



Queen Victoria Market Precinct Renewal: Updated Business Case

City of Melbourne

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Executive summary

Snapshot

The Queen Victoria Market Precinct Renewal (QVMPR) Program remains essential to address the challenges for the market, and realise the benefits to the market, local community and broader City of Melbourne including delivering:

- Annual growth to visitation levels, reaching 18 million visitors by 2050 with significant benefits through an enhanced shopper experience and expenditure.
- Significant financial returns from an overall project perspective, with a Net Present Value of approx. \$120 million and an Internal Rate of Return of 5.7 per cent estimated.
- Queen Victoria Market Pty Ltd returning to an operating profit from 2025 onwards, with annual profits growing from approx. \$5 million in 2030 to approx. \$10 million in 2050.
- An additional 590 jobs and 390 dwellings being accommodated in the market core area each year.

Ultimately, for every dollar invested in the project, \$4 in value is returned to the local community, delivering \$963 million in local area benefits. Moreover, implementation of the QVMPR Program supports 340 more jobs in the City of Melbourne, each and every year over the long term.

Introduction

The City of Melbourne has significantly progressed the Queen Victoria Market Precinct Renewal (QVMPR) program since it publicly announced its intention to undertake a program of renewal to secure the long term sustainability of the Queen Victoria Market (QVM).

The original Business Case, completed in 2012, established the basis for Council's long term strategy for QVM, seeking to position it at the centre for the emerging City North, and in doing so, securing the long term future of it as a viable working marketplace.

This original Business Case was updated in 2017 and again in 2019 (Options Analysis) to account for several changes that had occurred since mid-2012, including the insights gained through the People's Panel deliberative engagement process. Both Business Case updates concluded that:

- Council's investment in renewal was the only way to secure the market's long-term viability, and
- Simple structural improvements or a quick facelift was not enough to deal with the market's operating requirements, and ageing heritage buildings and infrastructure.

This report provides a further update to the Business Case. It re-interrogates the renewal program given its final design resolution, while incorporating the impacts of the COVID-19 pandemic on QVM's trading and the broader operating environment. This report seeks to compare:

- The Base Case (Option 0) scenario pre-renewal investment covering key visitation, financial and socio-economic assumptions.
- The Project Case (Option 1) based on the current QVMPR program, QVM P/L endorsed financial projections, final capital costs and implementation program, and covering key visitation and socioeconomic assumptions. The project scenario performance is analysed against the underlying

investment logic and from financial, cost benefit and risk perspectives, including testing the sensitivity analysis of results.

Investment logic

While the overall logic for the QVMPR Program has been continually refined, it remains solely focused on addressing the key problems being faced by the market. As per the original investment logic map provided, to be effective the precinct renewal program must:

- Modernise operating modes
- Address operating conflicts
- Improve the visitor experience and diversify the offer, and
- Improve amenity, connectivity and community services.

The strategic analysis documented in this report highlights that the features of the QVMPR Program have been developed to address the key problems facing the market. Moreover, the requirements of the State Agreement remain fulfilled by the renewal program. Initiatives being delivered as part of the complementary Future Market Strategy will further contribute to meeting the requirements of both the investment logic and the State Agreement.

COVID 19 visitation impacts

After considering the short, medium and likely long term impacts of the COVID 19 pandemic, SGS Economics & Planning has adjusted downward the earlier forecasts of visitation to QVM as follows:

- When lockdowns and restrictions cease, visitation is expected to grow strongly but will remain at below pre-COVID levels for some time.
- Visitation under the Base Case will not recover to pre-COVID levels, settling at about 5 per cent lower than the pre-COVID figure.
- Under the Project Case, the incremental difference in visitation from the Base Case remains essentially the same in actual numbers (See Table 1)
- In the near term, Victorians will comprise a greater than normal share of visitors, though this will tend towards the historic share over time as international and interstate tourism normalise.

TABLE 1. UPDATED INCREMENTAL VISITATION FORECASTS (MILLIONS)

	2026	2027	2028	2029	2030	2031	2041	2051
Base Case (million)	9.00	9.50	9.50	9.50	9.50	9.50	9.50	9.50
Project Case (million)	9.33	10.17	10.50	10.83	11.17	11.50	14.83	18.16
Victorian share of visitation	68%	66%	66%	66%	66%	66%	66%	66%

Source: SGS Economics & Planning

COVID19 urban development impacts

The City North Precinct/ Market Core Area is now expected to develop more slowly than what was anticipated pre-COVID. This is a result of a combination of reduced overseas migration, a loss of population moving interstate, and changing preferences among Australians in relation to high-density living.

- Prior to COVID, this part of inner Melbourne was projected to accommodate a population of just under 340,000 by 2038. Under these revised forecasts, population and dwelling growth will be around 11 per cent lower.
- Prior to 2020, it was estimated that employment in the City of Melbourne would grow to more than 680,000 by 2038. SGS' revised forecasts reduce this employment growth by approx. 18 per cent.

Financial analysis

The financial analysis measures how each of the following items track a 30 year evaluation period:

- Council's capital costs to implement the QVMPR Program
- Council and QVM Pty Ltd's combined operating costs and revenues
- Council's proceeds of land sales (sale of the Southern Development Site), and
- Council's residual value of assets after 30 years, recognising the long term life of the infrastructure created by the QVMPR Program.

The discounted cashflow analysis then assesses how the Project Case compares with the Base Case in present value terms using an incremental approach to generate the project performance measures. Table 2 compares the performance of the Project Case in comparison to the Base Case.

TABLE 2: DISCOUNTED CASHFLOW ANALYSIS RESULTS

	Present value (\$m)*
CoM capital costs	\$251
Operating costs (savings)	(\$7)
Total project costs	\$244
Operating revenues	\$145
Proceeds of land sales	\$116
Residual value of assets	\$104
Total project revenues	\$365
NET PRESENT VALUE (NPV)	\$121
INTERNAL RATE OF RETURN (IRR)	5.7%

Source: SGS Economics & Planning

*Nominal discount rate of 2.5 per cent is used to convert future costs and revenues to present day figures. If a higher nominal discount rate of 4.85% is used, the NPV falls to \$22.8 million while the IRR remains unchanged.

The analysis reveals that the incremental cash flow resulting from the Project Case is positive, with a Net Present Value of approx. \$120 million and an Internal Rate of Return of 5.7 per cent estimated. Essentially this means that the Project Case is financially viable.

Purely from QVM’s perspective, the project is cash positive from 2025 onwards, with annual profits growing from ~\$5 million in 2030 to ~\$10 million in 2050.

Cost benefit analysis

The cost benefit analysis adds relevant social and economic benefits onto the financial analysis, recognising the impact that the market’s renewal has on community welfare levels. The non-financial benefits added include the following local area benefits:

- The enhanced experience for existing shoppers (visitors) at QVM
- The benefits enjoyed by new shoppers (visitors) attracted to the market
- The yields extracted by Victorian producers from tourist expenditures made at the Market.

TABLE 3. COST BENEFIT ANALYSIS RESULTS

	Present value (\$m) [^]
TOTAL CAPITAL & OPERATING COSTS*	\$233
Operating revenues	\$145
Existing shopper benefits	\$367
Induced shopper benefits	\$244
Tourism yields	\$103
Residual value of assets	\$104
TOTAL PROJECT BENEFITS (LOCAL AREA)**	\$963
NET PRESENT VALUE (NPV) (LOCAL AREA)	\$729
BENEFIT COST RATIO (BCR) (LOCAL AREA)	4.13
ECONOMIC INTERNAL RATE OF RETURN (EIRR) (LOCAL AREA)	12%

Source: SGS Economics & Planning.

*excludes land taxes and congestion levies paid to Government which are considered transfer payments; not increments to community welfare.

**excludes Southern Development Site sales proceeds, also considered a transfer payment.

[^] Nominal discount rate of 2.5 per cent is used to convert future costs, revenues and benefits to present day figures. If a higher nominal discount rate of 4.85% is used, the NPV falls to \$390.5 million, the BCR reduces to 2.71 while the IRR remains unchanged.

The analysis reveals that the incremental benefits resulting from Project Case cause a Net Present Value of approx. \$730 million to be generated, along with a Benefit Cost Ratio of 4.13 and an Economic Internal Rate of Return of 12 per cent. Essentially this means that progressing the Project Case is well worth doing from a community welfare perspective, with each dollar invested returning \$4 in value to the local community.

Wider area benefits and non-quantified benefits are also described in this report. When they are incorporated into the results, the case for the QVMPR Program becomes even more compelling.

Economic impact analysis

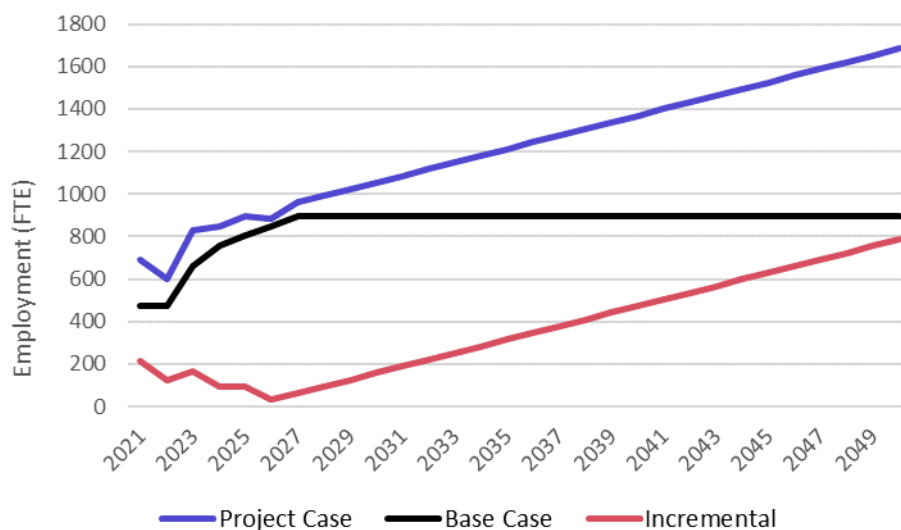
The economic impact analysis measures how QVM contributes to the City of Melbourne economy in terms of total income, value added and employment generation, after accounting for the indirect (value chain) impacts that are set in train by capital and visitor expenditures made at the market.

The figure below summaries how full time employment generation linked with QVM tracks over the 30 year evaluation period, under the Base Case and the Project Case. The red line shows the incremental employment impact. That is, how progressing the Project Case (blue line) lifts employment levels over and above that generated under the Base Case (black line).

Under the Project Case, incremental construction phase jobs peak in 2021 at 217 full time equivalents (FTE), falling to 92 FTE by 2025. Incremental jobs stemming from the post construction phase of the renewal program commence at 31 FTEs in 2026 before increasing in each subsequent year to reach 787 jobs supported in 2050.

Incremental employment generated by the QVMPR program is 10,227 FTE job years in total or 340 FTE jobs per year on average over the 30 year evaluation period.

FIGURE 1. TOTAL EMPLOYMENT GENERATED – OPTION 0, OPTION 1 AND INCREMENTAL



Source: SGS Economics & Planning.

1. Introduction

This chapter summarises the context of the Queen Victoria Market Precinct Renewal Program and this business case update, before describing the key design features and elements of the Renewal Program.

1.1 Project context

Owned by the City of Melbourne (CoM) and managed by a wholly owned subsidiary company (QVM Pty Ltd), the Queen Victoria Market (QVM/ the market) occupies a seven-hectare site within Melbourne's central city with 140 leasehold premises, more than 600 licenced stallholders and over 2,000 employees.

Having traded continuously since 1878, the market is one of Melbourne's few remaining public markets. With a longstanding tradition of selling fresh produce and merchandise, the market has for many years been a cultural icon and major visitor attraction in the city. This is also one of the key reasons for the inclusion of the market site on the National Heritage List in July 2018.

In recent decades (pre-pandemic), the market has been impacted by changing retail conditions, including the rise of convenient, local supermarkets and extended trading hours. While the market is a top destination for international visitors to Melbourne and maintains a strong regular customer attractor, there is a need to secure the market's place as a traditional open-air market – retaining its heritage, traditions, unique offer and authenticity – while making it financially viable, adaptable to changing market conditions, and equipped to support contemporary business requirements into the future.

Today the market is sorely lacking in amenities, facilities and spaces to adequately accommodate and provide for present-day needs. This also means the site faces increasing challenges in complying with current day operating standards and legislative requirements, including with respect to work, health and safety and food safety all of which has been reinforced through the COVID-19 pandemic.

The City North urban renewal area¹, which encompasses the entire QVM site, is a precinct that will see major population and employment growth in the coming decades. This projected increase calls for a greater level of public space and community infrastructure provisioning in City North. While the QVM site is well suited for such uses, at present much of the seven-hectare site is underutilised due to the expansive open-air car park, poor spatial configuration, and inadequate infrastructure.

The visions for the Queen Victoria Market and the City North Precinct (recounted below) are unlikely to be achieved to their full extent without significant renewal of the market.

¹ Roughly bounded by Flagstaff Gardens (south), Swanston St (east), Tin Alley (north), and Harcourt and Capel Streets (west).

