



KEMPSEY
Shire Council

DIRECTOR CORPORATE AND COMMUNITY SERVICES SUPPLEMENTARY REPORT

3rd February 2009

DCCS20 SUPP	OPERATION OF KEMPSEY REGIONAL SALEYARDS FILE: 255	SJR	{ Folio No. * }
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SUMMARY:

Reporting on considerations for the control and future operation of Kempsey Regional Saleyard

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BACKGROUND:

Council resolved on 15th January 2008:

- "1. That a report be submitted to Council within 12 months on the control and future operation of Kempsey Regional Saleyard.*
- 2. That Council investigate the use of the Saleyards on additional days."*

A further Council resolution adopted 9th September 2008 was:

- "1. That the environmental levy be the source of funding for current and future Saleyards environmental upgrade works.*
- 2. That the incoming Council give consideration to establishing a focus group to formulate future upgrade programs."*

In response to a Notice of Motion submitted to Council's 16th December 2008 meeting for the appointment of an auditor to conduct an audit of the Kempsey Saleyards, it was resolved –

"That this matter be deferred pending the receipt of the report requested on 15th January 2008 to be received by 3rd February 2009 and the outcomes of the Saleyards Focus Group."

The Focus Group has been formed and its purpose defined as:

"To discuss the control and future operations of Kempsey Regional Saleyards and to investigate the use of the Saleyards on additional days with perhaps additional agents"

It was hoped that the outcomes of the Focus Group would have been available for consideration in conjunction with this report on the operation of the Saleyards, however the Focus Group has not finalised its task at the time of writing this report.

The Focus Group has met on 9th December 2008 and 13th January 2009 and is expected to wind-up in February 2009 with a report to be available for Council's March 2009 meeting.

Kempsey Regional Saleyards - Current Situation

Local Government has operated saleyards in the Macleay Valley for many years (early 1900's), and at the current site on Saleyards Road (2km from CBD) since 1969.

The Macleay Valley has a long history of a substantial beef and dairy industry and the Saleyards have been at the centre of this, providing a service to both producers, operators and end users.

Kempsey Regional Saleyards are well located mid-way between saleyards at Taree (50,000 head) in the south and Grafton (65,000 head) in the north, with other nearby smaller saleyards at Wauchope (12,000 head) and Macksville (17,000 head).

Eight (8) years ago Council decided to undertake an upgrading program due to the age of the old infrastructure and the need to improve facilities to comply with –

- Environmental conditions
- OH&S requirements
- "best practice" facilities

Council has now invested approximately \$2M in upgrading the saleyards to achieve its objective of a facility which is truly of "Regional" standard.

The facility comprises a covered selling ring and grandstand; canteen; liveweight scales; NLIS scanning; 126 holding pens of steel with concrete floor; 58 delivery pens of steel with gravel floor; 6 loading/unloading chutes; truckwash; effluent treatment system; and 3 holding paddocks. The complex is capable of processing more than 2,000 head of cattle per sale.

Market Day sales are held fortnightly on a Thursday with special Breeder Store sales held on a Saturday every 4 weeks. Other special sales such as Bull Sale, Bullock and Steer Sale, Female Sale, etc. are scheduled as required. In all a total of 42 sales per annum are held.

Stock throughput has been increasing at 3-4%pa, with 38,000 head sold in 2007/08.

Council owns the saleyards facility and is responsible for the provision of all infrastructure, the ongoing upgrading, and maintenance thereof.

The day to day operation and conduct of stock markets is a function of the Agent – Kempsey Stock and Land – who operate under a lease from

Council which gives them exclusive use on those days. The lease expires 31st December 2009.

Other Agents could make arrangements with Council to operate on days other than those allocated to Kempsey Stock and Land.

The Kempsey Regional Saleyards was accredited under the National Saleyards Quality Assurance Program in 2001 and has maintained that accreditation via annual re-inspections by AUSMEAT. This program ensures that sellers and buyers can confidently trade knowing that the cattle they sell/buy are processed in accordance with appropriate standards.

BUSINESS STRATEGY

Kempsey Shire Council has as one of its GOALS –

“Undertake business activities which fulfil a need in the community and/or generate revenue for Council”.

The following Vision and Goals have been adopted for the Kempsey Regional Saleyards –

Vision

To have the Kempsey Regional Saleyards become the preferred saleyard facility for both vendors and buyers of all forms of livestock throughout the mid north coast.

