	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. Option A separates trader deliveries from activities in the marketplace during trading hours through the introduction of new operating procedures.  Option A includes trader storage in a G Shed basement. The replenishment of stock at trader stalls will require goods to be taken across the width of Queen Street resulting in greater conflicts with pedestrians than under options B and C, particularly during market trading hours.  Deliveries to the loading docks in Queen Street north and G Shed will be prohibited during core market trading hours (i.e. after 8am). Any deliveries during these hours will take place in the new building in Queen Street south, with goods then transferred to trader stalls or G Shed storage. This results in some conflict between service vehicles transporting the goods on Queen Street and pedestrians which will require careful management and mitigating actions. This is still vastly superior to the business as usual option.  Assessed score: MEDIUM		At present back-of-house activities are conducted on the market floor, compromising amenity and presenting a series of risks. Both options B and C successfully separate back-of-house from activities in the marketplace during trading hours through the introduction of new operational areas and new operating procedures preventing ad-hoc deliveries.  Assessed score: HIGH under Options B and C
Modernise operating modes	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	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	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



Strategic response	Changes/ assets	Option A New option arising from focus on the former G Shed and Queen Street	Option B New option arising from focus on the former G Shed and Queen Street, connected underground	Option C Recommended option – Business Case 2017
		<p>on the trading floor, a practice which results in a risk to customer health and safety, adversely impacts amenity and reduces QVM’s ultimate capacity.</p> <p>It is envisaged that Option A will allow customers or couriers to collect goods from collection points with vehicle access around the edge of the market thus facilitating trade via e-commerce platforms. Goods will be transported to collection points at ground level.</p> <p>Assessed score: HIGH</p>	<p>on the trading floor, a practice which results in a risk to customer health and safety, adversely impacts amenity and reduces QVM’s ultimate capacity.</p> <p>Option B includes the possibility for customers or delivery companies to collect goods from the logistics centre at the Queen Street south building facilitating trade via e-commerce platforms. Goods will be transported to the collection point through the Queen Street service tunnel.</p> <p>Assessed score: HIGH</p>	<p>on the trading floor, a practice which results in a risk to customer health and safety, adversely impacts amenity and reduces QVM’s ultimate capacity.</p> <p>Option C includes the possibility for customers or delivery companies to collect goods from the basement facilitating trade via e-commerce platforms.</p> <p>Assessed score: HIGH</p>
	Improve trader facilities	<p>This option will deliver expanded and better facilities for traders, primarily through the delivery of modern logistics and handling systems in both G Shed and Queen Street south. Briefed trader storage requirements cannot be met in below-ground areas due to a lack of floor space. This shortfall will be met in part through under-bench storage at trader stalls under the open-air sheds.</p> <p>Business-to-business trading will be confined to trader stalls under this option with collections taking place around the edge of the market.</p> <p>Assessed score: MEDIUM</p>	<p>This option will deliver expanded and better facilities for traders, primarily through the delivery of best practice logistics and handling systems and facilities in both G Shed and Queen Street north and south. Business-to-business trading will be facilitated in non-exclusive areas with collections from the loading dock in Queen Street south hence better leveraging of the available area with the offer extended to all traders.</p> <p>Assessed score: HIGH</p>	<p>This option will deliver expanded and better facilities for traders, primarily through the delivery of modern back-of-house facilities in both upper and lower markets including dedicated business-to-business trading areas.</p> <p>Assessed score: HIGH</p>
	Provide sustainability infrastructure	<p>The renewed QVM 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 Six-Star Green Star - Communities 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 waste.</p> <p>Assessed score: HIGH under all options.</p>		

# 3. OPTIONS ANALYSIS

## 3.1 Strategic analysis

Drawing from the discussion in the previous section, the competing renewal options have been assessed in terms of their respective alignment with the strategic responses outlined in the investment logic map. Table 4 summarises this assessment.

TABLE 4 STRATEGIC PERFORMANCE OF OPTIONS A AND B

Strategic response	Option A (Headline assessment – High, Medium or Low)*	Option B (Headline assessment – High, Medium or Low)*	Option C (Headline assessment – High, Medium or Low)*	Changes/ assets	Option A (Detailed assessment – 3 High, 2 Medium or 1 Low)	Option B (Detailed assessment – 3 High, 2 Medium or 1 Low)	Option C (Detailed assessment – 3 High, 2 Medium or 1 Low)
Improve visitor experience and diversify offer	15 High (83%)	16 Very High (89%)	16 Very High (89%)	Increase precinct activation	3 High	3 High	3 High
				Responsively program precinct	3 High	3 High	3 High
				Diversify product mix	3 High	3 High	3 High
				Create flexible spaces	2 Medium	2 Medium	2 Medium
				Diversify trading facilities	1 Low	2 Medium	2 Medium
				Improve visitor facilities/ amenities	3 High	3 High	3 High
Improve amenity, connectivity and community services	14 Very High (93%)	14 Very High (93%)	13 Very High (87%)	Improve precinct amenity	3 High	3 High	3 High
				Coordinate community services	NA	NA	NA
				Improve precinct navigability/ connectivity	2 Medium	2 Medium	2 Medium
				Improve public realm/ streetscapes	3 High	3 High	2 Medium
				Develop community infrastructure	3 High	3 High	3 High
				Realign pedestrian/ traffic pathways	3 High	3 High	3 High
Address operating conflicts	5 High (83%)	6 Very High (100%)	5 High (83%)	Facilitate movement/ congregation of large crowds	3 High	3 High	2 Medium
				Separate/ underground back-of-house	2 Medium	3 High	3 High
Modernise operating modes	8 Very High (89%)	9 Very High (100%)	9 Very High (100%)	Transform trader practices	3 High	3 High	3 High
				Improve trader facilities	2 Medium	3 High	3 High
				Provide sustainability infrastructure	3 High	3 High	3 High

Notes \* this is based on the sum of the scores in the detailed assessment, i.e. the three right hand most columns, compared to the maximum scores possible and expressed as a percentage. A score of Very High is 85-100%; High is 65-84%; Medium is 35-64%; Low is 15- 34%; and Very Low is <15%.

### 3.2 Financial analysis

#### Scope of analysis

The financial analysis uses discounted cashflow analysis to generate financial performance measures of each project option (Options A, B and C) compared with the business as usual option (Option 0). That is, an incremental analysis has been performed to estimate how taking proactive steps impacts Council’s finances.

The analysis has been conducted over a 30-year timeframe (to 2047-48) to reflect the longevity of infrastructure works, recognising that periods further afield than this 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.