Vision for Queen Victoria Market:

“A thriving and diverse market and community meeting place that is loved by locals and a must see for visitors”.²

Vision for City North precinct:

“City North will have a diverse mix of uses and be a world-renowned knowledge district that grows out of the area’s distinct urban heritage as a new and unique Central City precinct”.³

Since the release of the 2015 Master Plan, a range of renewal projects have already been completed in line with the 2017 Implementation Framework, addressing the shopper and trader experience, as well as the broader heritage and planning requirements.

While there have been some changes to essential market infrastructure as a result of the 2018 People’s Panel deliberative engagement process, the 2015 Master Plan vision and deliverables remain relevant and continue to deliver outcomes for the market and the broader community.

1.2 Business case evolution

The City of Melbourne has significantly progressed the Queen Victoria Market Precinct Renewal (QVMPR) program since it publicly announced its intention to undertake a program of renewal to secure the long term sustainability of the Queen Victoria Market.

The original Business Case was completed in 2012 for presentation to the State Government. The Business Case established the basis for Council’s long term strategy for QVM, seeking to position it at the centre for the emerging City North, and in doing so, securing the long term future of it as a viable working marketplace.

This original Business Case was updated in 2017 to account for several key changes and events that had occurred since mid-2012. The revised Business Case (SGS Economics & Planning, 2017) and its subsequent update (SGS Economics & Planning, 2019) which was informed by the People’s Panel deliberative engagement process, concluded that Council’s investment in renewal was the only way to secure the market’s long-term viability. It also showed that doing nothing was not an option, and simple structural improvements or a quick facelift was not enough to deal with the market’s operating requirements, and ageing heritage buildings and infrastructure.

With the onset of the COVID-19 pandemic and the continued uncertainty, City of Melbourne’s financial challenges have seen the overall QVMPR budget revised from the endorsed \$308 million gross to not more than \$268 million gross. While cost savings have been made across the overall program to ensure delivery of the renewal against the 2015 Master Plan, a reduction of \$40 million was achieved largely due to the construction of Queens Corner Building now being considered to be built in collaboration with a private developer.

² City of Melbourne, 2015, Queen Victoria Market Renewal Precinct Master Plan.

³ City of Melbourne, 2012, City North Structure Plan.

Furthermore, in July 2021 Queen Victoria Market Pty Ltd (QVM Pty Ltd) released its five-year strategy to support Queen Victoria Market's pandemic recovery and longer-term revitalisation. The strategy aims to preserve the heritage character and core offer that people love about the market, and build on that to make it an even better place to visit, shop and trade. The strategy aligns with the vision and core objectives of the renewal program with many of the initiatives dependent upon delivery of renewal program projects.

This report provides a further update to the Business Case. It re-interrogates the renewal project given its final design resolution, while incorporating the impacts of the COVID-19 pandemic on QVM's trading and the broader operating environment.

1.3 Investment logic map

While the overall logic for the QVMPR Program has been refined since developed for the 2017 business case, it remains solely focused on addressing the four key problems being faced by the market.

This overall logic is summarised in the investment logic map provided in Figure 2.

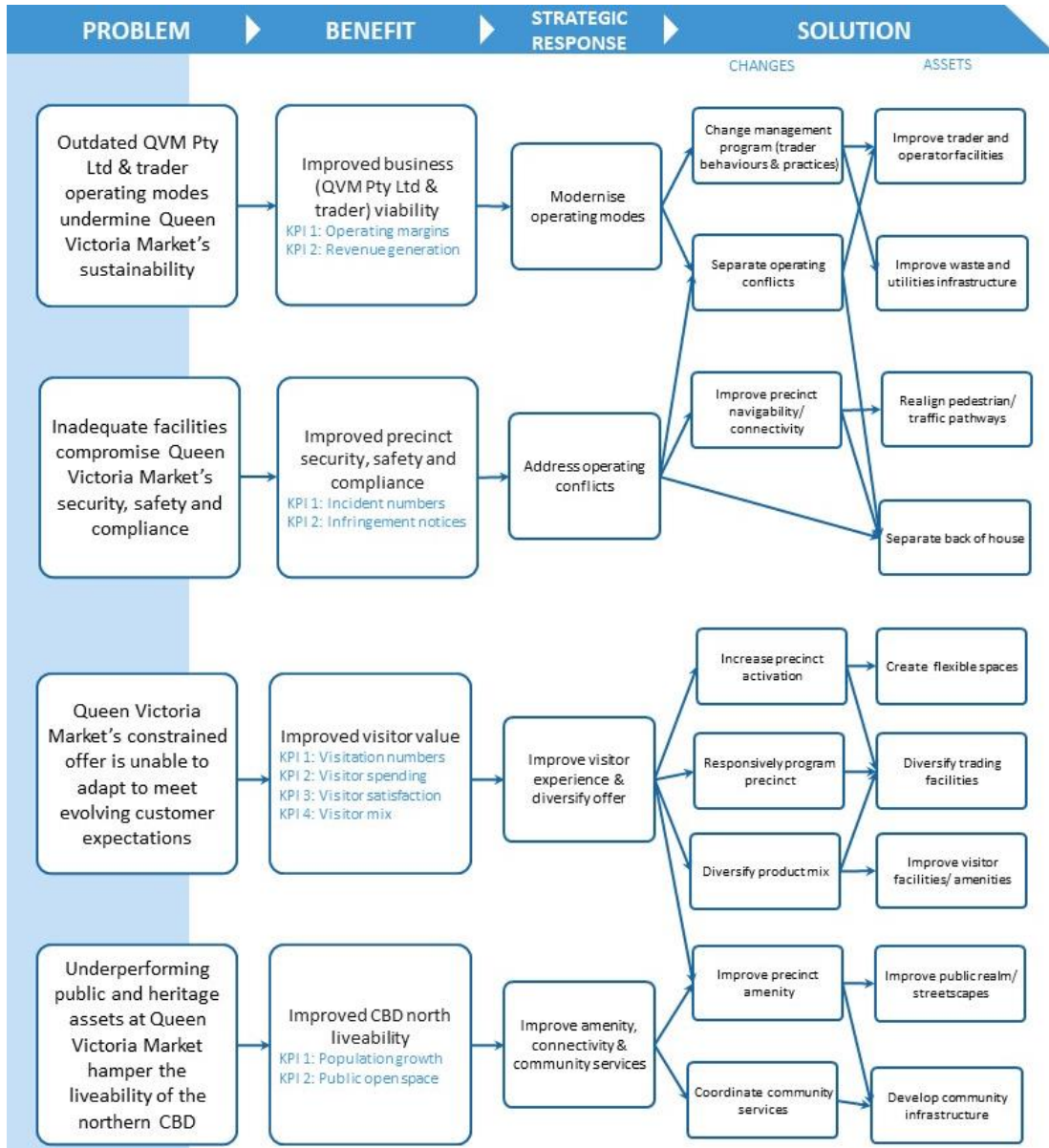
The investment logic map identifies the key:

- Problems being faced at the market
- Benefits that will be delivered if these problems are solved
- Strategic responses for going about solving these problems]
- Components of the proposed solution, in terms of non-asset changes and asset investment.

As outlined in the investment logic map, to be effective the market renewal must:

- Provide contemporary business practices for QVM Pty Ltd and traders.
- Address operating conflicts
- Improve the visitor experience and diversifying the offer
- Improve amenity, connectivity and community services.

FIGURE 2: INVESTMENT LOGIC MAP



Source: SGS Economics & Planning

1.4 Investment options

This business case update re-examines the performance of delivering the QVMPR Program when compared with 'Business as usual' operations at the market.

Options identification

Apart from including the responses identified in the investment logic map, feasible renewal options must also be developed in the context of the State Agreement (2020), Future Market Strategy (2021), the People's Panel (2018) and the Queen Victoria Market Precinct Renewal Master Plan (2015).

Under the State Agreement, the Victorian Government agreed that proceeds from the sale of public land parcels to the market's south will be reinvested into the market's renewal on the condition that City of Melbourne commits to the full extent of the market precinct renewal, which included the following core outcomes:

- **Heritage restoration and essential market infrastructure**
 - Restoration of Sheds A-F, J-M and H-I: Restoration and conservation of all heritage sheds.
 - Shed transformation: Completion of works to Sheds J, K, L and M to expand capabilities for hosting market activities and a broad range of Melbourne's community festivals and events.
 - Restoration of market buildings: restoration of the market's heritage listed buildings including the iconic Meat, Fish and Rabbit Hall and the Dairy Produce Hall.
 - Infrastructure and trader facilities and amenities: As informed by the People's Panel delivery of infrastructure for the market, including improved logistic infrastructure, storage, waste management, customer facilities and market trader facilities and amenities.
 - Queens Corner Building: Construct the Queens Corner Building to accommodate municipal purposes, market purposes or retail and hospitality purposes complementary to the market and adjoining public open space.
 - Pedestrianise the market during core trading times: The intersection of Queen and Therry streets to be transformed into a new Market Cross, a public meeting space that can host markets, festivals and busking and provide enhanced customer amenity, including additional seating.
 - Provision of a broader range of retail and hospitality offerings –Food Court, Meat, Fish and Dairy Produce Halls: Completion of new retail, hospitality, events and community spaces including refurbishment of the Food Hall.
- **Car parking** – to be delivered in stages:
 - Relocate car parking – Phase 1: Relocate 500 open-air car parking spaces to the Munro Site.
 - Relocate car parking (Phase 2): Relocate 220 open-air car parking spaces with up to 500 and no less than 220 car parks elsewhere in the market precinct.

- **Public realm** – to be delivered in stages:
 - Public Open Space – Phase 1 and improved traffic conditions: Completion of the design and construction of the Phase 1 Public Open Space Area, and replacement of the roundabouts with intersections and creation of a new bike path connection between Dudley and Franklin Streets.
 - Public Open Space – Phase 2: Completion of the design and construction of the Phase 2 Public Open Space Area.
 - Streetscapes: Upgrading of streetscapes adjoining the market.
- **Mixed use development sites adjoining the market** – Munro car parking, community facilities and retail/ hospitality and Southern Site.
 - Provision of a broader range of retail and hospitality offerings – Munro site: Completion of new retail, hospitality, events, affordable housing and community spaces.
 - Mixed use development – Southern Site: Reconfigure the land to south of the market to create a mixed use development site including all necessary work to prepare the land for development.

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

For the purposes of this Business Case update, the following assumptions are made on the key components of the State Agreement:

- The mixed-use development at the Munro site with 500 market customer car parking spaces forming part of the development, being consistent with the previous Business Case. The balance of the community and private components of this development are excluded from the scope of this report.
- The Southern Site will include 220 car parks for market customers.⁴
- The open space and streetscape improvements are consistent with the previous Business Case considerations however expenditure levels have been reduced in line with budget reductions
- The revised market infrastructure delivery was considered by Council in September 2019 with the Trader Shed and Northern Shed subsequently permitted by with relevant approval authorities.
- Delivery of the Queens Corner Building will be achieved through collaboration with the private sector.

⁴ The future Southern Site will include between 220 and up to 500 car parks with the final number of car parks a future decision of Council.

Option 0 - Base Case

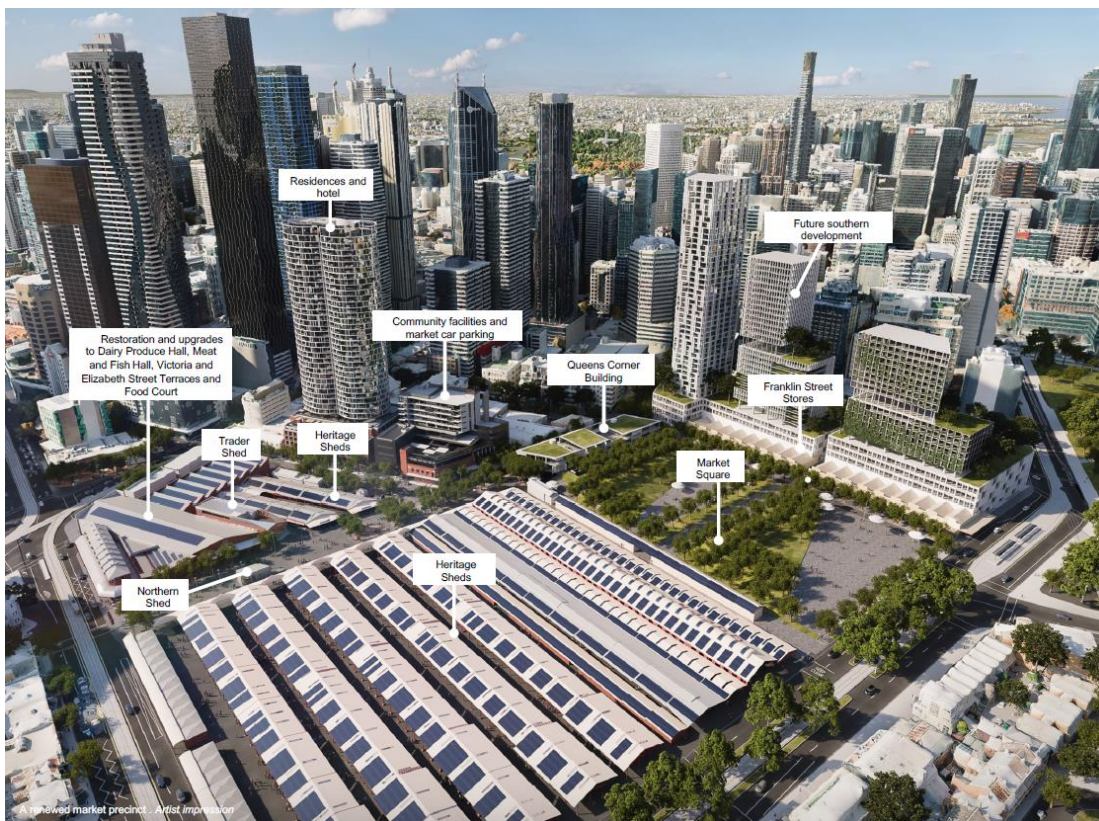
Option 0 is a Base Case scenario where City of Melbourne elects to not pursue the renewal program. The Base Case in this context is not ‘doing nothing’ but includes the progressive tackling of safety and food handling compliance issues, and the ongoing escalation of asset maintenance, as the ageing infrastructure within the precinct rapidly deteriorates. This scenario is based on historical operations and the insights, pre-pandemic.