Goals

- *To provide a high quality venue for the efficient presentation of livestock for liveweight and open auction sale.*
- *To maximise Council's return on the operation of the Saleyards.*
- *To assist in providing employment opportunities and economic growth in the Macleay Valley through retention and promotion of the Saleyards.*

FINANCE

Fees and Charges

Council sets the fees and charges for use of the Saleyards payable by –

- Vendors **2008/09 Fee**

Cattle	per head	-	\$3.50 (excl. GST)
Use of Liveweight Scales	per head	-	<u>\$2.05</u> (excl. GST)
			<u>\$5.55</u> (excl. GST)
- Agents

Cattle	per head	-	\$ 1.00 (excl. GST)
Licence Fee	per annum	-	\$ 100.00 (excl. GST)
Annual Lease Fee	per annum	-	\$10,000.00 (excl GST)

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SUPPLEMENTARY

Total income earned in 2007/08 from Fees and Charges was \$254,138. This represents a 133% increase from the 2000/01 level of \$108,882 and has resulted from increases in the set fees and increases in stock throughput.

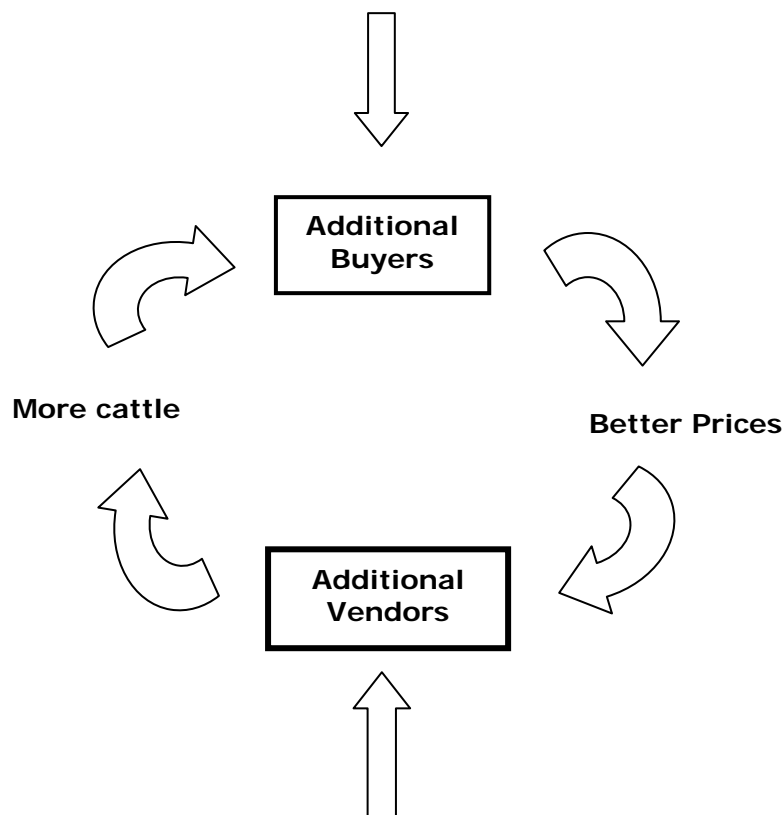
The per head charges at Kempsey (\$6.55) are at the upper level when compared to other northern NSW saleyards e.g. Grafton \$6.31, Casino \$6.10.

The fees payable by Agents Kempsey Stock and Land are substantially higher than those payable by any other agent at comparable Saleyards.

To have further "above inflation" fee increases would be detrimental as it would not entice more new clients and could drive existing business away to competitors eg. direct consignment or other saleyards.

Most costs in running the Saleyards are fixed costs, and the key factor for economic viability is cattle throughput numbers.

There is a circular link for building cattle through-put:



For example, additional buyers, leads to greater competition and better prices, which in turn provides incentives for additional vendors to sell more cattle, and more cattle encourages additional buyers to attend – and so on.

Accordingly, Council and the operating Agents need to be working together to attract more customers rather than increasing fees.

For example, the following scenarios are possible –

Cattle Throughput	Selling Fee (per head)	Yield	Increased Profit
38,000 head	\$6.55	\$248,900	-
Increase to 45,000 head at same fee	\$6.55	\$294,750	+ \$45,850
Increase to 50,000 head at same fee	\$6.55	\$327,500	+ \$78,600

A Bar Chart showing "Stock Throughput" over the 16 year period from 1992/93 is attached at [\(Appendix J – Page J47\)](#).