#### Council’s capital costs

Substantial upfront expenditure is required to bring each of the project options to fruition. These expenditures have been estimated by Donald Cant Watts Corke (DCWC) as follows:

- Option 0 has a nominal cost \$0.0 million
- Option A has a nominal cost \$268.0 million
- Option B has a nominal cost \$289.9 million
- Option C has a nominal cost \$293.2 million

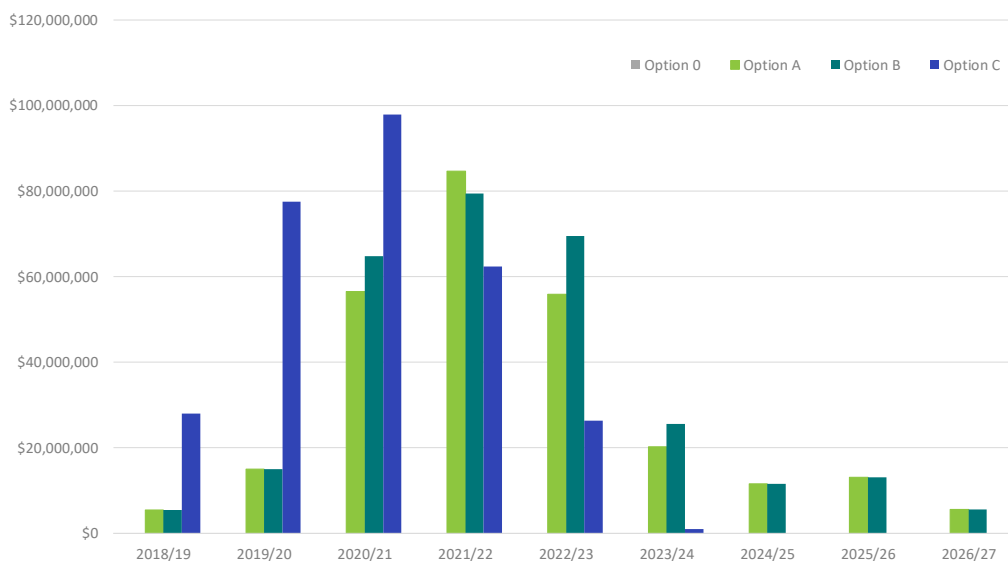
Note: Escalating maintenance costs associated with Option 0 are reflected in QVM Pty Ltd operating costs.

SGS has used the timeline provided by DCWC for Option B and the broad timing within the QVMPR Implementation Framework to estimate the likely timing of capital expenditure for Option C. Capital works for:

- Option A is assumed to begin in 2018-19 and will be completed in 2026-27 (a nine-year works program).
- Option B is assumed to begin in 2018-19 and will be completed in 2026-27 (a nine-year works program).
- Option C is assumed to begin in 2018-19 and will be completed in 2024-25 (a seven-year works program).

The quantity and timing of capital expenditure under each option is depicted below.

FIGURE 4 CAPITAL COSTS BY OPTION



Source: QVM Pty Ltd (2019) and SGS (2019)

**QVM Pty Ltd operating costs**

Operating costs for Options 0, A, B and C have been projected by QVM Pty Ltd out to 2028-29 (10 years) drawing from historical performance results.

SGS has extended the underlying trends incorporated into these projections over the remaining 20 years of the 30-year evaluation period. Escalation rates applied in the forecasts are as follows.

TABLE 5 OPERATING COST ESCALATION RATES BY OPTION

	Option 0	Option A	Option B	Option C
Remuneration costs	2.5% p.a.	2.5% p.a.	2.5% p.a.	2.5% p.a.
Facilities costs	10.0% p.a.	3.5% p.a.	3.5% p.a.	3.5% p.a.
All other costs	3.5% p.a.	3.5% p.a.	3.5% p.a.	3.5% p.a.

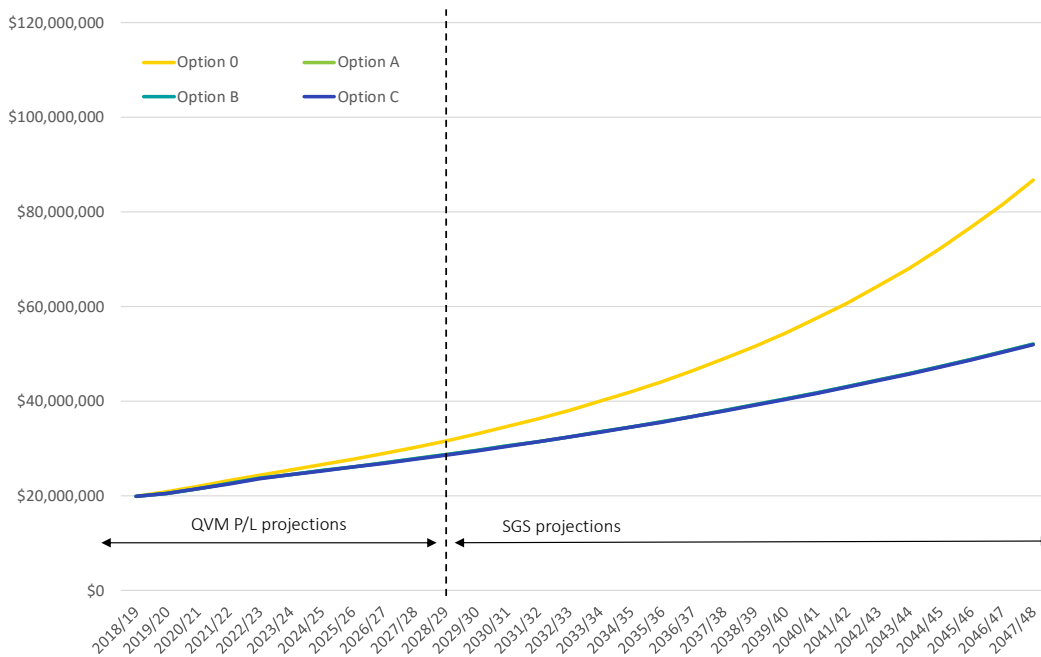
Source: QVM Pty Ltd (2019)

This leads to an ultimate increase in operating costs (before depreciation, interest & taxes) from \$19.8 million p.a. currently (budgeted figures for 2018-19) to:

- \$86.7 million for Option 0 by 2047-48
- \$52.0 million for Options A, B and C by 2047-48.

The quantity and timing of operating costs under each option is summarised in the figure below.

FIGURE 5 QVM PTY LTD OPERATING COSTS BY OPTION



Note: Operating costs are effectively the same for Options A, B and C and therefore there is a single line representing these costs for all renewal options.

Source: QVM Pty Ltd (2019) and SGS (2019)

**Project’s interest payments**

Annual debt balances have been drawn from Council’s proposed funding strategy and are assumed to accrue interest at a 4.25 per cent nominal interest rate.

Note: Including interest payments in a discounted cashflow (financial) analysis is contestable. SGS has included interest payments because they are third party payments and the nominal discount rate used represents Council’s minimum hurdle rate of return expectations for project investments. Interest payments were also included in the QVMPR Business Case (June 2017) after discussions with Council. The

sensitivity analysis highlights how removing interest payments from the financial analysis improves the discounted cashflow results.

**QVM Pty Ltd’s operating revenues**

Operating revenues for Options 0, A, B and C have been projected by QVM Pty Ltd out to 2028-29 (10 years) drawing from historical performance results.

SGS has extended the underlying trends incorporated into these projections over the remaining 20 years of the 30-year evaluation period. Escalation rates applied in the forecasts are as follows.