The Base Case option has been explored to provide a baseline for decision making purposes, although it is acknowledged that the case for change has been articulated in earlier versions of the Business Case. The Base Case will not address the problems facing the market and will result in City of Melbourne being required to accept poor financial returns and poor long-term outcomes for the community from this important CBD location and asset.

Option 1 - QVMPR Program 2021

The current endorsed QVMPR Program remains aligned to the 2015 Master Plan with adjustments to market infrastructure as a result of the 2018 People’s Panel deliberative engagement process. This will see essential trader infrastructure focused on the Northern Shed, Trader Shed and Point of Sale storage at traders’ stalls, as per the Council decision in April 2019.

FIGURE 3: QVMPR PROGRAM - SUMMARY DEPICTION FUTURE MARKET PRECINCT



Source: City of Melbourne.

The QVMPR Program will provide up to 1,000 car parks in two new car parking areas, 500 of which are located at the Munro site and between 220 up to 500 car spaces located to the south of the market on Franklin Street. The existing open-air car park is transformed into a new 1.75-hectare public open space to support the growing CBD North population and Queen Victoria Market activities.

New market infrastructure and facilities are proposed in the following key locations:

- The Trader Shed (the current meat annex and recycling bay in the location of the former G Shed), and
- The Northern Shed (located in Queen Street north).

The market infrastructure buildings would be supplemented by appropriate refrigeration and storage at fresh produce stalls in the open-air sheds.

Back-of-house facilities (including loading facilities, trader storage, waste management, Online/Click and Collect and trader and customer amenities) are created in the Trader Shed, a two level building plus mezzanine and four level basement (not accessible to vehicles). Alternative locations for market storage and service areas will also be delivered within the market footprint to meet market requirements and free up the Franklin Street Stores for active use.

The Northern Shed would provide a new below-ground area (not accessible to vehicles), constructed within the northern Queen Street reservation to provide centralised waste and recycling facilities for the entire market. The space will provide fresh produce traders with two loading docks for safer loading and unloading during set hours. Outside these hours, the space will be transformed into a safe and inviting pedestrian space.

These new facilities 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 or the Old Melbourne Cemetery. The current meat annex and recycling bay is not one of the sixteen buildings identified on the Victorian Heritage Register.

The QVMPR Program sees all open-air heritage sheds conserved, restored and enhanced in-situ on site and restoration works to heritage buildings including Dairy Produce Hall and Meat, Fish and Rabbit Hall.

The QVMPR Program 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 to the south of the market.

2. Strategic analysis

This section describes how the Queen Victoria Market Renewal Program responds to the State Agreement and the investment logic map.

2.1 Alignment with State Agreement

Table 4 describes how the QVMPR Program addresses the core outcomes of the State Agreement.

TABLE 4: STATE AGREEMENT – CORE OUTCOMES

State Agreement - Core outcome	QVMPR Program
Provision of 720 customer car parking spaces	<p>Two new car parking facilities are to be developed accommodating a total of up to 1,000 market customer car parking spaces.</p> <p>One facility located in the Munro site delivering 500 car parking spaces.</p> <p>The second facility, accommodating a minimum of 220 and up to 500 car parking spaces, would be in the Southern Site on Franklin Street with a staged relocation from the existing car park.</p> <p>All existing car parking in the open-air car park would be eventually removed.</p>
Provision of a broader range of retail and hospitality offerings – Munro site	Not within the scope of this Business Case.
Public Open Space – Phase 1	A new 1.75-hectare Market Square would be created in two stages following the relocation of car parking from the existing car park to the Munro development and Southern Site.
Improved traffic conditions	<p>The signalisation of the Peel Street / Dudley Street and Franklin Street / Queen Street intersections will reduce the conflict between trams, vehicles, cyclists and pedestrians and ensure the public transport services (buses and trams) operate safely and efficiently within the area.</p> <p>In line with DPO11, the area located immediately in front of the Franklin Street stores, is designated as a Shared Zone. The shared zone will be a pedestrian and cycling route, with no private vehicle access, although it would have capacity to support access for market related operations and emergency services vehicles.</p>
Restoration of Sheds A-F, J-M and H-I	<p>This project restores all of the market's iconic heritage open-air sheds and adjoining verandahs in-situ.</p> <p>The shed restoration project encompasses a range of maintenance, repair, conservation, restoration, improved essential services and structural enhancement works to restore and preserve the existing heritage fabric and where necessary, enhance the structural integrity of the market sheds.</p>

State Agreement - Core outcome	QVMPR Program
Infrastructure and trader facilities and amenities	<p>The lower market would be provided with new back-of-house areas allowing for deliveries, trader storage and storage of meat and fish offal (waste) located within the Trader Shed building and basement. A new Northern Shed would include below-ground area beneath Queen Street north and accommodate a dedicated waste management facility including storage and processing of other waste streams.</p> <p>Queen Street north would retain segregated at-grade loading for the morning and afternoon trader delivery and pack up periods and no loading for all other times.</p> <p>QVM Pty Ltd storage would be provided as part of future storage space under the sheds and within the Trader Shed. Alternative locations for market storage and service areas currently located in the Franklin Street Stores will also help to minimise potential conflicts between vehicles and pedestrians by reducing vehicle movements across the precinct.</p> <p>Basic services would also be provided to trader stalls (electricity, communications, hot and cold water), as well as centralised waste (including organic waste) collection points.</p> <p>Briefed trader storage requirements cannot be met in below-ground areas due to a lack of floor space. This shortfall would be met through appropriate refrigeration and under-counter storage at trader stalls under the open-air sheds.</p> <p>Formalised B2B areas will be established in the Upper and Lower Markets in close proximity to fresh produce traders, to support the viability of traders and minimise unsafe vehicle movements.</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 endorsed Master Plan.</p>
Queens Corner building: Construct the Queens Corner Building	Queens Corner Building (Queen Street south) adjacent to the Market Square retail and commercial spaces and public amenities.
Pedestrianise the market during core trading times	<p>Under the renewal program the market would operate in two logistic modes. ‘Segregated Queen Street Loading’ for the morning and afternoon trader delivery and pack up periods and ‘No Queen Street loading’ for all other times.</p> <p>During the busiest customer trading hours of market, the northern end of Queen Street would predominantly be closed to traffic and used as public realm.</p> <p>In unsegregated areas of the market, forklifts would be replaced with alternative load shifting equipment, reducing potential for conflicts with pedestrians.</p>
Shed Transformation: Completion of works to Sheds J, K, L and M	<p>All heritage sheds would be restored and refurbished on site with improved essential services such as access to power, water and sewer to support a broader range of community events, festivals and markets.</p> <p>Transformation of J, K, L and M sheds would support a broader range of market activities and community events.</p>

State Agreement - Core outcome	QVMPR Program
Provision of a broader range of retail and hospitality offerings – Food Court, Meat, Fish and Dairy Halls	<p>Improved trader facilities including new back-of-house areas allowing for deliveries, trader storage, and a dedicated waste management facility (including storage of meat and fish offal waste); the provision of basic services at trader stalls (electricity, communications, hot and cold water); and the extension of market trading hours will increase potential for a greater diversity of retailers to operate at the market and expand overall retail and hospitality offering.</p> <p>The Queens Corner Building will provide additional commercial retail opportunities, with new tenancies in the Munro Community Hub and Franklin Street Stores to deliver a further diversified retail and hospitality offer to complement the market, open seven days and into the evening.</p> <p>Improvements to the Meat, Fish and Rabbit Hall and Dairy Produce Hall as per the Master Plan will continue to support a diverse mix of fresh food, meat, fish and specialty food vendors. The activation of shops facing Queen Street and Deli Lane will provide high quality retail and hospitality establishments.</p> <p>The redeveloped Food Court will provide a new social destination showcasing the great foodie culture of Melbourne, including a diverse range of popular cuisines</p>
Streetscapes	<p>Streets and laneways around the market, including a new bicycle lane frontage of the Franklin Street Stores, will prioritise pedestrian and cyclist movement and amenity. These changes will support integration of the market with the surrounding city and provide for activation of outdoor cafes and activities.</p> <p>Market Cross, the area of Queen Street near the intersection of Therry Street, would prioritise passive and social uses, providing well-planted pedestrian spaces with ample opportunities for seating and small-scale gatherings.</p>
Replacement Car Parking (Phase 2)	<p>Two new car parking facilities would be developed to accommodate between 720 and up to 1,000 market customer and trader car parking spaces.</p> <p>One facility is located in the Munro development delivering 500 car parking spaces.</p> <p>The second facility, accommodating between 220 and up to 500 car parking spaces, would be in the Southern Site on Franklin Street with a staged relocation from the existing car park.</p> <p>All existing car parking in the open-air car park would be eventually removed.</p>
Public Open Space – Phase 2	<p>A new 1.75 hectare Market Square would be created in two stages following the relocation of car parking from the existing car park to the Munro development and Southern Site</p>
Mixed use development – Southern Site	<p>The use mix not included in the scope of this Business Case.</p> <p>Southern Site includes a requirement for between 220 and up to 500 car parks for market use.</p>

Source: SGS Economics & Planning in consultation with the City of Melbourne and its specialist advisors.

2.2 Alignment with Investment Logic Map

Table 5 describes how the QVMPR Program addresses the strategic responses articulated in the investment logic map. Twenty initiatives being delivered as part of the Future Market Strategy (2021) will further contribute to these objectives, with other initiatives focused on business priorities and improvements to support the strategy and the viability of QVM Pty Ltd.

TABLE 5: INVESTMENT LOGIC MAP - STRATEGIC RESPONSES 2021

Strategic response	Changes/ assets	QVMPR Program	Future Market Strategy
Modernise operating modes	Change management program (trader behaviours and practices)	<p>Due to the inadequacy of current facilities, traders operate 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 there is a lack of separation between forklifts, vehicles and pedestrians; a practice which results in a risk to customer health and safety, adversely impacting amenity and reduces the market's ultimate capacity.</p> <p>It is envisaged that the QVMPR Program would 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.</p>	<p>A range of measures will help traders modernise their operations and practices, including new systems to manage trader operations/movements during and post-renewal works; change management and training plans aligned to phases of operational change; ongoing funding for the Small Business Mentoring Service and working together to address priority areas for trader development; and continue administering the Trader Representative Committee to help drive change and improvements.</p> <p>In addition, trader compliance with operating policies and procedures will be improved through regular communication and engagement; new occupational health and safety management system; clear system for trader infringements; and a dedicated Operational Control Centre to improve precinct monitoring.</p>
Improve trader facilities		<p>The QVMPR program would deliver expanded and better facilities for traders, primarily through the delivery of modern logistics and handling systems within the Northern Shed, Trader Shed, and centralised waste hubs.</p> <p>Briefed trader storage requirements cannot be met in below-ground areas due to a lack of floor space. This shortfall would be met in part through under-bench storage at trader stalls under the open-air sheds where traders need it most.</p> <p>Business-to-business trading would take place around the edge of the market under this option, in line with trader preferences.</p> <p>Upgrades in the current sheds would provide traders with access to electricity, communications, hot and cold water, as well as organic waste disposal.</p> <p>The QVMPR Program would also provide improved trader amenities including, personal storage, showers and toilets, meeting rooms and kitchen facilities.</p>	<p>A variety of trading formats and storage options will be introduced under the heritage sheds to improve trading conditions and better meet trader needs. This includes: creating a dedicated and consolidated space for general merchandise stalls and allowing traders to trade in the same position to reduce the time/cost of set up/pack down; more fixed/lockable trading format options; new point of sale storage and display solutions for trader stalls.</p> <p>In addition, formalised business-to-business areas will be established in upper B Shed and Therry Street to support the viability of fresh produce traders with wholesale operations. A back of house area will also be established in upper C and D Sheds for the storage of silver retail boxes currently located in the Franklin Street Stores and other informal areas under the sheds.</p>

