



KEMPSEY
Shire Council

DIRECTOR CORPORATE SERVICES REPORT

21st November 2005

DCS2	FUTURE MANAGEMENT OF CARAVAN PARKS FILE: *	SJR
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SUMMARY:

Reporting on the need for Council to determine its preferred option for the future management of Council's Caravan Parks.



Council has the following options for the management of its Caravan Parks:-

- 1) direct management by day labour employment.
- 2) manage by contract managers (one or more of the Parks) – short term or long term.
- 3) leasing out (one or more of the Parks) – short term or long term.

Council has 6 caravan parks, (2 operated under lease and 4 with Contact Managers) and the Goolawah camping grounds (contract manager), all of which are located on Crown Reserves.

Leased Parks

The lease of Horseshoe Bay Caravan Park is due to expire in January 2009 and the lease of South West Rocks Tourist Park expires September 2015, with a further 10 year option available to the Lessee.

Lease rentals (Horseshoe Bay \$71,780 and South West Rocks Tourist Park \$41,990 = \$113,770 p.a.) are reviewed annually with market rent reviews every 5 years. There may be some capability of earning additional revenue from these parks upon lease renewal, but such is not available in the short-term.

The Draft Plan of Management for the Horseshoe Bay reserve recommends (for economic reasons) the retention of the Caravan Park for "another lease period or placed under contract

management", albeit that changes be made to boundaries, layout, etc.

Council may wish to consider operating the Horseshoe Bay Caravan Park under contract management rather than leasing after January 2009.

The Crown Reserves Management Trust levy is 10% on leased Parks, as compared to 5% on Council managed Parks.

Contract Management

4 Shore Tourist Parks

The Contract Management arrangement with Family Holiday Experiences Pty Ltd for the 4 Shore Holiday Parks (Crescent Head, Hat Head, Stuarts Point and Grassy Head) expires 30th June 2006 and a determination as to which management option is to be adopted for the period after 30th June 2006 needs to be made at this meeting to allow sufficient time for calling tenders/leases and giving the current Contractors adequate notice.

The current contract provides for the manager to:-

- i) provide broad based management of 4 parks; the shops/kiosks at Crescent Head and Hat Head; and the maintenance of the day visitation areas.
- ii) Collect all camping fees and pay to Council a fee equivalent to 48% of the Gross Revenue. This % is increased to 55% for any new or updated cabins installed after commencement of the lease, ie. 1st July 2005.
- iii) pay all operating expenses incurred in the operation of the parks (as identified).
- iv) rent the kiosk at Crescent Head under the terms of a commercial lease (current rental \$15,600pa + GST).
- v) carry out advertising, marketing and promotions with an annual expenditure to be maintained at a level of not less than 3.5% of gross annual income.

Council is responsible for the payment of Council Ordinary rates, garbage rates and maintenance of below ground water and sewer pipes. Council has the right to inspect and audit the Manager's Financial Records.

In 2004/05 the 4 Shore Holiday Parks achieved an Surplus of \$334,414 (after including the expenses of maintaining adjacent Day Visitor Areas). Approximately \$126,000 of this surplus is transferred to fund expenditure on other Crown Land Reserves, and

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the remainder, \$208,000, is reinvested in improvements and upgrading of the 4 Shore Parks.

The following is a summary of the trading results for each of the Parks for the 2004/05 financial year -

	<u>Crescent Head</u>	<u>Hat Head</u>	<u>Stuarts Point</u>	<u>Grassy Head</u>	<u>Total</u>
Operating Income	\$618,351	\$292,094	\$175,834	\$88,048	\$1,174,329
Expenditure					
Administration, Lifesaving, Beach Clean	67,400	32,601	19,696	9,862	129,561
Working & Maintenance	124,916	88,683	64,897	48,314	326,811
Interest Expenses	51,837	1,683	1,507	1,779	56,806
Loan Principal	281,446	12,832	18,504	13,955	326,737
Total Expenses (excl Deprec)	525,599	135,800	104,604	73,911	839,915
Net Profit	\$92,751	\$156,294	\$71,230	\$14,137	\$334,413

The current financial viability of the Parks has been affected by the recent heavy expenditures on upgrading and improvement works eg. Crescent Head.

The short-term future viability of the Parks will be effected by:-

- the impact of full year loan repayments raised in 2004/05,
- loan repayments for loans raised 2005/06.
- additional income from additional cabins installed.

If we extrapolate from the 2004/05 results the indicative financial results for the Parks in the short-term (and after completing of the capital works proposed for the next two (2) years), are as follows:-

	<u>Crescent Head</u>	<u>Hat Head</u>	<u>Stuarts Point</u>	<u>Grassy Head</u>	<u>Total</u>
2004/05 Net Profit	\$92,751	\$156,294	\$71,230	\$14,137	\$334,413
Add: Additional Income					
- Cabins	52,800	22,550	19,800	16,320	111,470
- Annual Fee Increase	37,000	17,500	10,550	5,200	70,250
Less: Additional Loan Repayments	-	81,810	41,480	14,340	137,630
Projected Net Profit	\$182,551	\$114,534	\$60,100	\$21,317	\$378,503

Looking further into the future the financial performance of the Parks will improve significantly as and when loans are paid-out. The following is a listing of loan pay-out savings –

Loan Pay-out Savings

2007/08	-	\$105,254
2010/11	-	\$ 29,628
2011/12	-	\$173,745
2013/14	-	\$ 68,402
2014/15	-	\$ 48,456

\$425,485

Opportunities for an improved return on Caravan parks include –

- higher % return from future Contract Manager
- increase Park site fees
- install additional cabins (short-term cost for longer-term gain).