TABLE 6 OPERATING REVENUE ESCALATION RATES BY OPTION

	Option 0	Option A	Option B	Option C
Open stands	2.00%	3.00%	3.00%	3.00%
Open stands (new)	2.54%	3.00%	3.00%	3.00%
Leasehold property rentals	2.95%	5.51%	5.51%	5.51%
Leasehold property rentals (New)	3.00%	4.00%	4.00%	4.00%
Leasehold property rentals (BoH)	3.00%	4.00%	4.00%	4.00%
Car parking fees	5.00%	5.00%	5.00%	5.00%
Night market	6.00%	6.00%	6.00%	6.00%
Activations	6.00%	6.00%	6.00%	6.00%
Sponsorships	2.00%	2.00%	2.00%	2.00%
Other income	2.00%	2.00%	2.00%	2.00%
Liquor licensing	7.50%	7.50%	7.50%	7.50%
Once off jump post implementation	NA	0.00%	0.00%	10.00%

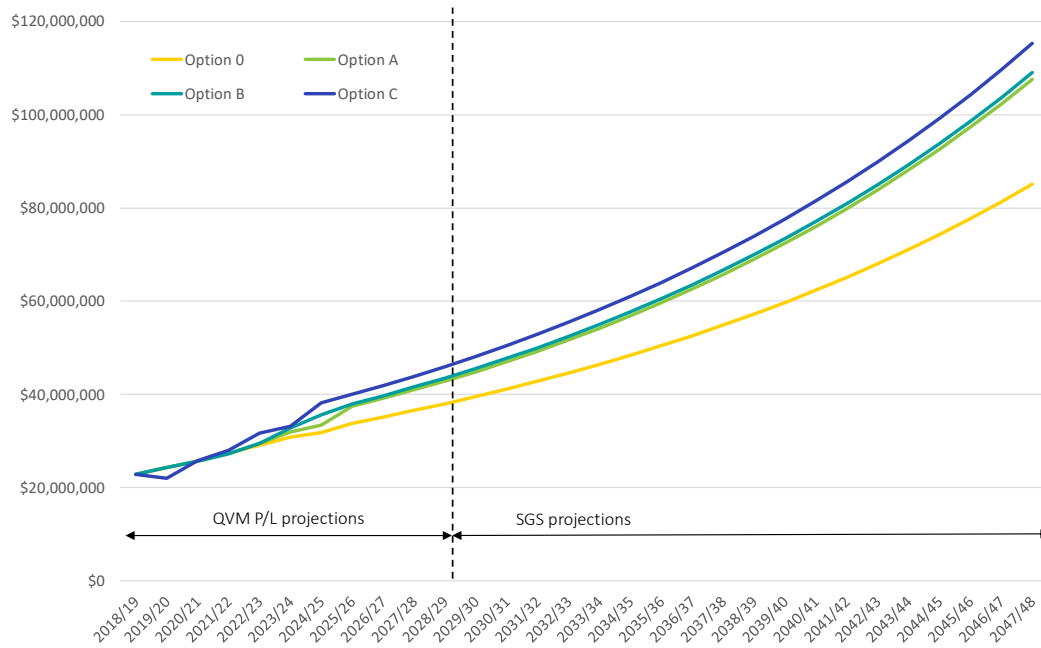
Source: QVM Pty Ltd (2019) and SGS (2019).

This leads to an ultimate increase in operating revenues (before depreciation, interest and taxes) from \$22.8 million p.a. currently (budgeted figures for 2018-19) to:

- \$85.1 million for Option 0 by 2047-48
- \$107.6 million for Option A by 2047-48
- \$109.0 million for Option B by 2047-48
- \$115.3 million for Option C by 2047-48

The quantity and timing of operating revenues under each option is summarised in the figure below.

FIGURE 6 QVM PTY LTD OPERATING REVENUES BY OPTION



Source: QVM Pty Ltd (2019) and SGS (2019).

**Council’s proceeds of land sales**

Proceeds from the sale of the Southern Development Site on Franklin Street (approx. \$95 million) are assumed as cash inflows in 2022-23.

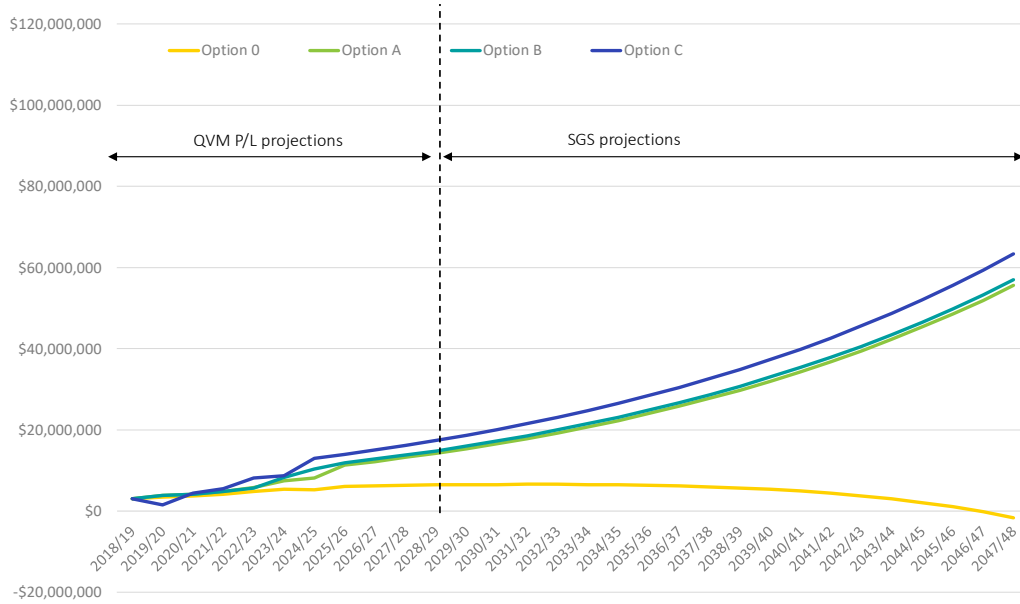
**Council’s residual value of assets**

SGS takes into consideration the residual value of the assets generated under each option (recognised in 2047-48). 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.

**Results of QVM Pty Ltd operations solely**

The operating profits of QVM Pty Ltd (before interest, depreciation and tax) are shown in the figure below. This is merely the difference between the operating revenues and costs of QVM Pty Ltd depicted in Figures 6 and 5 above.

FIGURE 7 QVM PTY LTD OPERATING PROFITS (EBIT) PROFITS BY OPTION



Source: QVM Pty Ltd (2019) and SGS (2019).

It should be noted that the actual financial performance of Option 0 is poor; whereas the operating finances of QVM Pty Ltd are estimated to become increasingly robust in all the renewal options.

Continuation of the business as usual will generate operating profits escalating from just \$3.0 million to \$6.5 million over the initial 15 years, falling away to eventual losses in the final years of the evaluation period. This operating result is prior to any payments to Council for use of the precinct. Moreover, the operating profit estimated is before depreciation, meaning that the already aged assets at the Market will not gradually be renewed over time; they will merely be repaired and maintained on a reactive basis.

**Results of whole project (discounted cashflow analysis)**

The table below summarises the financial analysis of the project options in present value terms using an incremental approach. That is, the performance of Options A, B and C is made in comparison to Option 0’s performance.

Note: The results for Option C, as reported in the Business Case (2017), are also reported for reference purposes. However, the performance of Option C has changed markedly in this updated analysis because some of the underlying assumptions driving the business as usual option (Option 0) and Option C have been altered. In the 2017 analysis, SGS forecasted market operating costs and revenues over the long term (30 years) using QVM Pty Ltd’s historic performance and short term (5 years) financial projections as a base. In this updated analysis, QVM Pty Ltd has produced medium term (10 year) operating costs and revenues for all options, and SGS has extended these over the long term.

QVM Pty Ltd’s updated financial projections for the Market’s operations are:

- Less dire than SGS’s (June 2017) business as usual (Option 0) projections
- More conservative than SGS’s (June 2017) projections for Option C.

Collectively these assumptions reposition the financial performance of Option C substantially; meaning that its financial performance has deteriorated markedly from the 2017 assessment.