Strategic response	Changes/assets	QVMPR Program	Future Market Strategy
	<p>Improve waste and utilities infrastructure</p>	<p>The renewed market would result in a more environmentally sustainable market. The precinct will be guided by a sustainable resource plan and will be rated using the 6-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>Other environmentally sustainable development (ESD) solutions under the QVMPR Program include the retention and utilisation of rainwater on site, solar panels, increased planting, improved waste management (including at-stall waste facilities) and the aspirational waste diversion rate of at least 85 per cent, with zero waste to landfill being the ultimate operational target over time. Waste output would be used for renewal energy generation off-site where possible.</p>	<p>QVM Pty Ltd’s environmental sustainability program sets clear targets and actions to improve the market’s environmental performance, including reducing waste sent to landfill and utilities usage.</p> <p>QVM Pty Ltd is on track to reach 85 per cent waste recycling rate by end 2022 and is targeting zero waste and zero carbon (QVM operations) by 2027, with the help of new market infrastructure being delivered through the QVMPR Program.</p> <p>Trader and staff training and education programs underpin these targets, as well as proactive customer/community education and engagement activity to awareness and establish the market as a leader.</p>
	<p>Separate operating conflicts</p>	<p>The QVMPR Program would provide for improved logistics and operational movements across the precinct and decrease opportunity for conflict between service vehicles and the public.</p> <p>Under the proposal the market would operate in two logistic modes. ‘Segregated Queen Street Loading’ for the morning and afternoon trader delivery and pack up periods and ‘No Queen Street loading’ for all other times.</p> <p>During the busiest customer trading hours of market, the northern end of Queen Street will be predominantly closed to traffic and used as public realm.</p> <p>Forklifts will be permitted to operate in areas of the market where there is a physically segregated environment from people, however in the majority of areas this is not practical and where physical segregation is not possible, alternative load shifting equipment to minimise potential pedestrian vehicle interaction so far as reasonably practicable.</p>	<p>Improved vehicle management into and within the market precinct upon delivery of new market infrastructure will help minimise operating conflicts, with the aim of segregating forklift and other vehicle movements from pedestrian areas to minimise potential pedestrian vehicle interaction. This will be achieved through a new vehicle management system to monitor and control vehicles; new systems to manage loading, deliveries and vehicles into the precinct and manage logistical and mobile plant equipment in designated areas following renewal; and alternatives to forklifts for use outside of designated areas.</p> <p>Creating dedicated spaces for traders to undertake business to business activity in upper B Shed and Therry Street, and a back of house area in upper C and D Sheds for silver retail box storage will also provide segregated environments for activity involving forklifts and other vehicles to occur.</p>

Strategic response	Changes/assets	QVMPR Program	Future Market Strategy
		<p>Insertion of a completely new logistics and storage backbone for the Queen Victoria Market, including improved storage at trader stalls, would assist in reducing the total volume of restocking movements across the precinct.</p> <p>Alternative locations for market storage and service areas currently located in the Franklin Street Stores will also help to minimise potential conflicts between vehicles and pedestrians by reducing vehicle movements across the precinct.</p> <p>These changes would substantially minimise and provide far greater control of vehicle movements in public areas to reduce vehicle/ pedestrian conflicts.</p>	
Address operating conflicts	Improve precinct navigability/connectivity	<p>Redesigned market spaces and walkways would ensure that the market is more navigable than is presently the case, ultimately resulting in a better shopping experience for customers including improved connection between the upper and lower market and view lines.</p> <p>The location of customer car parking in the Munro development and the Southern Site would provide good visibility to the market sheds. Shoppers parking at the Munro site will be within 20 metres of Sheds H and I and the Dairy Produce Hall, with the Southern Site parking located within 10 metres of the existing open-air car park.</p>	<p>Improved vehicle management into and within the market precinct upon delivery of new market infrastructure will help improve safety and navigability for pedestrian activity by segregating forklift and other vehicle movements from pedestrian areas. This will be achieved through a new vehicle management system to monitor and control vehicles; new systems to manage loading, deliveries and vehicles into the precinct and manage logistical and mobile plant equipment in designated areas following renewal; and alternatives to forklifts for use outside of designated areas.</p> <p>In addition, QVM Pty Ltd will work with the City of Melbourne to develop and implement a precinct-wide wayfinding and signage strategy as part of the QVMPR program and advocate for a permanent Melbourne Visitor Hub within the precinct to improve navigability. Other priorities include creating more casual seating, gathering and pedestrian-friendly spaces, and creating tenancies with active frontages onto the future Market Square, including String Bean Alley, Queens Corner Building and Franklin Street Stores.</p>

Strategic response	Changes/assets	QVMPR Program	Future Market Strategy
	Separate back of house	<p>At present back-of-house activities are conducted on the market floor, compromising amenity and presenting a series of risks. The QVMPR Program separates trader deliveries from activities in the marketplace during trading hours through the introduction of new operating procedures.</p> <p>Under the QVMPR Program, both the proposed Trader Shed, and Northern Shed will provide for trader storage. Likewise, storage (including under-counter and refrigerated storage) would be provided at trader stalls. Increased quantity and quality of storage would enable traders to operate with a greater quantity of stock on-hand and reduce total restocking movements across the precinct.</p> <p>The introduction of centralised waste hubs and the distribution of service bollards throughout trader sheds would also assist in separating back-of-house activities from the general public and improving overall amenity.</p>	<p>Dedicated spaces will be created to provide a segregated environment away from customer and pedestrian areas for trader and market back of house activity. This includes business to business areas in upper B Shed and Therry Street, a back of house storage area for silver retail box storage in upper C and D Sheds. Together with new storage and waste management facilities through renewal, this will improve the customer and visitor experience by and safety by significantly reducing vehicle and forklift movements within the precinct.</p>
	Realign pedestrian/traffic pathways	<p>The proposed scope of works may reduce the capacity of the intersections, particularly at the Dudley Street / Peel Street and William Street / Franklin Street intersections. While this may not be desirable for motorists, it would improve safety, accessibility and connectivity for cyclists, pedestrians and public transport users.</p> <p>Following the removal of the roundabout, the signalisation of the Peel Street / Dudley Street intersection would reduce the conflict between trams, vehicles, cyclists and pedestrians and ensure the public transport services (buses and trams) operate safely and efficiently within the area.</p> <p>Likewise, the introduction on-road bicycle lanes; and the general widening and enhanced connections will improve accessibility for pedestrians, cyclists and public transport users.</p> <p>Within the market, the introduction of new logistics and operational arrangements would provide for improved safety and navigability for pedestrian activity.</p>	<p>Improved vehicle management into and within the market precinct upon delivery of new market infrastructure will help improve safety and navigability for pedestrians by segregating forklift and other vehicle movements from pedestrian areas. This will be achieved through a new vehicle management system to monitor and control vehicles; new systems to manage loading, deliveries and vehicles into the precinct and manage logistical and mobile plant equipment in designated areas following renewal; and alternatives to forklifts for use outside of designated areas.</p>

Strategic response	Changes/assets	QVMPR Program	Future Market Strategy
<p>Improve visitor experience and diversify offer</p>	<p>Increase precinct activation</p>	<p>A new public open space (Market Square) would open in two stages to align with delivery of car parking.</p> <p>Market Square will be 1.75 hectares of flexible public open space for the community. Larger than Federation Square, the space will be welcoming and adaptable to needs over time. It will cater for passive and active use and provide more reasons to visit and stay in the precinct.</p> <p>A new building in Queen Street south (Queens Corner Building), adjacent to Market Square, would provide commercial and public functions and activation to Queen Street south and Market Square.</p> <p>Between 220 and up to 500 customer car parking spaces would be delivered in the Southern 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>Both the Northern Shed and Trader Shed have specific roles in providing logistics facilities for market operations, as well as allowing for programming flexibility for the public and integration with the public realm, potentially accommodating cafes and/ or other active uses.</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 would be attracted to the precinct increasing activity over an extended period.</p>	<p>Over time, trading hours will be progressively and incrementally extended across the market to increase precinct activation outside core market trading hours. The initial focus will be on events and hospitality, particularly in new tenancies in the Munro Community Hub, Queens Corner Building, Franklin Street Stores and other existing parts of the market that have potential for evening hours, including parts of Elizabeth Street, Therry Street and String Bean Alley.</p> <p>A flexible space for events, temporary trading and other activations will be established in Upper J-L Sheds to improve utilisation and activation of the sheds and support the retail offer. This flexible space along with other improvements being delivered through renewal (Market Square and improved streetscapes in Queen/Therry streets) will support an expanded year round calendar of market, community and private festivals, promotions, events, activities and other programming to activate more of the precinct throughout the day, evening and week.</p>

Strategic response	Changes/assets	QVMPR Program	Future Market Strategy
	Create flexible spaces	<p>A range of flexible spaces to cater to demand associated with a variety of retail types is proposed. These would help ensure that the market is attractive to a wide variety of retail types and that retail diversity is maximised.</p> <p>Car parking spaces delivered in the Southern Site and Munro development are intended to be adaptable for other uses in the event demand for car parking spaces reduces in the future.</p> <p>The open-air nature of all market sheds is permanently maintained under this option.</p> <p>The Trader Shed, Northern Shed, and Market Square also enable adaptable use.</p> <p>In order to meet the briefed trader storage and waste disposal requirements of trader, some under-counter storage would be required for traders in the open-air sheds along with the introduction of waste hubs. While these facilities are intended to be relocatable, there would still be some loss of flexibility to the space within the heritage sheds.</p>	<p>A flexible space for events, temporary trading and other activations will be established in Upper J-L Sheds to improve utilisation and activation of the sheds and support the retail offer. This flexible space along with other improvements being delivered through renewal (Market Square and improved streetscapes in Queen/Therry streets) will support an expanded year round programming calendar of market, community and private festivals, promotions, events, activities and other programming to activate more of the precinct throughout the day, evening and week.</p>
	Diversify trading facilities	<p>Improved facilities and lettable back-of-house storage areas would 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. This includes the introduction of basement storage catering to a range of businesses regardless of size, as well as the provision of basic services (electricity, communications, and hot and cold water) at stalls.</p>	<p>A variety of trading formats and storage options will be introduced in the heritage sheds to improve trading conditions and better meet trader needs. This includes: creating a dedicated and consolidated space for general merchandise stalls and allowing traders to trade in the same position to reduce the time/cost of set up/pack down; more fixed/lockable trading format options; new point of sale storage and display solutions for trader stalls. These improvements will also unlock opportunities for current traders to diversify their offer (particularly fruit and vegetable traders) as well as attracting diverse traders and offers to the marketplace.</p>

Strategic response	Changes/assets	QVMPR Program	Future Market Strategy
	Diversify product mix	<p>Growth of retail product diversity and business to business trade would be accommodated at trader stalls under the QVMPR Program, with designated goods collection points (vehicle pick-up) envisaged around the edge of the market, as preferred by trader and is likely to be driven by growth in the overall quantum of retail activity taking place at the market.</p> <p>A greater diversity of product mix would be realised under the QVMPR Program through the introduction of improved, vermin-proofed cool and dry storage. Likewise, improved storage and provision of basic services (electricity, communications, hot and cold water) would allow for new products including at-stall food and beverage preparation.</p> <p>Some fixed refrigeration and storage would be delivered at trader stalls in the open air sheds.</p> <p>Increased opportunity for some new retail space would enable the potential for product diversification in the new fixed retail and hospitality tenancies in the Queens Corner Building.</p>	<p>Formalised business-to-business areas will be established in upper B Shed and Therry Street will support the viability of fresh produce traders with wholesale operations and a formal back of house area established in upper C and D Sheds for the storage of silver retail boxes currently located in the Franklin Street Stores and other informal areas under the sheds. The new back of house area and storage workshops to meet market requirements will free up the Franklin Street Stores for active re-use which will also help diversify the market offer and experience.</p> <p>Across new and existing tenancies, the market's retail mix/offer will be enhanced in line with the following priorities:</p> <ul style="list-style-type: none"> Expanded fresh produce offer, with more seasonal local produce, specialisation, dry goods and convenient semi-prepared and ready-to-cook/eat items alongside core raw ingredient offer Diversified and enhanced general merchandise offer to meet the needs more Melburnians and the inner-city community, with a focus on themes such as local needs, locally sourced/produces, meet the maker and social enterprise. New precincts will be established including a Market Nursery (small business incubator), Melbourne Makers and local needs. Expanded and enhanced hospitality offer with more opportunities to enjoy food and drink onsite and take away, including evening dining/bars, quick/casual food and produce sampling/grazing. <p>To support this, new trader attraction will be a major focus as well as working with current traders to diversify their offer, with support and advice from the Small Business Mentoring Service. This will be guided by a new Trader Attraction Strategy and future frameworks for the hospitality and general merchandise offers.</p>