As the Caravan Parks are all on Crown Reserves the funds earned must be expended on those Reserves, or with the Ministers consent may be applied to another Reserve. Thus, the earnings from the Caravan Parks could indirectly represent an avenue to save on General Fund expenditure.

Goolawah

The Contract Manager arrangement with Steve Cameron for caretaking of the Goolawah Reserve camping grounds expired 30th June 2002, but has been extended by agreement on the same terms, ie. retainer of \$25,200pa plus incentive of 20% on fees collected in excess of \$27,000pa (\$32,252 in 2004/05).

Formal contract renewal has previously been postponed in view of employer-employee considerations and the proposal for the area to be transferred to the National Parks and Wildlife Service.

The Contractor has now submitted a request for review of payments, and has proposed the following remuneration -

Labour	-	\$35,500 p.a.
Vehicle Expenses	-	\$ 6,000 p.a.
Insurances	-	<u>\$ 3,000</u> p.a.
		<u>\$44,500</u> p.a.

Goolawah Camping ground operates at a small loss (\$3,397 in 2005/06), and Council has previously resolved to investigate future options with a view to updating the Plan of Management.

Some preliminary discussions have been held with National Parks and Wildlife Service regarding the future of the Reserve. Council as Reserve Trust Manager needs to establish its position. Does Council wish to keep control of this area? Albeit that it will entail an ongoing financial liability, with the amount depending upon the level of service and management regime to be employed.

Earlier this year Councillor Green raised concern with the management of the area in regard to the safety and well being of people visiting the area and protection of the fragile environment.

Consideration of Future Management Options

An assessment of management options for Council's Caravan Parks has been undertaken on a number of occasions in the past seven (7) years.

In 2004 during discussions on the preparation of park management plans, Mr Derek Sinclair of Integrated Site Design agreed to provide a report on options for the future management of the parks from the perspective of a person with a broad working knowledge of the caravan park industry and recent developments therein.

The report by Derek Sinclair will be distributed to Councillors as a Confidential Report (under separate cover).

This report suggests that the critical matters for determination are: -

- i) what level of involvement does Council wish to have in the operation of the parks? And
- ii) what is the potential to maximise net retained revenue?

In August 2002 the General Manager provided a report on the operational comparison between lease, contract management, and day labour.

That report summarised the findings as –

"A combination of all parks shows that a day labour operation would be most profitable. A split up of the Caravan Parks shows that in the future: -

- Crescent Head Caravan Park should be operated by day labour.
- Hat Head Caravan Park could be operated by day labour, contract management, or lease
- Stuarts Point and Grassy Head should be operated by either contract managers or lessees.

By taking Crescent Head away from the Tender process Council may not receive the current return of 48% of income from a contract manager and may not receive a premium contribution of 10% from a lessee.

Council could pursue the following scenarios: -

- A. Manage all the caravan parks by day labour.
- B. Manage all the caravan parks by contract managers.
- C. Lease all of the caravan parks.
- D. Manage Crescent Head by day labour and call Tenders for the contract management or lease of the remaining parks.
- E. Manage Crescent Head and Hat Head by day labour and call Tenders for the contract management or lease of the remaining parks.

- F. Manage Crescent Head by day labour call Tenders for the contract management of Hat Head and Stuarts Point and for the lease of Grassy Head”.

Day Labour Option

Whilst the day labour option has been identified as having the potential to be the most profitable, it would bring the “business” operation more into the arena of being politicised.

Also, to properly run the business Council would need to significantly increase its administration manpower, by say 3 staff. This could have long-term industrial implications for Council.

Leasing Option

Earlier this year Council commissioned a report from Ken Buckley Brokers to give a market opinion on leasehold premium and annual rentals which may be obtainable for the leasing of the Parks.

A copy of the report to the Caravan Park Committee meeting of 30th August 2005 is attached at Confidential [\(Appendix C\)](#).

The Caravan Park Committee resolved (and Council adopted) that the report be referred to the “Think Tank” meeting.

Other Proposals

The proposal for development of the Killick Waters (Crescent Head) lands as an Eco Tourism Caravan Park has been on Council’s list of ideas for many years, but has been deferred pending completion of upgrading programs on other Parks; an inability to identify a source of funding for development costs; and some environmental concerns.

Council may wish to evaluate this proposal by applying resources for feasibility studies and project management.

REPORT IMPLICATIONS:

- ***Environmental***

Nil

- ***Social***

Nil

- ***Economic (Financial)***

Included in body of report.

- ***Policy or Statutory***

Nil

▪ *Director's Review*

It would be preferable to both Council management, and to prospective respondents, that Council identifies its preferred option as to make an "open" call of tenders for management or lease would involve considerable resources to deal with both properly.

RECOMMENDATION:

1. That Council invite Tenders for the contract management of the 4 Shore Tourist Parks comprising the Crescent Head, Hat Head, Stuarts Point and Grassy Heads Caravan Parks for a term of five (5) years commencing as from 1st July 2006.
2. That Council determine its preferred option for the future management of Goolawah Reserve.

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G B Snape
DIRECTOR CORPORATE SERVICES