TABLE 7. SUMMARY OF FINANCIAL ANALYSIS\*

	Option A	Option B	Option C	Option C results in Business Case (2017)
	Present value (\$000)	Present value (\$000)	Present value (\$000)	Present value (\$000)
Capital costs**	\$216,842	\$234,288	\$242,415	\$254,277
Operating costs	(\$97,004)	(\$97,004)	(\$98,391)	(\$114,908)
Interest payments	\$80,752	\$92,039	\$133,081	\$99,820
<b>Total costs</b>	<b>\$200,590</b>	<b>\$229,323</b>	<b>\$277,105</b>	<b>\$239,190</b>
Operating revenues	\$92,063	\$102,429	\$144,828	\$263,859
Proceeds of land sales	\$74,435	\$74,435	\$74,435	\$54,847
Residual value	\$37,207	\$40,252	\$36,627	\$37,149
<b>Total revenues</b>	<b>\$203,706</b>	<b>\$217,115</b>	<b>\$255,890</b>	<b>\$355,855</b>
<b>NET PRESENT VALUE (NPV)</b>	<b>\$3,115</b>	<b>(\$12,208)</b>	<b>(\$21,215)</b>	<b>\$116,665</b>
<b>INTERNAL RATE OF RETURN (IRR)</b>	<b>5.09%</b>	<b>4.67%</b>	<b>4.43%</b>	<b>7.31%</b>

Source: SGS (2019).

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

\*\*excludes funding contributions from surplus land sales within precinct.

The table above reveals that the incremental cash flow resulting from:

- Option A is marginally positive, with a Net Present Value of \$3.1 million generated and an Internal Rate of Return of 5.09 per cent recorded.
- Option B is marginally negative, with a Net Present Value of negative \$12.2 million generated and an Internal Rate of Return of 4.67 per cent recorded.
- Option C is moderately negative, with a Net Present Value of negative \$21.2 million generated and an Internal Rate of Return of 4.43 per cent recorded.
- The approved Business Case (June 2017) reported a strong Net Present Value of \$116.6 million for Option C and an Internal Rate of Return of 7.31 per cent. As reported in above, the financial performance of Option C is now significantly worse.

Essentially this mean that, of the new options, Option A should pay for itself if all the modelling assumptions hold true. Option B generates a slightly negative return, whereas the results from Option C are bordering on untenable from a financial perspective alone.

### Results of undiscounted, cumulative cash flow analysis

The figure below shows that Option C achieves its peak debt, of approximately \$257 million<sup>2</sup>, in 2033. This debt will reduce thereafter as revenue generation begins to outstrip interest payments on the loan facility. The figure below shows that at the end of the cash flow period, the project will not have been fully paid down, with a deficit of around \$90 million likely to remain in 2047/48.

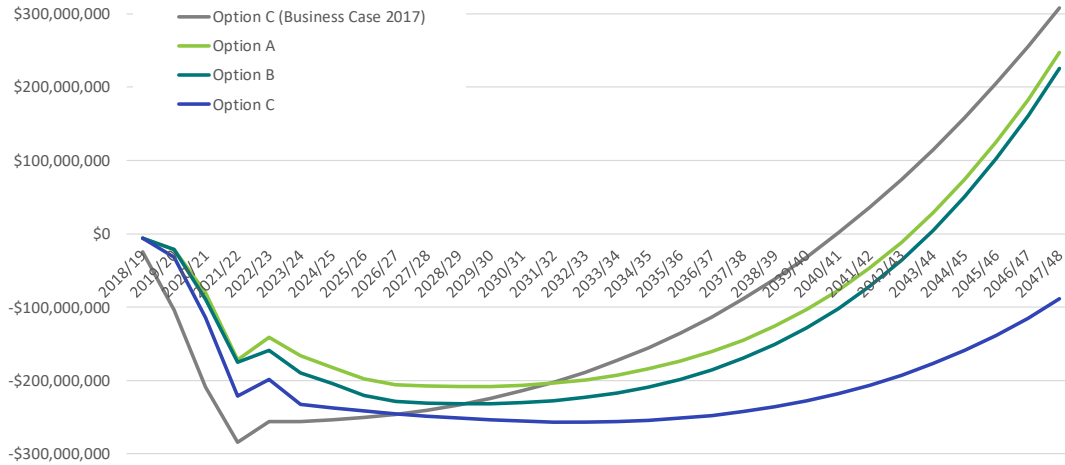
<sup>2</sup> Council's funding strategy also includes additional revenue items generated within the QVM precinct, containing Council's financial commitment to the publicly announced net maximum of \$250 million.



Under Options A and B, peak debt is expected to occur earlier – in 2028/29, with debt under these options expected to peak at \$208.5 million and \$231.6 million respectively. The payback period is also expected to occur earlier, with debts linked to capital works paid off by around 2043/44 under each option.

Again Option C’s performance, as modelled in Business Case (June 2017), is shown for reference purposes. Under the original assumptions, higher peak debt levels (\$284 million) accumulated early in the project evaluation period, but were relatively quickly recouped following the sale of the Southern Development Site and the operating profits being generated by QVM Pty Ltd. A payback period of about 23 years was originally estimated.

FIGURE 8. CASH FLOW ANALYSIS



Source: SGS (2019)

### 3.3 Cost benefit analysis

#### Scope of analysis

The ultimate goal of cost benefit analysis (CBA) is to assess the broad community welfare impacts of proposed projects taking a triple bottom line, that is, an economic, social and environmental, perspective. In essence, if the assessed benefits outweigh the costs then 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, interest payments, or taxes as these are considered to be transfers of wealth between parties, not net changes to aggregate level of wealth.

The CBA builds onto 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 QVM precinct is expected to attract new customers and provide a better shopping experience for those already regularly visiting QVM 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 – in both 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 \$3.83 per visit in 2018/19 dollars.

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

### Induced shopper benefit

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

Based on estimates of customer growth associated with a renewed QVM precinct<sup>3</sup>, there is potential for an increase in the number of people visiting QVM precinct from 10 million to around 15 million p.a. within 15 years of works being completed under each of the options.

It is assumed that induced visitation grows at the same rate under Options A, B and C, though revenue streams are somewhat different due to rigidities in lease and licensing terms. The increase in visitation to 15 million occurs evenly between 2027 and 2042, with growth in visitation continuing at prevailing rates in the ensuing years.

### Tourism yields

Of the additional visitors to QVM precinct, a proportion is likely to comprise tourists, from either interstate or overseas. Based on visitor numbers recorded in the past, SGS estimates that the proportion of total visits attributable to tourists will be 34 per cent.

Whilst the benefit generated by the 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 \$3.83 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 \$3.83 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 QVM precinct is multiplied by this expenditure figure, and further multiplied by 25 per cent to estimate the yield derived from this expenditure.

---

<sup>3</sup> Essential Economics (2017)

## Wider area benefits

### Productivity enhancements

Employment projections indicate that an additional 11,560 workers will be accommodated within the Market Core area<sup>4</sup>, as a result of the full renewal within 15 years, an implied growth rate of around 722 per annum. This employment growth is assumed to be enabled equally by Options A, B and C.

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.

SGS has adopted a conservative stance around improved productivity associated with these new jobs, applying a 3 per cent productivity increase under each option.

### Urban consolidation

Council projections show that the QVM precinct renewal 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 0. Allowing for the construction phase of the renewal, this translates to around 438 additional dwellings p.a. compared to Option 0. This residential growth is assumed to be enabled equally by Options A, B and C.

SGS makes the conservative assumption that the market renewal leads to no net increase in housing in Victoria, assuming that 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 now clearly shows that there are significant net infrastructure cost savings in accommodating households in infill situations compared to outward growth, after considering infrastructure renewal costs.<sup>5</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.

To recognise that the potential for diminishing returns in these infrastructure savings as the Market Core area gets progressively built out, the \$40,000 savings per dwelling is not escalated over time, i.e. like the other items in the cost benefit analysis.