Strategic response	Changes/assets	QVMPR Program	Future Market Strategy
	Improve visitor facilities/amenities	<p>The QVMPR Program would lead to an improvement in the quality of public spaces and the availability of public amenities including a Changing Places facility.</p> <p>The cleanliness of the site will improve under the QVMPR Program through the provision of centralised, contemporary waste management facilities.</p> <p>Visitor amenity would be improved due to the creation of Market Square following the relocation of market car parking to areas located underneath the Southern Site on Franklin Street and the Munro development.</p> <p>Between 220 and up to 500 customer car parking spaces would be provided at the Southern Site with less constrained access from Franklin, William/Peel and Queen streets.</p> <p>Overall under the renewal program up to 1,000 market customer car parking spaces are provided.</p>	<p>QVM Pty Ltd will work with the City of Melbourne in a number of areas as part of the QVMPR program and more broadly to improve visitor facilities/amenities throughout the precinct to meet the market and customer needs. This includes toilets; car parking; advocating for a permanent Melbourne Visitor Hub within the precinct; and improving streetscapes and creating more casual seating, gathering and pedestrian-friendly spaces.</p>
Improve amenity, connectivity and community services	Improve precinct amenity	<p>Renewal under each option would substantially improve amenity in the precinct. An increase in the number and availability of customer amenities, improved weather protection and redesigned market spaces would ensure the market becomes a more appealing place to shop and recreate.</p> <p>The delivery of between 220 and up to 500 car parking spaces in the Southern Site results in the Market Square being delivered in two phases over five years.</p>	<p>QVM Pty Ltd will work with the City of Melbourne and other authorities in a number of areas as part of the QVMPR Program and more broadly, to improve precinct amenity and meet market and customer needs. This includes toilets; car parking and transport/pedestrian/cycling links and facilities; streetscapes and creating more casual seating, gathering and pedestrian-friendly spaces; a precinct-wide wayfinding and signage strategy; permanent Melbourne Visitor Hub; improving connectivity between different market spaces and buildings.</p> <p>To help make shopping at the market easier and attract new customers, the market's online shopping and delivery/click and collect service 'QVM Online' will continue to be expanded and enhanced, and marketing campaigns will help attract locals, Melburnians and regional Victorians to the market, supported by website enhancements and growing the tours program.</p>

Strategic response	Changes/ assets	QVMPR Program	Future Market Strategy
	Improve public realm/ streetscapes	<p>A renewed market precinct would incorporate redesigned public spaces that respond more effectively to the needs of customers. Vehicles and back-of-house facilities would 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 between 220 and up to 500 car parking spaces in the Southern 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>QVM Pty Ltd will work with the City of Melbourne and other authorities in a number of areas as part of the QVMPR program and more broadly to improve public realm/streetscapes within and surrounding the precinct. This includes toilets; car/public transport/pedestrian/cycling links and facilities; streetscapes and creating more casual seating, gathering and pedestrian-friendly spaces; and creating active edges to improve permeability into the market from surrounding streets.</p>

Source: SGS Economics & Planning in consultation with the City of Melbourne, Queen Victoria Market Pty Ltd and its specialist advisors.

Note that the following changes/ assets are excluded from the QVMPR Program as they are being addressed through complementary activities at City of Melbourne and Queen Victoria Market Pty Ltd:

- Responsively program precinct
- Coordinate community services
- Develop community infrastructure.

3. COVID-19 impacts

This section explores how the COVID-19 pandemic impacts the market trading and broader development environment, and what this likely means for visitation rates and expenditures, and QVM Pty Ltd revenues and costs.

3.1 Visitation patterns

Visitation to Queen Victoria Market is driven primarily by Victorian-based shoppers and residents, though a significant secondary visitation market is linked with tourism – both domestic and overseas.

In terms of **local visitation**, Queen Victoria Market is likely to remain an important destination for local residents to shop for fresh food and groceries, to socialise, and to engage in recreation. In seeking to understand the long-term impacts of the events of the COVID-19 pandemic, perhaps the most significant change in terms of visitation to shopping destinations is the significant shift towards online retailing (discussed in more detail in the next section).

Queen Victoria Market is likely to be somewhat protected from the impacts of this shift to online retailing, given its focus on fresh produce (which is not readily sold online) and its unique market experience; factors that make it less susceptible to online expenditure growth than traditional shopping centres.

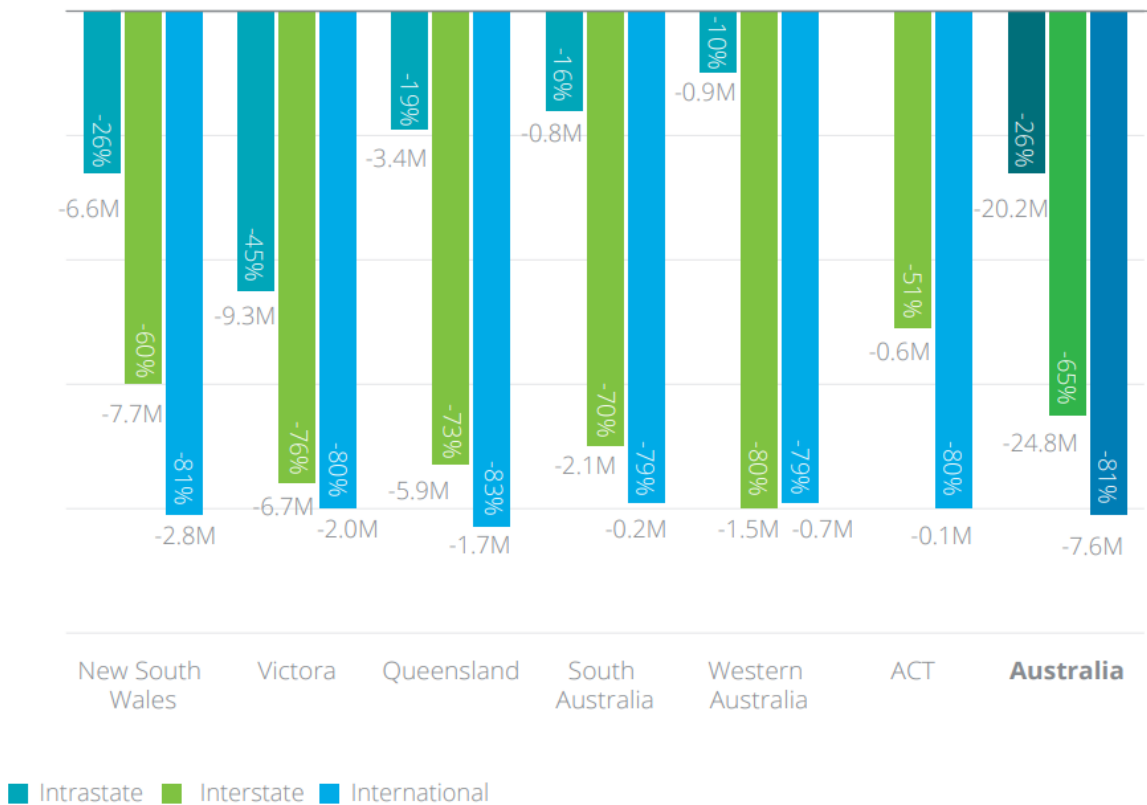
In terms of **tourism**, since March 2020, the number of tourists coming to Victoria has declined substantially. The question of when domestic and foreign tourism activity might resume is difficult to answer, with the near-term future of the Australian tourism sector ultimately dependent on a mix of health and political considerations.

The number of international visits in the Asia Pacific region declined by between 95 per cent and 99 per cent between April and December 2020⁵. In terms of interstate travel, the impact has also been significant, particularly for Victoria which has undergone a significantly longer period of ‘lockdown’ than other parts of Australia. Intrastate travel also declined, and once again Victorians experienced an outsized share of these declines with limitations of movement over much of 2020 and 2021.

The chart shows the extent of this decline between 2019 and 2020.

⁵ Tourism and Hotel Market Outlook 2021 | Deloitte Australia | Consumer & Industrial Products, Industry insights & reports

FIGURE 4. LOSS IN OVERNIGHT DOMESTIC AND INTERNATIONAL TRIPS, 2019 TO 2020



Source: Deloitte Access Economics

In regard to the recovery of tourism in coming years, there is evidence that the pandemic has not reduced Australians’ willingness to travel; even if travel is currently limited to other places within Australia. To a large extent strong domestic tourism has been supported by pent up demand and the recent increase in household savings rates. It is unclear whether this willingness to travel to other parts of Australia will remain, i.e. once the virus is widespread across all states and territories, and when household savings and expenditure rates normalise.

International travel is likely to commence at some point in the next year. To a large extent, international visitation is also likely to also be driven by pent up savings, so there is potential for a strong rebound once international borders reopen. On the other hand, with the coronavirus likely to become endemic across the world, widespread behavioural change can be expected, with many prospective travellers becoming more risk averse and staying home. There will likely be a slow recovery to pre-pandemic tourist travel due to likely to be continued restrictions on travel between different countries dependent on their vaccination and outbreak status.

3.2 Visitor rates and expenditures

It is also useful to consider visitor rates and expenditures by looking separately at Victorian-based visitors and domestic and foreign tourists.

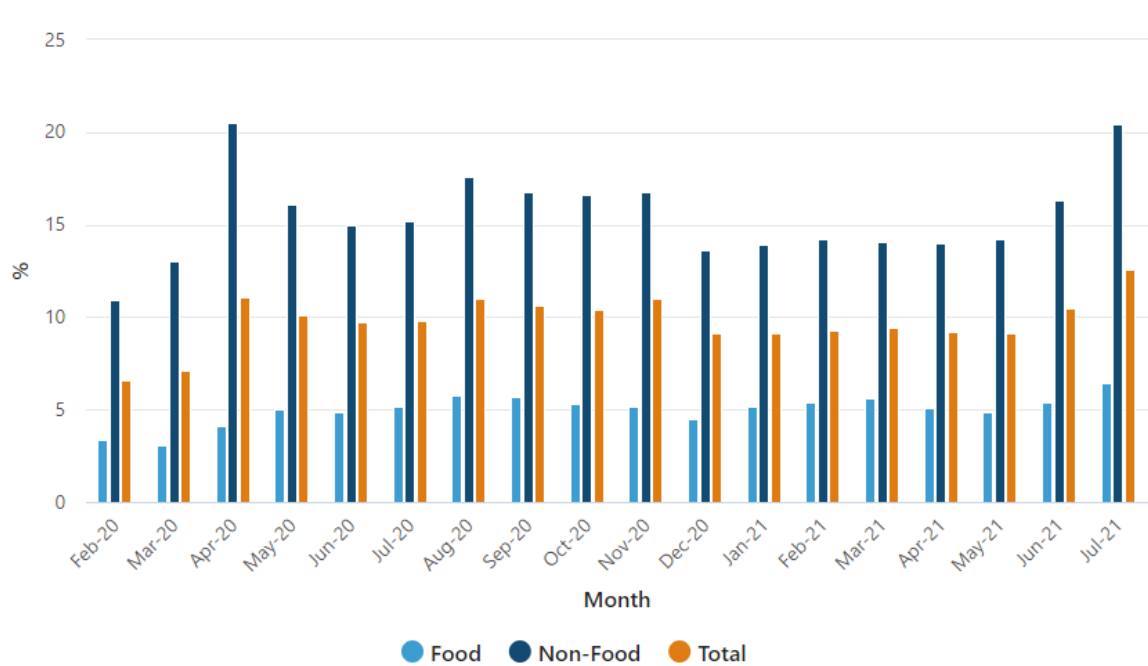
For Victorians, retail expenditures are linked to income, wealth and consumer confidence. While the impacts of the pandemic have been significant across Australia, the impacts on employment and household expenditures for the majority of Australians has been relatively small. This being the case, it is likely that retail expenditures will remain high.

As discussed above, the pandemic has contributed towards the rapid acceleration of online retail expenditure. Figure 5 shows that nationally between February 2020 and July 2021, the proportion of total retail expenditure directed online rose from 6.6 per cent to 12.6 per cent. While much of this was driven by ‘non-food’ items, the proportion of ‘food’ expenditure occurring online nearly doubled, rising from 3.4 per cent to 6.4 per cent.

For Queen Victoria Market there is some risk of loss of visitation and expenditure linked with increasing ‘home delivery’ of shopping and pre-prepared food, and increasing sophistication in delivery systems among other food retailers (particularly the large supermarkets). The new QVM Online service and supporting click and collect/delivery service will be important in retaining market share.

Moreover, the extent to which the pandemic triggers longstanding or permanent behavioural change among citizens is yet to be seen. That said, there is certainly a subset of individuals who are likely to actively avoid crowded situations such as markets for many years to come; preferring the ‘safer’ option of having food delivered.

FIGURE 5. PROPORTION OF INDUSTRY GROUP TURNOVER ONLINE, FEBRUARY 2020 TO JULY 2021



Source: Online sales, October 2020 - Supplementary COVID-19 analysis | Australian Bureau of Statistics (abs.gov.au)

In terms of tourist visitation, clearly visitation numbers are likely to remain low in the immediate to medium term. The extent to which they will 'bounce back' is unclear, depending on a range of factors, many of which are unclear at the time of writing.

Visitation, Base Case and Project Case

In previous versions of this business case, it was assumed that visitation would remain stagnant at 10 million without renewal, and that it would grow at a rate of 1 million every three years under the QVMPR Program. It was also assumed that the historic local visitation share would remain constant at 66 per cent of total visitation over the evaluation period.