The general trend is for steady growth and this is supported by evidence of greater numbers of cattle being drawn from neighbouring areas including Taree and Bellingen.

The long term aim is to reach stock throughput of approximately 50,000 head per annum.

Also, there is the opportunity to collect additional income in respect of the usage made of the Saleyards on non-sale days.

The Saleyards are heavily used as a point of collection for cattle by-passing the sale system and directly consigned to meat works. Such cattle arrive at the Kempsey Saleyards in smaller trucks, are aggregated with other similar classes of cattle, and then transported out to the meat works on larger vehicles.

This usage exposes Council to some risk, but to date Council has not been able to implement a system for collection of any fees applied.

This matter will be considered by the Focus Group.

Profit and Loss Accounts

A summary of the Profit and Loss Accounts for the Kempsey Regional Saleyards for the years 2000/01 to 2007/08 is attached at [\(Appendix K – Page J48\)](#).

In brief the summary shows that the cumulative Operating Profit over those 8 years was \$387,433 (average \$48,429 pa).

Net capital expenditure over these 8 years has been \$720,699, giving the overall result of a loss of \$333,266.

Capital costs are not normally taken into account in determining the annual profitability of a business and it is generally accepted as normal practice in the business world for overall losses to occur in the first years following major capital investment and until such time as loans are repaid.

The total loan indebtedness as at 30th June 2008 in respect of the Saleyards was \$1,294,281, and a Bar Chart showing the level of loan repayments over the next ten (10) years is attached at [\(Appendix L – Page J49\)](#).

From a peak of almost \$270k in 2009/10, the loan repayments drop off to just over \$60k in 2017 / 18 and will be extinguished in 2018 / 19. At that

time the Saleyards will generate significant overall surpluses which will be available to Council's general revenue for expenditure on other purposes.

A summary of the Estimated Profit and Loss for the 10 years 2008 / 09 to 2017/18 as shown in Council's Long Term budget is attached at [\(Appendix M – Page J50\)](#).

This summary indicates that over the 10 year period it is estimated that the Operating Profit will average \$120k pa.

Total Capital expenditure over the next 10 years is budgeted for at \$265,000 for Acquisition of Assets and \$1,511,302 for Loan Principal repayments, a total of \$1,776,302 to give an accumulative overall loss of \$574,262 – is an average loss of \$57k pa.

As mentioned earlier by the year 2018 when current loans have been fully repaid, there will be substantial saving to give overall results of surpluses in excess of \$50,000 pa.

BUSINESS FORECASTS

Australian Cattle Industry

Meat and Livestock Australia (MLA) have published the projections of their chief market analyst, an extract from which is reproduced hereunder –

“The Australian cattle industry appears to have survived the long drought largely intact and can look forward to an improved performance over the next five years providing seasons improve, according to Meat & Livestock Australia's 2008 Cattle and Sheep Industry Projections, released today.

MLA's chief market analyst Peter Weeks said that the past year had been a most difficult one for the cattle and beef industries, with widespread losses reported for cattle producers (particularly in southern drought areas), lot feeders and processors/exporters.

The principal causes for the losses were the severe and prolonged drought, record grain costs, a rising Australian dollar, the partial return of the US to Japanese and Korean beef markets and weaker US import demand.

“It is a testament to the resilience and professionalism of cattle producers today that the Australian cattle herd remains above 28 million head – which is above the pre-drought 2002 level – and feedlot capacity is at a record 1.15 million head despite these difficulties,” Mr Weeks said.

“Australia's cattle producers have proven their credentials as worthy custodians of the land, through the adoption of a wide range of initiatives to not only manage drought, but to improve the nation's production capacity during extended and severe dry periods.

“As the drought recedes, cattle producer incomes are set to recover to attractive levels and will be driven by improved on-farm productivity, the elimination of drought related costs, better local grain availability and some easing in grain costs.

"Also, prices for breeding stock, cows, heifers, calves and bulls are expected to rise in 2008, as producers move into herd rebuilding. We are predicting a stabilisation of cattle numbers at 28.3 million head by June 2008, before expanding by around 2 percent in 2008-09 and 2009-10.

The medium term is expected to be characterised by a steady expansion in the Australian cattle herd, beef and veal production, beef and cattle exports and domestic consumption, enticed by continued growth in global demand for beef and, hopefully, improved seasons and a falling Australian dollar.