## Summary of cost benefit 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.

---

<sup>4</sup> The Market Core area includes the CBD and the suburbs of North Melbourne, Parkville and Carlton.

<sup>5</sup> Infraplan (2013) summarises and evaluates this literature base.

TABLE 8 SUMMARY OF COST BENEFIT ANALYSIS (PRESENT VALUES \$000)

	Option A	Option B	Option C	Option C results in Business Case (2017)
	Present value (\$000)	Present value (\$000)	Present value (\$000)	Present value (\$000)
TOTAL CAPITAL COSTS	\$216,842	\$234,288	\$242,415	\$254,277
Operating revenues	\$92,063	\$102,429	\$137,931	\$263,859
Operating cost savings	\$97,004	\$97,004	\$98,391	\$114,908
Induced shopper benefit	\$140,064	\$127,726	\$140,064	\$87,217
Existing shopper enhanced experience	\$373,847	\$353,579	\$394,609	\$244,536
Tourism yields	\$59,195	\$55,611	\$71,035	\$43,201
Residual value	\$37,207	\$40,251	\$36,627	\$37,029
TOTAL LOCAL AREA BENEFITS	\$799,381	\$776,601	\$878,658	\$790,750
NET PRESENT VALUE (NPV)	\$582,539	\$542,312	\$636,243	\$536,472
BENEFIT COST RATIO (BCR)	3.69	3.31	3.62	3.11
ECONOMIC INTERNAL RATE OF RETURN (EIRR)	16.20%	14.62%	15.05%	14.44%
Productivity benefits	\$646,367	\$646,367	\$646,367	\$415,052
Urban consolidation benefits	\$156,090	\$156,090	\$156,090	\$193,473
TOTAL LOCAL AND WIDER AREA BENEFITS	\$1,601,838	\$1,579,057	\$1,579,057	\$1,399,275
NET PRESENT VALUE (NPV)	\$1,384,995	\$1,344,769	\$1,682,330	\$1,144,997
BENEFIT COST RATIO (BCR)	7.39	6.74	6.75	5.50
ECONOMIC INTERNAL RATE OF RETURN (EIRR)	22.44%	20.84%	20.12%	20.56%

Source: SGS (2019).

### Non-quantified benefits

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

#### Heritage/ existence/ option value

The Queen Victoria Market is a Victorian institution whose history dates back to the 1870s. It is the last remaining market within central Melbourne and its ongoing existence allows users to engage in the ‘shared experience’ of market shopping with previous generations of Victorians. Even many of those who do not use the site are likely to place substantial value on its ongoing existence as a market.

An important consideration in assessing the incremental benefit associated with the project options 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.

#### Environmental sustainability

A renewed QVM under Options A, B and C 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 Six-Star Green Star - Communities 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 waste.

### 3.4 Sensitivity analysis

#### Removal of interest payments

As flagged in Section 3.2, SGS has tested the sensitivity of removing interest payments from the financial discounted cashflow analysis; assuming that a 5 per cent nominal discount rate is sufficient to cover Council’s hurdle rate for funding the project from a combination of debt and equity.

These results, presented in the table below, suggest that if interest payments are excluded from the discounted cash flow analysis, the renewal options perform much better financially with strong Net Present Values and Internal Rates of Returns generated across all options.

TABLE 9 REMOVAL OF INTEREST PAYMENTS FROM FINANCIAL (DCF) ANALYSIS

	Net Present Value (\$000)	Internal Rate of Return
Option A	\$83,867	7.75%
Option B	\$79,831	7.43%
Option C	\$111,327	8.23%

Source: SGS (2019).

#### Scenario analysis

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

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

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

The table below shows the impact of each of the scenarios on the performance of Option A. The analysis reveals that this option’s financial performance is particularly sensitive to an increase in capital costs and discount rates. From a cost benefit perspective however, the sensitivity analysis suggests that the BCR remains high, dropping to a still healthy 2.09 under the combination of adverse circumstances modelled in scenario E).

It is noted that the sensitivity analysis does not test the sensitivity of the scale of wider area benefits. This reflects the relatively large BCRs when only local area benefits are included.

TABLE 10 SENSITIVITY ANALYSIS – OPTION A

	NPV (\$'000)	IRR/ EIRR	BCR
<b>FINANCIAL ANALYSIS</b>			
A) Base scenario	\$3,115	5.09%	1.02
B) Increase in development costs (+25%)	(\$96,088)	2.69%	0.69
C) Reduction in visitation (-25%)	(\$28,897)	4.14%	0.86
D) Discount rate to 7%	(\$49,942)	5.09%	0.75
E) B), C) and D)	(\$157,465)	1.75%	0.47
<b>COST BENEFIT ANALYSIS (Local area benefits only)</b>			
A) Base scenario	\$582,539	16.20%	3.69
B) Increase in development costs (+25%)	\$537,630	13.91%	2.98
C) Reduction in revenue/ visitation (-25%)	\$524,507	15.52%	3.42
D) Discount rate to 7%	\$357,456	16.20%	2.79
E) B), C) and D)	\$273,347	13.27%	2.09

Source: SGS Economics and Planning (2019)

The table below shows the impact of each of the scenarios on the performance of Option B. The analysis reveals that this option’s financial performance is also sensitive to an increase in capital costs and discount rates. From a cost benefit perspective however, the sensitivity analysis suggests that the BCR remains high, dropping to a still healthy 1.87 under the combination of adverse circumstances modelled in scenario E).

TABLE 11 SENSITIVITY ANALYSIS – OPTION B

	NPV	IRR/ EIRR	BCR
<b>FINANCIAL ANALYSIS</b>			
A) Base scenario	(\$12,208)	4.67%	0.95
B) Increase in development costs (+25%)	(\$119,757)	2.30%	0.65
C) Reduction in visitation (-25%)	(\$48,428)	3.64%	0.80
D) Discount rate to 7%	(\$65,155)	4.67%	0.71
E) B), C) and D)	(\$182,737)	1.30%	0.45
<b>COST BENEFIT ANALYSIS (Local area benefits only)</b>			
A) Base scenario	\$542,312	14.62%	3.31
B) Increase in development costs (+25%)	\$493,803	12.58%	2.69
C) Reduction in revenue/ visitation (-25%)	\$484,774	13.95%	3.07
D) Discount rate to 7%	\$321,214	14.62%	2.49
E) B), C) and D)	\$233,849	11.96%	1.87

Source: SGS Economics and Planning (2019)

The sensitivity analysis for Option C reveals similar level of sensitivity to changes in underlying assumptions. The resilience of the cost benefit performance is also confirmed, with a BCR of 1.96 under scenario E).

TABLE 12 SENSITIVITY ANALYSIS – OPTION C

	NPV	IRR/ EIRR	BCR
<b>FINANCIAL ANALYSIS</b>			
A) Base scenario	(\$21,215)	4.43%	0.92
B) Increase in development costs (+25%)	(\$81,632)	2.84%	0.76
C) Reduction in visitation (-25%)	(\$74,887)	2.86%	0.75
D) Discount rate to 7%	(\$72,955)	4.43%	0.72
E) B), C) and D)	(\$156,482)	1.16%	0.52
<b>COST BENEFIT ANALYSIS (Local area benefits only)</b>			
A) Base scenario	\$629,543	15.05%	3.53
B) Increase in development costs (+25%)	\$576,421	12.96%	2.85
C) Reduction in revenue/ visitation (-25%)	\$560,044	14.36%	3.25
D) Discount rate to 7%	\$382,885	15.05%	2.62
E) B), C) and D)	\$281,505	12.31%	1.96

Source: SGS Economics and Planning (2019)

### 3.5 Key risk analysis

A major construction project such as that envisaged in the QVM precinct delivered while the market continues to operate, faces a wide array of risks.