Given the events of the past 18 months, it is reasonable to update these figures to reflect a new situation. It is now assumed that:

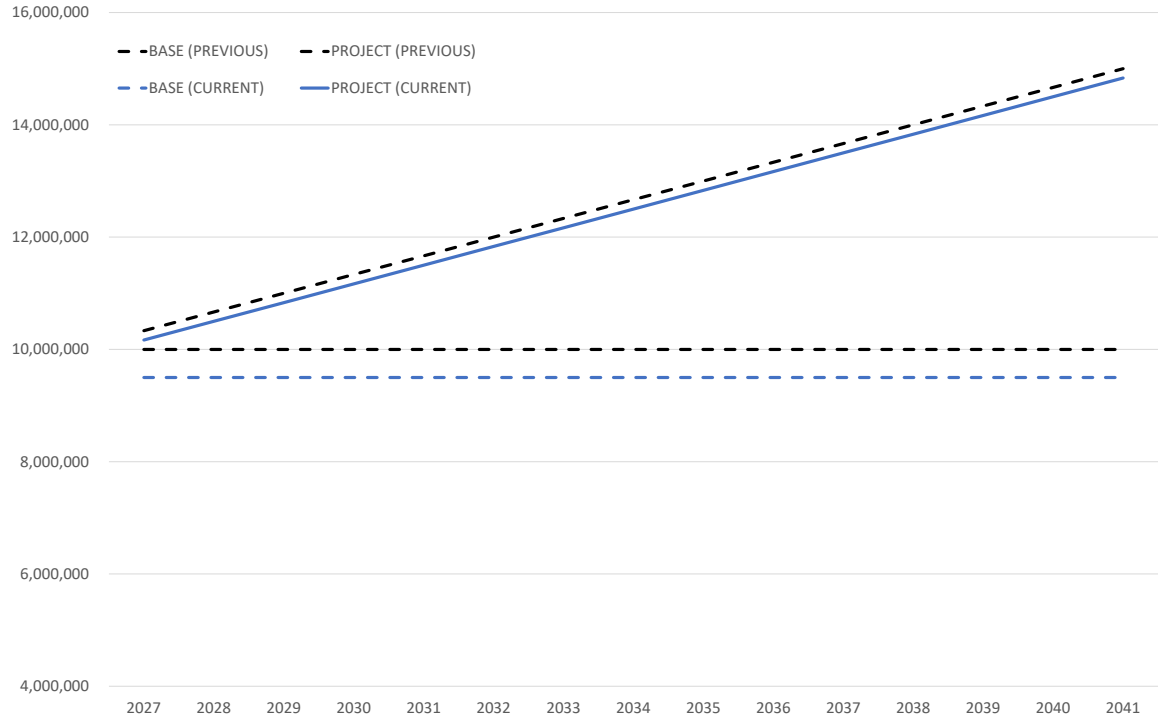
- Visitation forecasts are impacted in the short term due to COVID, with restrictions to movement and economic activities having an ongoing impact. When lockdowns and restrictions become a thing of the past, visitation is expected to grow strongly, but with lower tourism and behavioural changes meaning visitation remains below pre-COVID levels for some time.
- Visitation under the Base Case will not recover to pre-COVID levels, settling at about 5 per cent lower than the pre-COVID figure.
- Under the Project Case, the incremental difference in visitation from the Base Case remains essentially the same in actual numbers.
- In the near term, Victorians will comprise a greater than normal share of visitors, though this will tend towards the historic share over time as international and interstate tourism normalise.

TABLE 6. UPDATED INCREMENTAL VISITATION FORECASTS (MILLIONS)

	2026	2027	2028	2029	2030	2031	2041	2051
Base Case (million)	9.00	9.50	9.50	9.50	9.50	9.50	9.50	9.50
Project Case (million)	9.33	10.17	10.50	10.83	11.17	11.50	14.83	18.16
Victorian share of visitation	68%	66%	66%	66%	66%	66%	66%	66%

Source: SGS Economics & Planning

FIGURE 6 BASE CASE & PROJECT CASE VISITATION PROJECTIONS (PREVIOUS VS CURRENT)



Source: SGS Economics and Planning

3.3 QVM Pty Ltd revenues and costs

Queen Victoria Market Pty Ltd has produced projections of the operating costs and revenues under the QVMPR Program. These are discussed in Section 4, along with SGS' Base Case financial projections for market operations.

3.4 City North/ market core development patterns

The City North Precinct/ Market Core Area is expected to develop more slowly than what was anticipated pre-COVID. This is a result of a combination of reduced overseas migration, a loss of population moving interstate, and changing preferences among Australians in relation to high-density living.

Prior to COVID, it was estimated that this part of inner Melbourne would accommodate a population of just under 340,000 by 2038. Updated projections recently developed by SGS Economics & Planning on behalf of the City of Melbourne show that the rate of population (and dwelling) growth is likely to slow somewhat due to the factors mentioned above. Under these revised forecasts, population and dwelling growth will be around 11 per cent lower than projected figures prior to COVID.

Ultimately, the decline in demand for dwellings in the vicinity of the market is likely to mean that the potential for market renewal to trigger redevelopment in adjacent areas is also reduced.

Projected rates of growth in employment are also lower in the 'post-COVID world'. Prior to 2020, it was estimated that employment in the City of Melbourne would grow to more than 680,000 by 2038. SGS's revised forecasts project lower than previously forecast growth, with projected growth 82 per cent of previously forecast rates.

4. Financial analysis

This section describes how the Queen Victoria Market Renewal Program impacts Council's finances including the impacts on QVM Pty Ltd's finances.

4.1 Scope of analysis

The financial analysis uses discounted cashflow analysis to generate financial performance measures for the QVMPR Program (Option 1) compared with the Base Case (Option 0). That is, an incremental analysis has been performed to estimate how taking proactive renewal steps impact Council's finances.

The analysis has been conducted over a 30-year timeframe (to 2050) to reflect the longevity of infrastructure works, recognising that periods further afield than this are tenuous to model.

A nominal discount rate of 2.5 per cent has been used to convert future costs and revenues to present day figures.

4.2 Financial items

The financial analysis includes the following items.

Council's capital costs

While the Base Case approach includes no material capital works, substantial upfront capital expenditure is required to deliver the QVMPR Program. These expenditures have been estimated as follows:

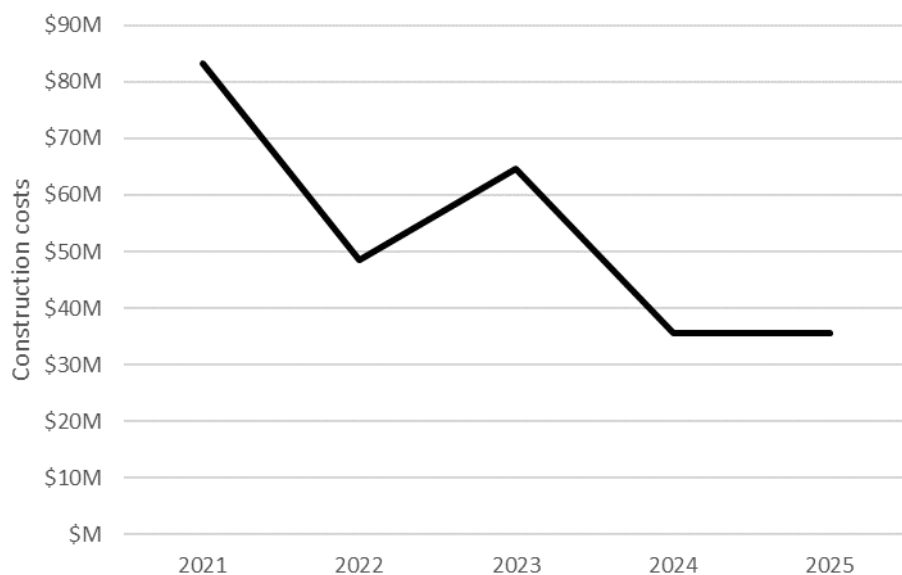
- Base Case (Option 0) has a nominal cost of \$0.0 million
- Project Case (Option 1) has a nominal cost of \$268.0 million gross.

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

Capital works for Option 1 are assumed to begin in 2020-21 and will be completed in 2025-26 (a six-year works program). The quantity and timing of capital expenditure is depicted in Figure 7.

A specific allowance has not been made for the ongoing and cyclical renewal of the Council's market assets under Option 1, i.e. after they are initially renewed. These are assumed to be funded from the Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) returned to Council by the project.

FIGURE 7: CAPITAL COSTS BY OPTION



Source: DCWC and SGS Economics & Planning.

Queen Victoria Market Pty Ltd’s operating costs

QVM Pty Ltd operating costs under Option 0 (Base Case) have been estimated by SGS based on historical operations and the insights gained from the previous section.

Operating costs for Option 1 (QVMPR Program) have been projected by QVM Pty Ltd out to 2026-27 (5 years). SGS has extended the underlying trends incorporated into these projections over the remainder of the 30-year evaluation period.

Escalation rates applied in the forecasts are as follows.

TABLE 7: OPERATING COST ESCALATION RATES BY OPTION

	Option 0 Base Case	Option 1 Project Case
Remuneration costs	103%	104%
Facilities costs	110%	107%
All other costs	104%	104%

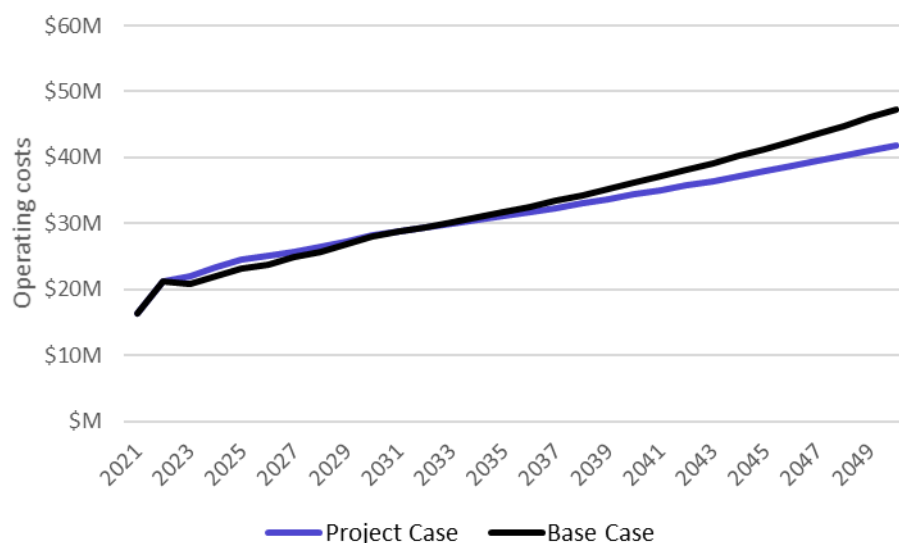
Source: SGS Economics & Planning and QVM Pty Ltd.

This leads to an ultimate increase in operating costs (before interest, tax and depreciation) from \$16.3 million p.a. currently (actual figures for 2021-22) to:

- \$48.6 million for Option 0 (Base Case) by 2049-50
- \$42.7 million for Option 1 (Project Case) by 2049-50.

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

FIGURE 8: QVM PTY LTD OPERATING COSTS BY OPTION



Source: SGS Economics & Planning and QVM Pty Ltd.

Queen Victoria Market Pty Ltd’s operating revenues

QVM Pty Ltd’s operating revenues under Option 0 (Base Case) have been estimated by SGS based on historical operations and the insights gained from the previous section.

The operating revenues for Option 1 (QVMPR Program) have been projected by QVM Pty Ltd out to 2026-27 (5 years). SGS has extended the underlying trends incorporated into these projections over the remainder of the 30-year evaluation period.

Escalation rates applied in are as follows.

TABLE 8: OPERATING REVENUE ESCALATION RATES BY OPTION

	Option 0 Base Case	Option 1 Project Case
Open stands	102%	107%
Open stands (new)		
Leasehold property rentals	103%	103%
Leasehold property rentals (New)		175%
Leasehold property rentals (BoH)	102%	104%
Car parking fees	107%	116%
Night market	110%	110%
Activations	130%	131%
Sponsorships		
Other income	109%	106%

Liquor licensing	113%	113%
Once off jump post implementation	NA	10%

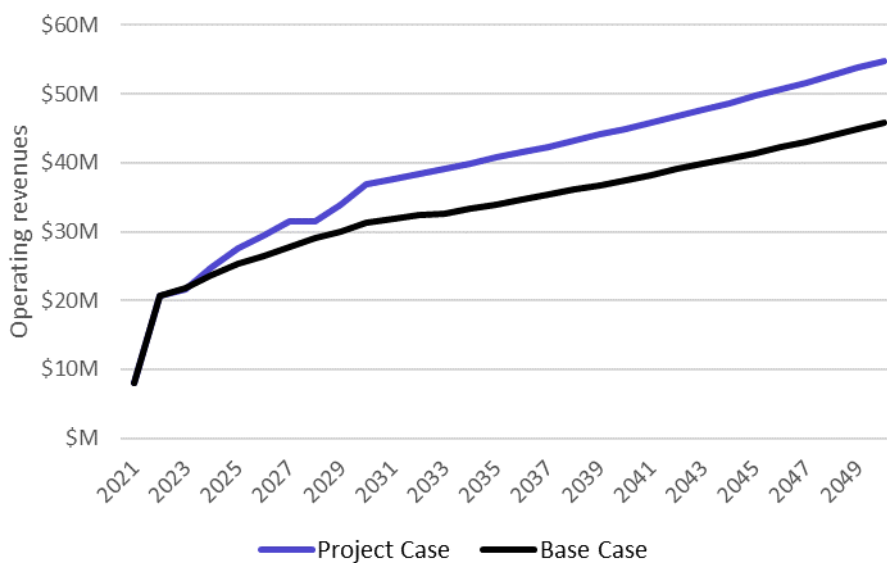
Source: SGS Economics & Planning and QVM Pty Ltd.