"The medium and long term global beef market prospects have strengthened over the past 12 months due to the impact of higher grain costs on all meat prices, synchronised economic growth across the main markets – the slowdown in the US notwithstanding – population growth, increased European import demand, further delays in US herd rebuilding and a sharp rise in South American beef prices," Mr Weeks said.

"Furthermore, Australia's enhanced image as a reliable supplier of top quality, safe and delicious beef and our disease-freedom status, places us in an ideal position to partake in the expected beef consumption growth, particularly in Asia and North America."

The MLA have provided the following comments in relation to the global slowdown and its impact on meat demand –

"The economic slowdown that is gripping almost all western economies is expected to have a significant impact on meat demand, as consumers alter their consumption and spending patterns. With the US and Japan expected to be the worst affected by the slowdown, demand for Australian red meat is likely to be impacted, especially for higher value beef and lamb products.

Domestically, foodservice and retail tracking reports have indicated a significant shift by consumers towards cheaper meat products with fast food outlets the only foodservice segment to report an increase in beef usage during the half of the year".

Local Industry

The NSW coastal beef herd has declined significantly over the past 20 years due to the subdivision of land holdings for residential purposes, and the use of land for alternate agricultural pursuits.

Despite this reduction in the beef herd, cattle throughput at Kempsey Regional Saleyards has shown a positive rate of growth – the strongest growing market of the 7 north coast saleyards.

The growth in the throughput at Kempsey is likely to be maintained as a result of the pro-active approach taken by Council and the Agent in upgrading infrastructure and providing quality service to vendors and buyers.

Kempsey is ideally located between Taree and Grafton to grow through aggregation of the declining adjacent yards. It has the potential to significantly increase its throughput which then should enable it to withstand any future regional decline in turn off.

FUTURE MANAGEMENT STRATEGY

There are three (3) options for future management of the Saleyards:

- A. Council retains ownership and operates the facility.
- B. Council retains ownership and leases the facility.
- C. Council sells the facility to a private operator.

All of these management options are in use at various centres throughout NSW. The Saleyards Directory lists 66 saleyards in NSW and of these -

- 39 are Council owned and operated e.g. Grafton, Gloucester, Inverell.
- 9 are Council owned but leased out e.g. Armidale, Dungog.
- 18 are privately owned e.g. Wauchope, Taree, and Maitland.

The use of the current systems of management at the various other centre's often relate to historical reasons (e.g. always privately owed) but in the past 10 years or so there has been quite a number of centres where local government has divested itself of Saleyards (e.g. Goulburn) or has lessened its interest in saleyards by leasing them (e.g. Armidale).

In each case the decisions on ownership and management have been made in the light of local circumstances looking at the merits of each individual case e.g. Goulburn was faced with redevelopment of its Saleyards on a new site.

Ultimately the decision is one which rests with Council!

OPTION A: COUNCIL OWNED AND OPERATED

From time to time individual Councillors, and the Council, have made reference to the 'core activities' of Council, and questioned as to whether the saleyards activity was in fact a core activity of Kempsey Shire Council.

The Local Government Act, 1993 does not define "core activities", but does set out in Council's charter under Section 8, that is, -

- "(1) A Council has the following charter:
- to provide directly or on behalf of other levels of government, **after due consultation, adequate, equitable, and appropriate services and facilities for the community** and to ensure that those services and facilities are managed efficiently and effectively.
 - to exercise community leadership
 - etc, etc."

The words "after due consultation, adequate, equitable and appropriate services and facilities for the community" are emphasised as this suggests that the services and facilities which a Council should provide are those which are in response to its own community's wishes.

Ratepayers and residents of the rural sector often quote the saleyards as being one of the few services of Council which they utilise other than the transport infrastructure (roads, bridges, carparks etc.)

"Community Good" Factor

Whilst Council aims to operate the Saleyards on a profitable basis, or at least 'break-square', some recognition should be given to the "community good" factor of having a saleyards in our local area.

What would be the impact if there were no saleyards on the Macleay Valley?

The economic impact would be considerable with:-

- a) direct financial losses related to the loss of jobs (approx. 10 full-time equivalents plus casual truck drivers),
- b) increased production costs particularly in relation to freight to/from other saleyards (Taree, Grafton, etc.)
- c) increased travelling costs and loss of productivity for on wasted travelling time to other centres for all persons participating in or monitoring cattle markets,
- d) indirect losses related to the flow-on effect of direct losses, and increased "out of town" shopping.
- e) loss of expenditure in Kempsey by visitors to our saleyards from across the State – even interstate.

