

## **14.1 South Melbourne Market Annual Report**

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### **Question from Cr Pearl**

The report indicates a loss of \$516,000 over the 18/19 financial year. Only Four years ago the Market was making a surplus of over 1 million dollars. Could you give some background on why the market has lost over half a million dollars this year and whether or not this loss was budgeted at the beginning of the financial year and if there is a budgeted profit for this financial year?

### **Response**

Councillor Pearl,

The SMM Annual report records a loss of \$516K over the 18/19 financial year, compared to a surplus of \$212K in FY 17/18, while in FY 2015-16 the market reported an operating surplus of \$210K. Note the figures are not directly comparable due to Fire Service and Congestion Levy charges not being charged to the market in prior years. Directly comparable figures are outlined in Table 2 on the page that follows.

Could you give some background on why the market has lost over half a million dollars this year?

- (1) The main reason for the \$516K current year loss is attributed to the movement in Contract Payments for Security services, which was \$300K higher than original budget due to the need to increase the security presence at the market to comply with the Safety Audit recommendations conducted by an independent expert.
- (2) As advised earlier the market also paid for reports commissioned on Traffic, SGS Economic Review and the Building Compliance Report. These were an additional \$613k under Professional Services.
- (3) The markets reported profits for the last 4 years are shown in the table 1 below. The operating result four years ago (FY 15-16) was only \$210K. However, the cash surplus (after adding back depreciation and removing capital expenditure), which is a different line item in the income statement, reports a cash surplus of \$734K. For comparative purposes the cash surplus in 18/19 was \$47K and in 17/18 it was \$973K.

Table 1: Comparative Profit and Loss (Income) Statement reported as per SMM Annual reports:

**South Melbourne Market Financial Report (Income Statement) for financial years 2015-16 to 2018-19.**

	2018/19 \$'000	2018/19 \$'000	2017/18 \$'000	2016/17 \$'000	2015/16 \$'000
<b>Income</b>	<b>Budget</b>	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>
Licence Fees	6,032	6,366	6,094	5,677	5,333
Parking fees	600	581	579	557	529
Cooking School Income	220	266	229	223	224
Other income	347	235	171	169	176
<b>Total Income</b>	<b>7,198</b>	<b>7,448</b>	<b>7,072</b>	<b>6,626</b>	<b>6,262</b>
<b>Expenses</b>					
Employee costs	1,534	1,561	1,491	1,208	1,126
Advertising, Events and Publicity	648	580	729	634	621
Contract Payments	1,846	2,434	2,075	2,536	1,959
Professional Services	979	842	195	256	262
Utilities, Insurance, Taxes & Levies *	893	976	843	717	281
Bad and doubtful debts		(1)	(33)	(7)	
Depreciation and amortisation	1,297	1,320	1,296	1,196	1,151
Borrowing costs		-	-	-	
Head Office Costs	126	130	124	120	154
Other expenses	140	122	140	123	498
<b>Total Expenses</b>	<b>7,463</b>	<b>7,964</b>	<b>6,860</b>	<b>6,783</b>	<b>6,052</b>
<b>Reported Operating Surplus/(Deficit) for the year</b>	<b>(265)</b>	<b>(516)</b>	<b>212</b>	<b>(157)</b>	<b>210</b>
<b>Adjustments for non-cash operating items:</b>					
• Add back depreciation	1,297	1,320	1,296	1,196	1,151
<b>Adjustments for investing items:</b>					
• Less capital expenditure	(1,241)	(757)	(535)	(844)	(627)
<b>Cash Surplus/(Deficit) for the Year</b>	<b>(209)</b>	<b>47</b>	<b>973</b>	<b>195</b>	<b>734</b>

**Question (part 2): Whether or not this loss was budgeted at the beginning of the financial year and if there is a budgeted profit for this financial year?**

- (1) The 2018-19 Budgeted Operating Deficit for the Market was \$265K and the updated forecasted loss was \$199K. This was included as part of the draft 2019-20 budget proposal submitted to the committee earlier this year in April. For the 2019-20 budget there is a planned Operating Surplus of \$230K.

Table 2: Comparative Profit and Loss (Income) Statement adjusted for years that did not include Fire Services and Congestion Levy:

**Table: 2 SMM Adjusted Surplus (Deficit) Including Congestion and Fire Services Levy from 2015-16 to 2017-18**

	2018-19	2017-18	2016-17	2015-16
<b>Reported Operating Surplus/(Deficit) for the year as per Annual report.</b>	<b>(516)</b>	<b>212</b>	<b>(157)</b>	<b>210</b>
<b>Less</b>				
Congestion Levy	Already Included	(272)	(267)	(261)
Fire Services Levy	Already Included	(27)	(26)	(26)
<b>Like for Like "True" Operating Surplus/(Deficit) after adding back Levy's</b>	<b>(516)</b>	<b>(87)</b>	<b>(450)</b>	<b>(77)</b>