However, while both Options A, B and C face significant implementation risks, there is some difference between these options given the considered path Council has taken to the renewal program.

Table 13 outlines how the program options comparatively perform across key risk categories

TABLE 13. KEY RISKS BY OPTION

	Option A (March 2019)	Option B (March 2019)	Option C (March 2019)	<i>Option C results in Business Case (2017)</i>
▪ Stakeholders being dissatisfied with the QVM precinct once renewal is complete	Low	Low	Medium	<i>Low</i>
▪ The long-term viability of the market not being future-proofed by the renewal project	Medium	Medium	Medium	<i>Low</i>
▪ Construction requirements causing cost blowouts or time delays.	Medium	High	High	<i>High</i>
▪ Continuity of market operations during the construction process	Low	High	High	<i>Medium</i>
▪ Heritage risks associated with the construction process, and envisaged precinct outcomes	Low	Low	High	<i>Low</i>
▪ Reputational risks for Council as publicly announced renewal plans are not delivered	Low	Medium	High	<i>Low</i>

Source: SGS and City of Melbourne (2019).

The assessed risk of delivering Option C in the Business Case (June 2017) has proven to be underestimated, with the stakeholder and heritage risks being underestimated and this leading to a higher reputational risk profile across all current renewal options.

Table 14 describes and analyses the key risks for the program options.



RISK ANALYSIS DETAILED TABLE	Option A (March 2019)  New option arising from focus on the former G Shed and Queen Street	Option B (March 2019)  New option arising from focus on the former G Shed and Queen Street, connected underground	Option C (March 2019)  Recommended option – Business Case 2017
---------------------------------	---	--	---

**Risk analysis**

<p><b>Stakeholders dissatisfaction:</b> Stakeholders being dissatisfied with the QVM precinct once renewal is complete</p>	<p>Stakeholders are likely to be satisfied that all of the key issues highlighted in the Investment Logic Map and State Agreement have been addressed. Stakeholders are likely to be satisfied that the market has improved trader facilities including storage. Stakeholders will also be satisfied that the amenity of the precinct is significantly enhanced with a new public open space and improved customer facilities.</p> <p>Stakeholders are likely to be satisfied that new market infrastructure and car parking is delivered in areas outside of the Heritage Victoria listed areas or in areas where buildings do not have the heritage significance of the open air sheds under the Victorian Heritage Register. Stakeholders are satisfied that this infrastructure is delivered without requiring the temporary removal of heritage fabric with significant adverse impacts on heritage values and features avoided.</p> <p>Stakeholders are likely to be satisfied that the recommendations including in the People’s Panel</p>	<p>Stakeholders are likely to be satisfied that all of the key issues highlighted in the Investment Logic Map and State Agreement have been addressed. Stakeholders are likely to be satisfied that the market has improved trader facilities including storage. Stakeholders will also be satisfied that the amenity of the precinct is significantly enhanced with a new public open space and improved customer facilities.</p> <p>Stakeholders are likely to be satisfied that new market infrastructure and car parking is delivered in areas outside of the Heritage Victoria listed areas or in areas where buildings do not have the heritage significance of the open air sheds under the Victorian Heritage Register. Stakeholders are satisfied that this infrastructure is delivered without requiring the temporary removal of heritage fabric with significant adverse impacts on heritage values and features avoided.</p> <p>Stakeholders are likely to be satisfied that the recommendations including in the People’s Panel</p>	<p>Stakeholders are likely to be satisfied that all of the key issues highlighted in the Investment Logic Map and State Agreement have been addressed. Stakeholders are likely to be satisfied that the market has improved trader facilities including storage. Stakeholders will also be satisfied that the amenity of the precinct is significantly enhanced with a new public open space and improved customer facilities. Stakeholders are likely to be satisfied that the location of car parking below the open air sheds in the upper market is convenient, increases the activation of the upper market and improves the viability of businesses trading in this area.</p> <p>Some stakeholders are likely to be concerned that new market infrastructure and car parking is delivered in areas within Heritage Victoria listed areas. These stakeholders may also be concerned that the delivery of this infrastructure requires the temporary removal of heritage fabric. Stakeholders may also consider there to be significant adverse impacts on heritage values and features due to new</p>
--	---	---	--

	<p>report have been considered in the design of new market infrastructure and car parking.</p> <p>Stakeholders are likely to be satisfied that health and safety at the market is enhanced due to new infrastructure. Stakeholders may have some concern regarding some goods movements between Queen Street south and trader stalls in the open-air sheds taking place at-grade during trading hours. However, these movements are likely to be minimised through the addition of relocatable storage under the open-air sheds. Residual safety risks related to these goods movements will be mitigated through new operational controls.</p> <p><b>ASSESSED SCORE: LOW</b></p>	<p>report have been considered in the design of new market infrastructure and car parking.</p> <p>Stakeholders are likely to be satisfied that health and safety at the market is enhanced due to new infrastructure.</p> <p><b>ASSESSED SCORE: LOW</b></p>	<p>lifts and a vehicle ramp being located under the heritage sheds.</p> <p>Some stakeholders are likely to be dissatisfied that some of the recommendations included in the People’s Panel report have not been implemented, notably Recommendation 2 which recommends all significant heritage fabric is retained and restored in-situ, with any new infrastructure being placed outside of areas with significant heritage value.</p> <p>Stakeholders are likely to be satisfied that health and safety at the market is enhanced due to new infrastructure.</p> <p><b>ASSESSED SCORE: MEDIUM</b></p>
<p><b>Long term viability risks:</b> The long-term viability of the market not being future-proofed by the renewal project</p>	<p>The construction of new below-ground areas, along with the public open space, is likely to ensure a viable future for the market in financial, economic and social terms.</p> <p>The new market infrastructure will be future-proofed through making these spaces flexible with the ability to amend the uses in the future. However, these uses will be limited for below-ground areas where few alternative uses exist due to their shape, size and location.</p> <p>New car parking delivered at the Southern Development Site will be future-proofed as it will be designed in a way that allows the conversion of areas to other uses such as retail or new community facilities for the growing City North.</p> <p>This option generates a financial performance that is likely to be acceptable to Council. However, the financial analysis is sensitive to changes in the underlying assumptions; with downside risks leading to potentially poor financial performance.</p>	<p>The construction of new below-ground areas, along with the public open space, is likely to ensure a viable future for the market in financial, economic and social terms.</p> <p>The introduction of a service corridor beneath Queen Street with a 24 hour loading zone at Queen Street south will allow for increased automation which may increase productivity and reduce costs at the market in the future.</p> <p>The new market infrastructure will be future-proofed through making these spaces flexible with the ability to amend the uses in the future. However, these uses will be limited for some below-ground areas where few alternative uses exist due to their shape, size and location.</p> <p>New car parking delivered at the Southern Development Site will be future-proofed as it will be designed in a way that allows the conversion of areas to other uses such as retail or new community facilities for the growing city population.</p>	<p>The construction of new below-ground areas, along with the public open space, is likely to ensure a viable future for the market in financial, economic and social terms.</p> <p>The new below-ground area below sheds A-D will be highly flexible allowing for uses to change to meet the needs of QVM Pty Ltd, Council and trader businesses. This includes the ability to expand business-to-business trade for traders.</p> <p>This option generates results that are questionable from a purely financial perspective. Moreover, the financial analysis is sensitive to changes in the underlying assumptions; with downside risks leading to potentially poor financial performance.</p> <p>The cost benefit analysis indicates that this option will generate strong socioeconomic returns for the community.</p> <p><b>ASSESSED SCORE: MEDIUM</b></p>

The cost benefit analysis indicates that this option will generate strong socioeconomic returns for the community.