Other negative impacts relate to loss of community and social amenity (the saleyards are a great meeting place for the rural community) and environmental damage (increased fuel usage in transport to other centres).

There is another factor which Council needs to consider when determining its future role in the provisions of saleyards infrastructure.

Quite often it is necessary for a "government", in this case local government, to undertake large infrastructure projects for the overall good of the community as the private sector simply is not sufficiently motivated to do so (perceived high risk with low returns).

The current economic recession has seen governments right across the world step into the private enterprise arena to prop-up and take greater control of free market institutions.

We could ask ourselves the question, "Would private enterprise have invested \$M2 in Kempsey Regional Saleyards over the past 8 years to provide the high quality facility we have today and a facility which will attract regional business to our town in the future?"

The answer would be Not Likely!

Business continuance decisions usually revolve around financial considerations (i.e. likely returns on investments) and risk exposure (financial and others such as OH&S). In local government the other consideration is that of infrastructure development and community service provision.

2008 Community Survey

Comments have been made in the Press in relation to the findings of Council's 2008 Community Research report where the Saleyards was rated as the least important of Council's services. However, to make a proper evaluation it would be necessary to ensure the survey is fairly weighted with respondents from the rural sector. Only 7.2% of the 2008 survey respondents lived outside urban areas.

By comparison Council receives 17.08% of its Ordinary Rate Income from the Farmland Rate.

OPTION B: COUNCIL LEASES THE LAND/FACILITY

Under the leasing option Council receives a rental and the lessee takes on various levels of responsibility for operational matters, and in some instances the capital investment.

Set out at [\(Appendix N – Page J51\)](#) is an outline of the lease arrangements in place at Bega, Armidale and Moree.

If Council is of a mind to pursue the Options for Leasing the Saleyards Complex a further report on the details of lease conditions appropriate for Kempsey should be provided to Council.

For example, detailed consideration needs to be given to –

- lease term – short-term v long-term?
- calculation of lease fee
- maintenance obligations
- responsibility for upgrading/capital works.
- etc.

Information obtained on other saleyards leases suggests that the arrangements are rather loose and that in some instances the leases have had to be renegotiated after short periods.

OPTION C: COUNCIL SELLS THE FACILITY TO PRIVATE OPERATOR

Kempsey Shire Council has freehold ownership of the 19.35 Ha of land upon which the Kempsey Regional Saleyards facility (incl. adjoining holding pens and effluent disposal area) is situated.

However, should Council wish to proceed with a sale of the facility it would be necessary to undertake road opening/closing as the gazetted road passes through the eastern side of the saleyards pens while the existing roadway diversion is located on Council's freehold land.

The land is encumbered by way of a buffer zone (200m) in respect of a former tick-dip site, and the lower portions are subject to flood inundation.

The site is Zoned 5(a) Special Uses (community services and public utilities).

The Written down value of Council's infrastructure assets at 30th June

2008 was \$1,560,000 and the land is valued in Council Assets Register at \$490,000 – a total asset value of \$2,050,000.

The amount of Council's loan indebtedness (loan principal outstanding) in respect of the Saleyards at 30th June 2008 was \$1,294,281.

Council would have little indication of the likely offers (if any) for sale until such time as actual tenders are invited and received. The market for saleyards is particularly restricted and would most likely be contained to a few industry operators.

Also, upon a sale of the facility there would not be any guarantee as to maintaining future operation of Saleyards in Kempsey. In a period of market downturn the owner could choose to close the facility and use the land for other purposes e.g. residential subdivision.

If Council is considering this option it should be genuine in calling tenders and not merely seeking a market appraisal.

SUGGESTED APPROACH TO DETERMINING A PREFERRED MANAGEMENT OPTION

It is suggested that in determining the preferred future management option Council should consider at the outset the following questions –

- Does Council see the Saleyards as a community service, a business, or a combination of both?
- Should Council continue to provide Saleyards services?

If YES then Council needs to determine the degree of involvement it wishes to have in the operation of the Saleyards.

If Council wants to control all aspects of the Saleyards operation it would favour a direct approach which has the potential to maximise its income but with a greater degree of risk – operational and financial.

If Council wants to minimise its operational involvement it may consider calling tenders for a long-term lease.

Council should also consider – what level of financial support is reasonable?

Should Council decide to NOT to continue to provide Saleyards services it would need to determine a path towards sale of the asset.

