

WHOLESALE'S ADVISORY COMMITTEE – MINUTES

HELD AT THE MELBOURNE MARKET AUTHORITY BOARD ROOM
MONDAY 25TH JUNE 2012, 8.00AM – 9.00AM

ATTENDEES & APOLOGIES

Wholesalers' Advisory Committee Members

Stephen Wirtz – Chairman, Wholesaler Advisory Committee
Grant Nichol
Shane Schnitzler
Vince Brancatisano
Harry Kapiris

DBI Representatives

Mary Baker Jane Niall

MMA Representatives

Neil Lowe Chairman
Steve McArthur – Board Member
Allan Crosthwaite – CEO
Aurora Kostezky – Legal Counsel
Megan Sandiford – Minute Taker
Rozita Hana – Minute Taker

Meeting opened at 8.05am.

DBI gave a brief overview of the Rent Options discussion paper. The main points made were:

- Committee members noted the Ministers commitment to an open and transparent consultative process and the desire to receive comments from all stakeholders.
- Committee members were briefed on the financial modelling that underpinned the various options provided in the consultation paper.
- It was noted that the financial model considers the capital costs and risks for both the trading floor complex and the warehousing, and includes a detailed operating model for the Epping market that incorporates operating costs and revenues, and operating risks into the overall financial model.
- Committee members noted that the financial modelling had been validated by Deloitte, Ernst & Young and the Department of Treasury and Finance prior to the release of the consultation paper. It was also noted that Treasury is responsible for providing the guarantee for loan funds.
- There are a number of assumptions contained in the model including opening date, occupancy rates, operating costs, warehousing volumes and interest rates. These can all be varied and the model adjusted to understand the outcomes in a variety of circumstances.
- The model solves to cover the cost of servicing the debt and market operations. Committee members noted that the Government is not seeking to recover the taxpayer contribution of \$480 million – only to service debt and meet the operating costs.
- Committee members noted that the model takes into account the mix of funds available (both debt, up to \$120 million and State funds) to achieve the best

outcomes for rents. Committee members noted the complexity required to balance the State funding and debt between the trading floor complex and the market warehousing whilst maintaining an acceptable level of return to service the debt. It was also noted that consideration had been given towards warehousing rents that are commercially acceptable.

- Committee members were advised that there is no budget shortfall for the relocation project. The project is within the budget and adequate funds are available to complete the construction.
- Committee members noted that the various options presented in the paper demonstrate what happens when you change the modelling of State funding between the trading floor complex and warehousing.
- Committee members noted that the rent revenue is apportioned between the various asset classes (stores, fruit and vegetable stands and flower market) and can also be varied. For each of the four scenarios represented, two options are provided. One maintains the current rent relativities between the different asset classes and the other equalises the rents between the fruit and vegetable and flower market stands.
- Committee members were advised that each scenario should be regarded as a discrete package and that it is not possible to pick out elements from the different packages and create a new hybrid package.
- It was noted that the rent options provided in the paper are expressed in today's dollars (2012) and are the average rent calculated for each market segment. Rents are based on 10 year leases.
- DBI advised that a technical briefing regarding the financial model will be held late next week for all advisory committee members.
- Committee members noted that comments on the rent options paper are due on the 16 July.
- Committee members noted that the options paper is based on 2012 dollars.

The committee member comments;

- Committee members commented that preliminary stakeholder calculations have indicated that an escalation of the current revenues and operating costs including annual increases (CPI) to the opening date of the new market would support no increases in rents.
 - Committee members were advised that a full understanding the Epping financial modelling is required to understand the revenues and expenses. The committee also noted that the current financial model had been reviewed by Deloitte, Ernst & Young and Treasury.
- The committee discussed the relationship between the TFC and warehousing and in particular when more information would be provided relating to warehousing.
 - The committee was advised that a discussion paper on warehousing would be released to all stakeholders for comments.
- Committee members noted the remaining \$8 million identified in the operating model.
 - It was noted that the \$8 million related to commercial revenue such as parking, forklifts, access cards etc.
- Committee members noted that the wholesalers will have major costs relating to fit outs in the new market and more information was required. It was noted that the fit out requirements will be needed when considering the rent options.

- The committee were advised that the fit out guidelines would be released prior to Agreements for Lease.
- Committee members noted the need to know the full financial and operational design of the new market before signing any lease for Epping. The committee noted the following examples of what information is required;
 - The By-Laws/Operating Rules at Epping?
 - Can wholesalers sell direct out of their warehouse?
 - Time restrictions for access?
 - Access card usage restricted to trading floor or warehousing or both?
 - 10 year lease – what does this include? Will there be additional costs forecasted which are over and above the CPI increase?
- The committee noted that the information will be provided as it becomes available. Committee members noted that there appear to be defects in the construction of stores; particularly the placement of rollers doors where it reduces the internal space by 1 meter, as well as the insertion of condensation pipes where concrete will need to be cut so pipes can be inserted forcing another loss of 1 meter for pallets and racking. Also, placement of drains for small stores will prove dangerous for forklifts when travelling over.
 - The committee members' comments were noted and assured that every assistance will be provided to address the concerns. It was noted that variations to the construction would not be considered at this stage.
 - It was requested that the committee provide formal written details with regards to any construction concerns and to assist with this process a site visit would be arranged in the future.

Date of Next Meeting

- To be advised.

ACTIONS ARISING

- Organise a visit to the Epping site – **MMA with DBI**
- A formal letter to be written to DBI regarding design problems/implications - **Wholesalers**
- Email measurements of growers floor - **DBI**

Meeting closed at 8.55am