**ASSESSED SCORE: MEDIUM**

This option generates results that are questionable from a purely financial perspective. Moreover, the financial analysis is sensitive to changes in the underlying assumptions; with downside risks leading to potentially poor financial performance.

The cost benefit analysis indicates that this option will generate strong socioeconomic returns for the community.

**ASSESSED SCORE: MEDIUM**

<p><b>Construction risks:</b> Construction requirements causing cost blowouts or time delays</p>	<p>Construction of market infrastructure is limited to three areas – Queen Street south, the former G Shed, and Queen Street north.</p> <p>Queen Street south works involve constructing a two level basement and a building with three above-ground levels and roof terrace. A high voltage line needs to be relocated from the site to facilitate these works. While there are inherent risks associated with the two-level basement construction, these will be limited due to the depth not likely to exceed c. 7m.</p> <p>G Shed works involve the demolition of the existing building at this location, and the construction of a three level basement plus 2-3 upper levels in the building above. The depth of the G Shed basement will exceed c. 10m, bringing with it greater construction risks.</p> <p>The works at Queen Street north involve the construction of a single-level basement with a small structure and canopy above-ground. This construction is relatively low risk due to the shallow basement depth and simple above-ground structure. The waste platform lift makes this construction slightly more complex but not to a degree that is likely to cause cost blowouts or time delays.</p>	<p>Construction of market infrastructure takes place in four areas – Queen Street south, the former G Shed, Queen Street north and the Queen Street tunnel.</p> <p>Queen Street south works involve constructing a three level basement and a building with three above-ground levels and roof terrace. There are significant inherent risks associated with the three-level basement construction due to the depth of construction works. Service relocations and/or disconnections are also necessary for the construction of below-ground areas including the Queen Street tunnel.</p> <p>G Shed works involve the demolition of the existing building at this location, and the construction of a two level basement plus 2-3 upper levels in the building above. The two-level basement will bring some construction risks but these will be manageable as they will not exceed c. 7m. This basement extends into Queen Street to meet the basement below Queen Street north, described below. The two below-ground areas are joined by a service tunnel.</p> <p>The works at Queen Street north involve the construction of a two-level basement with small structures and canopy above-ground. This construction is relatively low risk due to the shallow</p>	<p>Construction of market infrastructure takes place in three key areas – below sheds A-D, below sheds G-I (with a new building on the site of the former G Shed), and a service tunnel linking the basements across Queen Street north.</p> <p>The basement below the western ends of sheds A-D is three levels deep plus a mezzanine. This basement is far larger in size than other basement options and the depth raises the inherent risk of cost blowouts and construction delays (to have a high likelihood and impact).</p> <p>A single level basement is planned beneath sheds G-I under this option. At this depth inherent construction risks that could cause significant cost blowouts or time delays are less likely to occur. Similarly the single level tunnel across Queen Street is unlikely to pose significant risks.</p> <p><b>ASSESSED SCORE: HIGH</b></p>
--	--	---	--

	<b>ASSESSED SCORE: MEDIUM</b>	basement depth and simple above-ground structure. However there is greater risk attached to a two-level basement than a single level basement. The waste platform lift adds more complexity but not to a degree that is likely to cause cost blowouts or time delays.	
		<b>ASSESSED SCORE: HIGH</b>	
<b>Business continuity risks:</b> Continuity of market operations during the construction process	<p>Most construction of market infrastructure under this option is unlikely to have a detrimental impact on business continuity.</p> <p>One exception to this is the construction of a single level basement under Queen Street north which will result in some diversion of pedestrian traffic and loading activities during construction. This is likely to be limited to less than 10 months.</p> <p>Another exception is the need to relocate traders from H Shed during the construction of the new G Shed building and basement. This may adversely affect the trade of businesses operating in this area.</p> <p><b>ASSESSED SCORE: LOW</b></p>	<p>Construction of market infrastructure under this option is likely to have a detrimental impact on business continuity.</p> <p>This disruption centres on the interventions in Queen Street north where a two level basement plus service tunnel will be constructed. While construction impacts can be minimised through careful staging, it is inevitable that pedestrian movements between the upper and lower markets will be impeded. This could impact the business continuity of trader businesses operating at the market and QVM Pty Ltd during construction. Loading activities will also be impacted due to construction, though these are likely to be manageable.</p> <p>Traders from H Shed will need to be relocated during the construction of the new G Shed building and basement. This may adversely affect the trade of businesses operating in this area.</p> <p><b>ASSESSED SCORE: HIGH</b></p>	<p>Construction of market infrastructure under this option is likely to have a detrimental impact on business continuity.</p> <p>The main disruption is caused by the construction of below-ground areas beneath the western ends of sheds A-D and G-I, with large numbers of trader businesses needing to be relocated during the period. This could have a significant impact on trader businesses and affect the habits of shoppers. The Dairy Produce Hall will not be accessible from sheds H and I during construction which may affect some traders in this area also.</p> <p><b>ASSESSED SCORE: HIGH</b></p>
<b>Heritage risks:</b> Heritage risks associated with the construction process, and envisaged precinct outcomes	<p>This option largely avoids works in sensitive areas with heritage values attached as market infrastructure is delivered in Queen Street and the former G Shed.</p> <p>Shed restoration works under this option are completed in-situ.</p>	<p>This option largely avoids works in sensitive areas with heritage values attached as market infrastructure is delivered in Queen Street and the former G Shed.</p> <p>Shed restoration works under this option are completed in-situ.</p>	<p>This option involves the temporary dismantling, repair and replacement of some heritage sheds either off-site or elsewhere on-site while the basements below the western ends of sheds A-D and G-I are constructed. Heritage Victoria have previously objected to these plans.</p> <p>The basement below the western ends of sheds A-D</p>