OTHER MATTERS

Additional Agents

The matter of attracting additional agents to operate at Kempsey Regional Saleyards has been raised on a number of occasions.

The current leasing arrangement with Kempsey Stock and Land expires 31st December 2009.

This arrangement came about when Council sought to substantially

increase the fees payable by the Agent in the 2004/05 Budget. In negotiations with the Agent the new fees were reluctantly accepted subject to Council agreeing to a 5 year lease which provided for exclusive use of the Saleyards for the Thursday market day sales.

Council needs to determine if it wishes to continue with the current leasing arrangement with Kempsey Stock and land after 31st December 2009.

Should Council not renew the lease it would provide an opportunity for other agents to establish operations, and conduct sales on the same day as Kempsey Stock and Land with the potential to increase total stock throughput.

On the other hand, there is no guarantee that a new agent would commence but Council would lose the current lease fee, and would face additional costs and risks in becoming responsible for sale day operational procedures.

Currently other agents may commence operation on any other day not allocated to Kempsey Stock and Land. However this is extremely unlikely for the reason that a new Agent has to build a new vendor/buyer customer base.

Additional Sale Days

The Thursday Market Day sales have an average stock throughput of approximately 1,100 head per sale, and ranges from 750 head to 2,200 head.

The current systems are used to optimum capacity when numbers exceed 1,500 head per sale.

As the numbers increase it is only a matter of time before the Agent will need to look at weekly sales.

Weekly sales would be attractive to producers as it would improve their market opportunities.

FUTURE MANAGEMENT ISSUES

To continue the upgrading program and meet the new challenges of providing a first class regional selling centre the following matters require attention in the future –

- continue the implementation of OH&S and other risk management requirements
- animal welfare issues
- development of a prioritised and fully costed future capital works program. A "wish list" of works is currently being considered by the Focus Group. Attached at [\(Appendix O – Page J53\)](#) is the current "wish list".
- marketing to attract increased through put from areas outside the traditional catchment.
- improve environmental practices.
- maximise fee collection from users of the Saleyards to improve the viability of the "business".

- management of the saleyards on non-sale days. Council does not employ a full-time Saleyards Manager, and
- usage of the Saleyards outside the normal sale days gives rise to issues regarding OH&S, animal welfare, and loss of potential revenue.

GRANT FUNDING

The Prime Minister has announced that Federal Government grant funding would be made available for substantial infrastructure projects (greater than \$2M) with applications closing 23rd December 2008.

The Government has indicated that this funding could be ongoing so Council needs to plan for projects of this size so that applications can be made if that funding becomes available.

The Saleyards capital works "wish list" could form the basis of a submission.

The opportunity for Council to attract grant funding from the Federal Government for development of community services is something that is not normally available to private enterprise.

A copy of a "Draft" Works Proposal for submission to the Federal Government is attached at [\(Appendix P – Page J54\)](#).

RECOMMENDATION IMPLICATIONS:

- *Environmental*

Nil

- *Social*

Nil

- *Economic (Financial)*

See body of this report.

- *Policy or Statutory*

Nil

- *Director's Review*

Council has invested considerably in the development of the Kempsey Regional Saleyards in the belief that the centre will grow to truly become a Regional saleyard. Of late we have witnessed increasing numbers of cattle coming to the facility due to the fact that the centre is being recognised as a facility which offers a higher standard of infrastructure, increased cattle throughput and the commensurate increased attendance from buyers; these attributes entice further patronage in the belief that clients will obtain a better financial deal by using the Kempsey Regional Saleyards.

Kempsey Shire is a predominantly rural economy. A significant portion of our ratepayer base run and breed cattle as either their primary source of income or supplement their income from growing and trading in cattle. The Kempsey Regional Saleyard contributes significantly to enabling these folk to efficiently conduct their business and maintain their livelihood.

The investment by previous Councils is set to realise economic benefits in future years and provide a worthwhile source of non rate income. The majority of the hard work has been done, we have a facility to be proud of, and it is my view it would be difficult to justify abandoning our capital investment before reaping the longer term benefits. A sale or lease at this time would see the benefits of Council's efforts flow to the purchaser/lessee and not to Council.

RECOMMENDATION:

That the information contained within this report be noted and further considered in conjunction with the report on the outcomes of the Saleyards Focus Group to be presented to Council in March 2009.

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K E OLIVER
ACTING DIRECTOR CORPORATE AND COMMUNITY SERVICES