This leads to an ultimate increase in operating revenues (before interest, tax and depreciation) from \$8.0 million p.a. currently (budgeted figures for 2021-22) to:

- \$46.0 million for Option 0 by 2050-51
- \$57.3 million for Option A by 2050-51.

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

FIGURE 9: QVM PTY LTD OPERATING REVENUES BY OPTION



Source: SGS Economics & Planning and QVM Pty Ltd.

Council's proceeds of land sales

An estimate of the proceeds from the sale of the Southern Site on Franklin Street, which is currently progressing through a commercial in confidence divestment process, is 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, recognising that in 2050 some ongoing benefit will be available even though the evaluation period ends.

As they age over the course of the valuation period, the market's newly created assets delivered as part of the renewal program, 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 over a 50 year period; meaning that 20 years of unwritten down value is recognised as a benefit in 2050.

4.3 Queen Victoria Market Pty Ltd’s financial performance

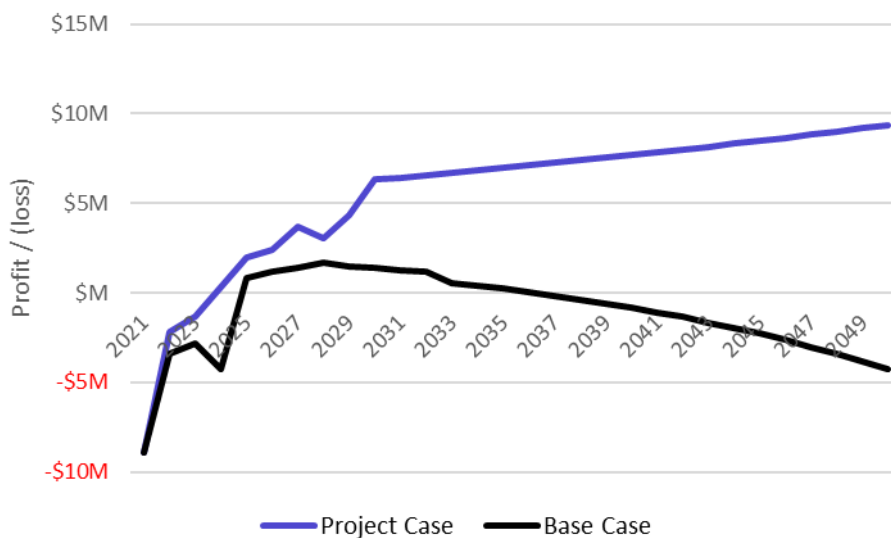
The operating profits of QVM Pty Ltd (before interest, depreciation and tax) are shown in the figure overleaf. This is merely the difference between the operating revenues and costs of QVM Pty Ltd depicted in the figures above.

It should be noted that the actual financial performance of Option 0 (Base Case) is poor, whereas the operating finances of QVM Pty Ltd are estimated to become increasingly robust under Option 1.

Without renewal investment the market will generate operating profits of \$1.7 million or less to 2028, with the modelling suggesting ongoing and increasing losses after that point in time. 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.

Option 1 (Project Case) is cash positive from QVM’s perspective from 2025 onwards, with annual profits growing from ~\$5 million in 2030 to ~\$10 million in 2050.

FIGURE 10: QVM PTY LTD OPERATING PROFITS (EBITDA) BY OPTION



Source: SGS Economics & Planning and QVM Pty Ltd

4.4 Whole project's financial performance

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 the Project Case in comparison to the Base Case.

TABLE 9: DISCOUNTED CASHFLOW ANALYSIS RESULTS*

	Present value (\$m)*
CoM capital costs	\$251
Operating costs (savings)	(\$7)
Total project costs	\$244
Operating revenues	\$145
Proceeds of land sales	\$116
Residual value of assets	\$104
Total project revenues	\$365
NET PRESENT VALUE (NPV)	\$121
INTERNAL RATE OF RETURN (IRR)	5.7%

Source: SGS Economics & Planning

*Nominal discount rate of 2.5 per cent is used to convert future costs and revenues to present day figures. If a higher nominal discount rate of 4.85% is used, the NPV falls to \$22.8 million while the IRR remains unchanged.

The analysis reveals that the Project Case is financially viable. It shows that the incremental cash flow resulting from the Project Case is positive, with a Net Present Value of approx. \$120 million and an Internal Rate of Return of 5.7 per cent estimated.

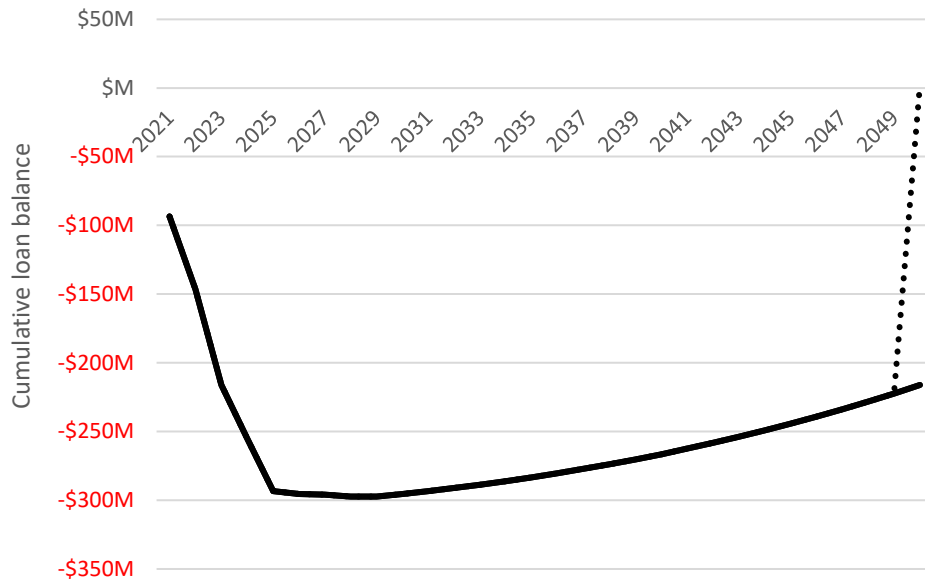
Undiscounted, cumulative cash flow analysis

If the analysis is evaluated from a single 'bank account' perspective, with an interest rate of 1.5 per cent charged on any debit balances, it is possible to assess if the project will ever pay itself off.

The figure below shows that, using such an approach, Option 1 achieves its peak debt, of approximately \$298 million⁶, in 2029. This debt will reduce thereafter as revenue generation begins to outstrip interest payments on the loan facility. As shown in the figure below, if the residual value of assets is included in Year 30, all debts are effectively extinguished. However, recognising that this may be a difficult revenue to realise, if the residual value of assets is excluded, then the project will not be paid off over the 30 year period.

⁶ Council's funding strategy also includes additional revenue items generated within the market precinct, containing Council's financial commitment of up to \$268 gross, down from the originally forecast \$308 million gross as a result of the COVID-19 pandemic.

FIGURE 11: CASH AT BANK ANALYSIS



Source: SGS Economics & Planning.

Note: Dotted line shows cash at bank balance if residual value of assets is included.

5. Cost benefit analysis

This section describes how the Queen Victoria Market Renewal Program performs from a community welfare perspective. It contrasts the project's financial, economic and social benefits with its delivery costs.

5.1 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 levels of wealth.

The CBA builds onto the adjusted financial analysis⁷ by monetising the following benefits, recognising that significant social, economic and environmental costs are not envisaged.

5.2 Local area benefits

Existing shopper enhanced experience

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

The value which *new* customers might place on the improved retail experience would be reflected in the additional travel cost – 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 \$4.14 per visit in 2021 dollars.

⁷ Accordingly, and for the sake of simplicity, the CBA has been prepared in nominal terms, using a nominal discount rate and with all figures escalated using the assumed Consumer Price Index.

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 market precinct. This refers to the shoppers that are 'induced' to shop at market precinct as a result of the improved market precinct facilities.

Refer to Section 3.2 for assumptions about Base Case and Project Case visitor numbers and shares.

Tourism yields

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

While the benefit generated by the precinct for non-Victorian residents cannot be considered a community benefit, the yields derived from their expenditure benefit 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 \$4.14 per visit, as detailed above. Furthermore, if tourists enjoy this boost in 'visit value' versus their outlay (which in the first instance is unpriced), it is assumed that they can be induced to part with around \$4.14 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 market precinct is multiplied by this expenditure figure, and further multiplied by 25 per cent to estimate the yield derived from this expenditure.

5.3 Wider area benefits

Productivity enhancements

Employment projections previously carried out indicated that an additional 11,560 workers would be accommodated within the Market Core area⁸, as a result of the full renewal within 16 years, an implied growth rate of around 722 workers per annum. Updated projections suggest, however, that future employment growth in this region will be only 82 per cent of the pre-COVID forecasts.

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,

⁸ The Market Core area includes the CBD and the suburbs of North Melbourne, Parkville and Carlton.

knowledge intensive sectors gain a much greater lift in productivity from agglomeration, sometimes as high as 15 per cent with a doubling of EJD.

Although workers are likely to work from home more than previously, it is anticipated that agglomeration economies equivalent to 3 per cent will still be generated for each worker.

These productivity improvements have not been escalated over time, using the adopted CPI figure, for the sake of conservatism.

Urban consolidation

Projections previously carried out by Council showed that the renewal of the market precinct had the potential to generate a net addition of 7,000 dwellings in the Market Core area over a 16-year period, i.e. compared with Option 0. Allowing for the construction phase of the renewal, this translates to around 438 additional dwellings p.a.

As discussed in Section 3.4, updated projections show that growth in the number of dwellings is expected to be somewhat lower than thought prior to the pandemic. This being the case, in the context of suppressed demand for inner city living, the potential for new dwellings induced as a result of market renewal is also likely to be only 89 per cent of what was previously projected. This equates to growth in new dwellings under the updated renewal scenario of around 389 dwellings per annum.

SGS Economics & Planning makes the conservative assumption that the market renewal leads to no net increase in housing in Victoria, meaning 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 no renewal investment) 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 growth on the metropolitan fringe, after considering infrastructure renewal costs.⁹ While the value of these savings has been put as high as \$80,000 per dwelling, SGS Economics and Planning has conservatively 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.

⁹ Infrastructure Victoria (2019) Infrastructure Provision in Different Development Settings - Metropolitan Melbourne, Vol 1 Technical Paper.

5.4 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 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 the market's renewal.

TABLE 10: SUMMARY OF COST BENEFIT ANALYSIS (PRESENT VALUES \$000)

	Option 1 Present value (\$m)^
TOTAL CAPITAL & OPERATING COSTS*	\$233
Operating revenues	\$145
Existing shopper benefits	\$367
Induced shopper benefits	\$244
Tourism yields	\$103
Residual value of assets	\$104
TOTAL PROJECT BENEFITS (LOCAL AREA)**	\$963
NET PRESENT VALUE (NPV) (LOCAL AREA)	\$729
BENEFIT COST RATIO (BCR) (LOCAL AREA)	4.13
ECONOMIC INTERNAL RATE OF RETURN (EIRR) (LOCAL AREA)	12%
Productivity enhancements	\$743
Urban consolidation benefits	\$253
TOTAL PROJECT BENEFITS (LOCAL AREA + WIDER AREA)	\$1,959
NET PRESENT VALUE (NPV) (LOCAL AREA + WIDER AREA)	\$1,726
BENEFIT COST RATIO (BCR) (LOCAL AREA + WIDER AREA)	8.4
ECONOMIC INTERNAL RATE OF RETURN (EIRR) (LOCAL AREA + WIDER AREA)	19%

Source: SGS Economics & Planning.

*excludes land taxes and congestion levies paid to Government which are considered transfer payments; not increments to community welfare.

**excludes Southern Development Site sales proceeds, also considered a transfer payment.

^ Nominal discount rate of 2.5 per cent is used to convert future costs, revenues and benefits to present day figures. If a higher nominal discount rate of 4.85% is used, the NPV (Local Area) falls to \$390.5 million, the BCR (Local Area) reduces to 2.71 while the IRR (Local Area) remains unchanged.

The analysis reveals that the incremental benefits resulting from Project Case cause a Net Present Value of approx. \$730 million to be generated, along with a Benefit Cost Ratio of 4.13 and an Economic Internal Rate of Return of 12 per cent. Essentially this means that progressing the Project Case is well worth doing from a community welfare perspective, with each dollar invested returning \$4 in value to the local community.