	<p><b>ASSESSED SCORE: LOW</b></p>	<p><b>ASSESSED SCORE: LOW</b></p>	<p>includes the area of the former Jewish cemetery. While representatives of some Jewish communities have suggested that they are confident that burials in this area have all be exhumed and relocated, some heritage risks remain.</p> <p>The remaining sheds will be restored in-situ.</p> <p><b>ASSESSED SCORE: HIGH</b></p>
<p><b>Reputational risks:</b> Reputational risks for Council as publicly announced renewal plans are not delivered</p>	<p>Council is seen to deliver all of the desired strategic outputs (infrastructure) of the program. The full provision of storage per QVM Pty Ltd operational requirements is achieved through increased storage at the point of sale alongside below-ground storage areas.</p> <p>Council is seen to significantly reduce health and safety risks associated with the conflict between pedestrians and service vehicles through the introduction of greater operational controls that separate goods and vehicle movements. Some conflicts between pedestrians and goods movements required for restocking remain in Queen Street for goods delivered after Queen Street north becomes a pedestrian zone.</p> <p>Council is seen to respect the views of Heritage Victoria, substantially adheres to the People’s Panel’s recommendations, and addresses the issues highlighted in other engagement processes.</p> <p>Cost blowouts and time delays are <u>less likely</u> under this option due to the lower level of complexity of construction as described under ‘construction risks’ below.</p> <p><b>ASSESSED SCORE: LOW</b></p>	<p>Council is seen to deliver all of the desired strategic outputs (infrastructure) of the program. This includes all operational requirements of QVM Pty Ltd including the full provision of storage.</p> <p>Council is seen to significantly reduce health and safety risks associated with the conflict between pedestrians and service vehicles by separating goods and vehicle movements with the provision of a service tunnel below Queen Street.</p> <p>Council is seen to respect the views of Heritage Victoria, substantially adheres to the People’s Panel’s recommendations, and addresses the issues highlighted in other engagement processes.</p> <p>Cost blowouts and time delays are <u>quite likely</u> under this option due to the complexity of construction as described under ‘construction risks’ below. This may necessitate rationalisation of other projects within the program, meaning not all plans are delivered.</p> <p><b>ASSESSED SCORE: MEDIUM</b></p>	<p>This option is likely to experience further delay due to difficulties obtaining statutory approvals for works. This risk has been realised to a degree already with the refusal of a permit from Heritage Victoria.</p> <p>The program does deliver all of the desired strategic outputs (infrastructure) and closely follows the approved Master Plan. This includes all operational requirements of QVM Pty Ltd including the full provision of storage, and addresses issues highlighted in other engagement processes.</p> <p>Council is seen to significantly reduce health and safety risks associated with the conflict between pedestrians and service vehicles separating pedestrian and service movements through the provision of below-ground service areas.</p> <p>Cost blowouts and time delays are <u>likely</u> under this option due to the complexity of construction as described under ‘construction risks’ below. This may necessitate rationalisation of other projects within the program meaning not all plans are delivered.</p> <p><b>ASSESSED SCORE: HIGH</b></p>

# 4. INTEGRATED ASSESSMENT

This section draws together the strategic, financial, cost benefit and key risk assessment of progressing Options A, B and C into an integrated analysis table. Again, the results for Option C reported in Business Case (2017) are reported for reference purposes.

TABLE 14. INTEGRATED ANALYSIS

	Option A (March 2019)	Option B (March 2019)	Option C (March 2019)	Option C results in Business Case (June 2017)
<b>Strategic benefit delivery</b>				
▪ Improved visitor value	High	Very High	Very High	Very High
▪ Improved CBD North liveability	Very High	Very High	Very High	Very High
▪ Improved precinct security, safety & compliance	High	Very High	High	Very High
▪ Improved business (operator & tenant) viability	Very High	Very High	Very High	Very High
<b>Financial analysis</b>				
▪ Net Present Value (\$000)	\$3,115	(\$12,208)	(\$21,215)	\$116,665
▪ Internal Rate of Return	5.09%	4.67%	4.43%	7.31%
<b>Cost benefit analysis (local area benefits only)</b>				
▪ Net Present Value (\$000)	\$582,539	\$542,312	\$636,243	\$536,472
▪ Benefit Cost Ratio (BCR)	3.69	3.31	3.62	3.11
▪ Economic Internal Rate of Return	16.20%	14.62%	15.05%	14.44%
<b>Cost benefit analysis (local and wider area benefits)</b>				
▪ Net Present Value (\$000)	\$1,384,995	\$1,344,769	\$1,682,330	\$1,144,997
▪ Benefit Cost Ratio (BCR)	7.39	6.74	6.75	5.50
▪ Economic Internal Rate of Return	22.44%	20.84%	20.12%	20.56%
<b>Sensitivity analysis</b>				
	Financial results are sensitive to all key variables. Financial performance improves significantly if interest payments are excluded from the discounted cashflow (financial) analysis. BCR remains robust under all conditions.			Somewhat sensitive to changes in capital costs.
<b>Risk analysis</b>				
▪ Stakeholders dissatisfaction	Low	Low	Medium	Low
▪ Long term viability risks	Medium	Medium	Medium	Low
▪ Construction risks	Medium	High	High	High
▪ Business continuity risks	Low	High	High	Medium
▪ Heritage risks	Low	Low	High	Low
▪ Reputational risks	Low	Medium	High	Low

Integrated assessment

Ranking	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	NA
---------	-----------------	-----------------	-----------------	----

Source: SGS and City of Melbourne (2019).

Notes:

In the financial analysis, Net Present Value (NPV) equals the present value of cash inflows (revenues) less the present value of cash outflows (costs). If the NPV is a greater than zero, then the project is considered worthwhile. If the NPV is less than zero, then the project is not considered worthwhile. Because future dollars are worth less than today's dollars, all future cashflows need to be converted to today's values to make a balanced conclusion about project merit. The NPV measure does this by converting all future cashflows to present day values using an annual discount rate. It then deducts the cash outflows from the cash inflows to generate a net result.

Internal Rate of Return (IRR) is the discount rate that makes the NPV zero. That is, it is the maximum discount rate that generates a positive net result for the project. If the IRR is greater than the Council's discount rate, then the project is considered worthwhile.

In the cost benefit analysis, benefits include cash inflows plus quantified socioeconomic benefits. The NPV, in this context, equals the present value of benefits less the present value of costs. If the NPV is a greater than zero, then the project is considered worthwhile. If the NPV is less than zero, then the project is not considered worthwhile.

Benefit Cost Ratio (BCR) equals the present value of benefits divided by the present value of costs. If the BCR is greater than one, then the project is considered worthwhile. If the BCR is less than one, then the project is not considered worthwhile. Like the NPV measure, the BCR uses discount rates to convert future dollars into today's dollars. The BCR then divides the benefits by the costs to establish if a ratio of 1 or more results.

The cost benefit analysis results have been presented using: a) local area benefits only; and b) local area plus wider area benefits. The first lens takes a more conservative view and includes only the benefits generated within the QVM precinct, whereas the second includes wider area benefits that are expected beyond the immediate precinct including the CBD, North Melbourne, Parkville and Carlton.

From the table above it can be concluded that each option aligns well with strategic objectives and generates significant benefits for the population of Victoria (cost benefit analysis). However, Option A costs the least to implement, is the only option likely to pay for itself financially, and has manageable delivery risks. Option B and C cost more and their financial returns are comparatively poor. Consequently, Option A the favoured option.

The integrated performance of Option C has changed significantly since the Business Case (June 2017), largely reflecting the forecast changes in QVM Pty Ltd's operating costs and revenues under the business as usual and all renewal options.



## Contact us

### **CANBERRA**

Level 2, 28-36 Ainslie Place  
Canberra ACT 2601  
+61 2 6257 4525  
[sgsact@sgsep.com.au](mailto:sgsact@sgsep.com.au)

### **HOBART**

PO Box 123  
Franklin TAS 7113  
+61 421 372 940  
[sgstas@sgsep.com.au](mailto:sgstas@sgsep.com.au)

### **MELBOURNE**

Level 14, 222 Exhibition St  
Melbourne VIC 3000  
+61 3 8616 0331  
[sgsvic@sgsep.com.au](mailto:sgsvic@sgsep.com.au)

### **SYDNEY**

209/50 Holt St  
Surry Hills NSW 2010  
+61 2 8307 0121  
[sgsnsw@sgsep.com.au](mailto:sgsnsw@sgsep.com.au)



## Cost Summary – Market Infrastructure and Car Parking

Description	Business Case June 2017	Option A	Option B
Market Infrastructure	84,776	82,737	104,668
Car Parking	13,653	19,051	19,051
<i>Sub Total for Market Infrastructure and Car Parking</i>	<i>98,429</i>	<i>101,788</i>	<i>123,719</i>
<b>Overall Program Budget (gross)</b>	<b>\$308,764</b>	<b>\$287,873</b>	<b>\$309,804</b>