Wider area benefits and non-quantified benefits, refer below, are also described in this report. When they are incorporated into the results, the case for the QVMPR Program becomes even more compelling.

5.5 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 was formally accepted for inclusion onto the Victorian Heritage Register in 1989 and the National Heritage List in 2018. Not only has the market served the people of Melbourne continuously since at least 1878, it was previously the site of Melbourne's first official cemetery and is also an important Aboriginal cultural place. It is part of the land of the Kulin Nations and includes an Aboriginal burial area of the former cemetery, which is specifically recognised under the *Aboriginal Heritage Act 2006* as an Aboriginal historic place.

The Queen Victoria Market itself is a Victorian institution with a history that 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 market's renewal 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 market precinct 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 6-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.

6. Economic impact analysis

This section details how economic activity in the City of Melbourne's economy is supported by the Queen Victoria Market, and how this contribution lifts under the Precinct Renewal Program.

6.1 Modelling approach

The economic impact analysis traces how the construction and operating phases of the QVMPR Program will directly and indirectly impact on the City of Melbourne economy's income, value added, and employment levels over the course of the project.

To do this, the modelling:

- Identifies the economic stimuli linked with the project's construction and operating stages
- Aligns these stimuli with local industry groups on an annual basis
- Generates economic multipliers for these local industries using SGS' in-house input output modelling¹⁰
- Multiplies the direct stimuli with the economic multipliers to assess how indirect impacts flow through and accumulate in the local economy in terms of local:
 - Income (output) generation
 - Value added generation
 - Job creation.

6.2 Direct economic impacts

The direct economic impacts of the market include:

- Capital expenditures , which stimulate the local construction industry, and
- Retail expenditures made by market visitors, which stimulate the local retail industry.

As outlined in the previous sections, under the market renewal scenario (Option 1), capital expenditures and visitor expenditures will increase compared to the Base Case (Option 0), thereby lifting the market precinct's contributions to the City of Melbourne's economy.

¹⁰ While input-output analysis is often criticised for overstating the economic impacts of projects, SGS has established a rigorous process for moderating the IO multipliers generated. Essentially, SGS scales down Australian level economic multipliers, originally derived from the industry-by-industry transactions table in the ABS' National Accounts, to state than local area levels reflecting each geography's economic size, composition and concentration of specific industry groups. SGS then further reduces the multipliers generated after assessing the level of underutilised labour in the economy, at the time of modelling, to ensure that competition effects are appropriately reflected.

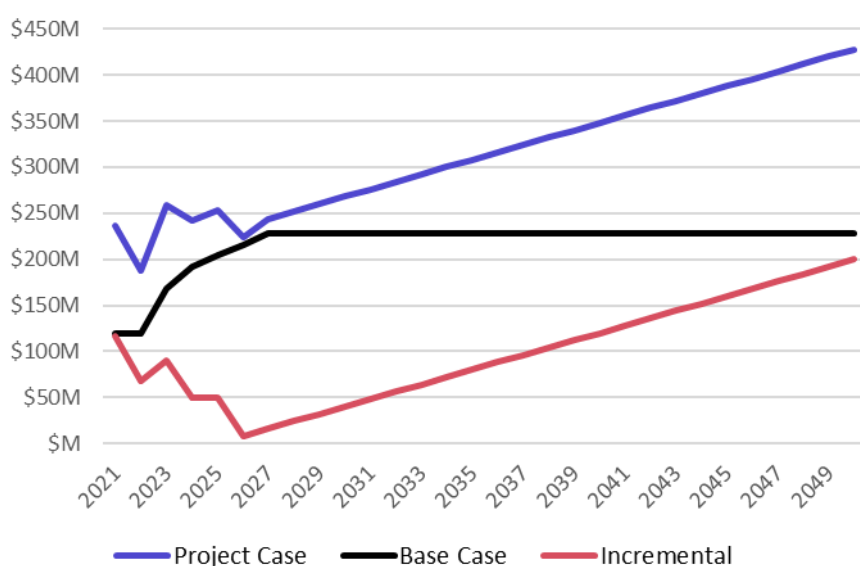
6.3 Total economic impacts

Income generation

The figure below shows how income earned in the City of Melbourne economy changes as a result of QVM’s operations under the Base Case and the Project Case, with the incremental (red) line reflecting the difference between the two.

During the renewal program’s capital works, income generation increases by \$116.6 million in 2021, with annual income increases reducing in line with the value of works completed in each year of the renewal program. After renewal is complete, incremental income generation grows from \$7.9 million in 2026 to reach \$200 million per annum in 2050.

FIGURE 12. TOTAL INCOME (OUTPUT) LINKED WITH QVM – OPTION 0, OPTION 1 AND INCREMENTAL



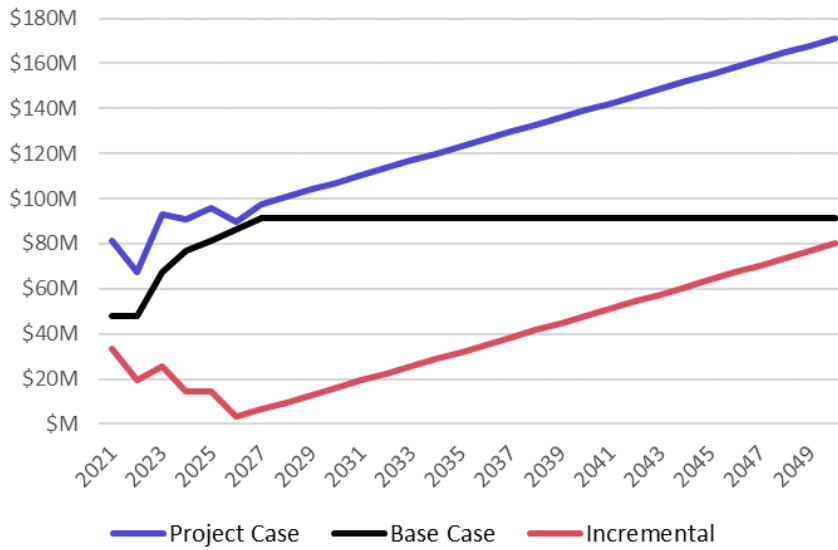
Source: SGS Economics & Planning.

Value added generation

The value added derived from the income gains depicted above, i.e. by producers within the City of Melbourne in the form of profits earned and wages paid, is shown in the figure below.

During the renewal program’s capital works, value added generation increases by \$33.3 million in 2021, with annual value added increases reducing in line with the value of works completed in each year of the renewal program. After renewal is complete, incremental value added generation grows from \$3.2 million in 2026 to reach \$80 million per annum in 2050.

FIGURE 13. VALUE ADD GENERATED – OPTION 0, OPTION 1 AND INCREMENTAL



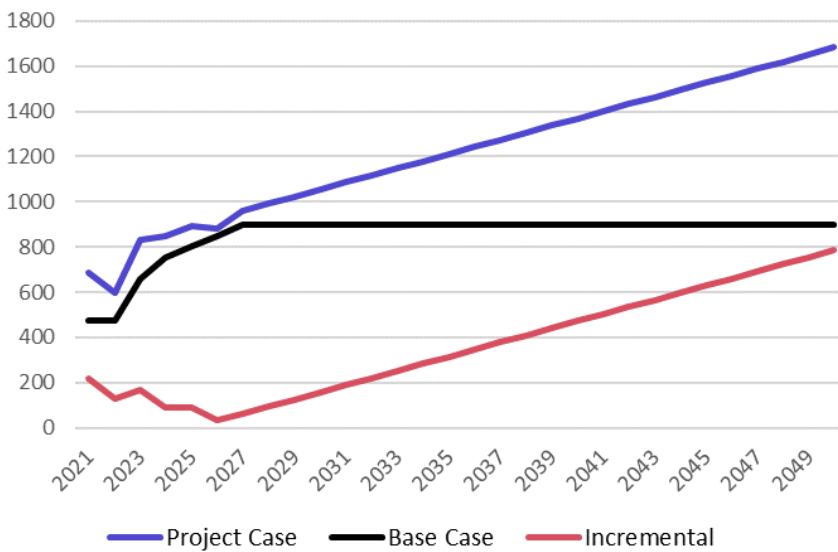
Source: SGS Economics & Planning.

Job creation

Under the Project Case, incremental construction phase jobs peak in 2021 at 217 full time equivalents (FTE), falling to 92 FTE by 2025. Incremental jobs stemming from the post construction phase of the renewal program commence at 31 FTEs in 2026 before increasing in each subsequent year to reach 787 jobs supported in 2050.

Incremental employment generated by the renewal program is 10,922 FTE job years in total or 340 FTE jobs per year on average over the 30 year evaluation period.

FIGURE 14. TOTAL EMPLOYMENT GENERATED – OPTION 0, OPTION 1 AND INCREMENTAL



Source: SGS Economics & Planning.

7. Sensitivity analysis

This section illustrates how the performance measures in the financial, cost benefit and economic impact analyses change when underlying assumptions are altered.

7.1 Sensitivity tests

SGS Economics and Planning has assessed the likely impact on the project's performance linked with pessimistic and optimistic changes in the underlying assumptions, as follows:

- A 25 per cent increase/ decrease in the capital costs, reflecting a range of risks associated with the development of major infrastructure.
- A reduced/ increased rate of market revenue and visitation growth in which the level of activity induced under each of the project options is 75 per cent/ 125 percent of that anticipated. This reflects risk associated with a downturn in local, national or global economic conditions that might lead to reduced local and/ or tourist expenditure.
- A variation in the nominal discount rates used to convert future costs, revenues and benefits to present day values, i.e. 1 per cent and 5 per cent versus the originally adopted 2.5 per cent per annum.

SGS Economics and Planning also tested the combined impact of the above changes in construction costs, revenue/ visitation and discount rates.

The tables below show the impact of each of the scenarios on the performance of Option 1. The analysis reveals that under the most pessimistic scenario, that is the cumulative effect of all three changes listed above, the Project Case will have a negative NPV of \$64 million, but will continue to generate a BCR of 1.68 and incremental (over and above the Base Case) FTE job years¹¹ of 8,540. From a cost benefit perspective, the project would continue to have merit under a pessimistic scenario.

Under the most optimistic scenario (i.e. reduced capital costs, increased visitation and a lowered discount rate), the Project Case would have an NPV of \$339 million, a BCR of 9.25, generating a total of 13,305 FTE job years.

It is noted that the sensitivity analysis does not test the sensitivity of the scale of wider area benefits and impacts.

¹¹ One job year equals one full time job created for a period of one year.

TABLE 11: SENSITIVITY ANALYSIS – PESSIMISTIC SCENARIOS

	NPV (\$m)	BCR	Total job years created
FINANCIAL ANALYSIS			
A) Base scenario	\$121m	NA	NA
B) Increase in capital costs (+25%)	\$58m	NA	NA
C) Reduction in visitation (-25%)	\$84m	NA	NA
D) Discount rate to 5%	\$18m	NA	NA
B), C) and D) combined	(\$64m)	NA	NA
COST BENEFIT ANALYSIS (LOCAL AREA)			
A) Base scenario	\$729m	4.13	NA
B) Increase in capital costs (+25%)	\$666m	3.25	NA
C) Reduction in visitation (-25%)	\$542m	3.32	NA
D) Discount rate to 5%	\$375m	2.64	NA
B), C) and D) combined	\$195m	1.68	NA
ECONOMIC IMPACT ANALYSIS (LOCAL AREA)			
A) Base scenario	NA	NA	10,922
B) Increase in capital costs (+25%)	NA	NA	11,096
C) Reduction in visitation (-25%)	NA	NA	8,366
D) Discount rate to 5%	NA	NA	10,922
B), C) and D) combined	NA	NA	8,540

Source: SGS Economics and Planning.

TABLE 12: SENSITIVITY ANALYSIS – OPTIMISTIC SCENARIOS

	NPV (\$m)	BCR	Total job years created
FINANCIAL ANALYSIS			
A) Base scenario	\$120m	NA	NA
B) Decrease in capital costs (-25%)	\$184m	NA	NA
C) Increase in visitation (+25%)	\$157m	NA	NA
D) Discount rate to 1%	\$226m	NA	NA
B), C) and D) combined	\$339m	NA	NA
COST BENEFIT ANALYSIS (LOCAL AREA)			
A) Base scenario	\$729m	4.13	NA
B) Decrease in capital costs (-25%)	\$792m	5.64	NA
C) Increase in visitation (+25%)	\$917m	4.93	NA
D) Discount rate to 1%	\$1,070m	5.59	NA
B), C) and D) combined	\$1,385m	9.25	NA
ECONOMIC IMPACT ANALYSIS (LOCAL AREA)			
A) Base scenario	NA	NA	10,922
B) Decrease in capital costs (-25%)	NA	NA	10,748
C) Increase in visitation (+25%)	NA	NA	13,479
D) Discount rate to 1%	NA	NA	10,922
B), C) and D) combined	NA	NA	13,305

Source: SGS Economics and Planning.

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