Mildura Rural City Council
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Mallee Research Station Business Development Proposal

Final Report

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Table of Contents

List of tables

1 Introduction

RMCG was engaged by the Mildura Rural City Council, on behalf of the Mallee Track Advancing Country Towns initiative to develop a viable, sustainable model of operation for the Mallee Research Station (MRS) at Walpeup, which contributes to the economic, social and environmental well-being of the community.

There have been two recent reports prepared that explored possible futures of the MRS facility along with MRS being identified as a priority in the Walpeup and Ouyen Community Plans, however it was considered that neither report demonstrated a financially viable or sustainable business model for the ownership and operation of the MRS over time.

The key objective of this project therefore, is to critically examine the potential of an enterprise or enterprises to allow the MRS to become a sustainable business, including but not limited to activities such as education/training, leadership training, tourism, accommodation, community utilisation, agricultural research and emergency response (including an examination of existing plans and experiences gained by SuniTAFE during its 3 year lease).

2 The challenge

2.1 Why?

The MRS at Walpeup is a facility owned by the Victorian Government and managed by the Department of Environment and Primary Industries (DEPI), formerly the Department of Primary Industries (DPI). It was operated as an agricultural research facility from 1922 until closed in December 2009.

In April 2010, the Sunraysia Institute of TAFE (SuniTAFE) became the principal lessee at the facility with the aim of providing the community some time to create a viable future for the facility post the Department of Primary Industries' withdrawal from the site. SuniTAFE's lease expired in April 2013 and they elected not to extend it. Thus, responsibility for the facility reverted to DEPI.

The Walpeup and Ouyen Community Plans identified utilising the facility to contribute to the economic, social and environmental well-being of the Mallee Track community as a high priority. Therefore, the Mallee Track Advancing Country Towns (ACT) initiative and Mildura Rural City Council (MRCC) wished to investigate whether a viable sustainable business model could be created at the MRS, which would achieve that aim.

Thus, the challenge is to identify that model and outline how it can best be established to maximise the economic, social and environmental outcome for the Mallee Track community.

2.2 Current users

Approximately 1,500 people utilised the facilities at the MRS during SuniTAFE's tenure. These included lease of the majority of the land for commercial grain production, lease of some land and facilities for agricultural and natural resource management research and demonstration, delivery of TAFE training programs, and a multitude of casual visitors from groups with specific educational and/or environmental interests.

Current users of the facility include:

- Bureau of Meteorology
- Dodgshun Medlin
- Jim Wakefield
- Mallee Catchment Management Authority
- Mallee Sustainable Farming
- SuniTAFE
- Various casual users

2.3 Future use of the facility

RMCG interviewed a number of the current primary users of the facility and a further sample of potential users (refer to appendix 1) to determine the potential future use of the facility.

The results of those interviews were that:

- The majority of current users have no plans to expand their usage of the MRS.
- The potential use of the site for fire training and incident management is no longer considered an option by the State's two fire management agencies.
- Potential new or increased use may come from:
  - Dodgshun Medlin for agricultural research;
  - Australian Landscape Trust for pre-release offender programs; and/or
  - Various educational organisations for leadership and/or outdoor education camps.

Importantly, none of these potential new or increased users have made any substantial commitment to using the facility in the future, beyond demonstrating an interest to do so.

Therefore, RMCG believe that there is limited opportunity for a significant increase in use by the existing users, but some potential for new users, who have indicated they may require substantial time and/or a different process to initiate a firm commitment to become a significant user of the facility.

2.4 Cost structure

A viable, sustainable business model for the MRS must, at least cover its costs, including long-term maintenance or depreciation. Whilst the model implemented will determine the costs and income generated, a large proportion of operating a major facility like the MRS will be depreciation, repairs and maintenance, administration and utilities, as well as the payroll costs of actively managing the facility. Thus, RMCG has examined the financial statements of the MRS for the previous four years to obtain an indication of the costs of operating it as a similar multi purpose facility. A summary of these statements is provided in Table 1.

Table 1: Summary of MRS financial statements, 2010-2013

	2010	2011	2012	2013
INCOME				
Land	$17,933	$36,375	$36,375	$45,000
Facilities	$15,129	$39,022	$21,195	$6,000
Sponsorship/grants	n.a.	$500	$2,500	n.a.
TOTAL INCOME	**$33,062**	**$75,897**	**$60,070**	**$51,000**
EXPENSES				
Payroll	n.a.	$103,613	$70,640	n.a.
Admin/utilities	n.a.	$23,454	$18,340	n.a.
Motor vehicles	n.a.	$16,651	$5,778	n.a.

	2010	2011	2012	2013
Repairs & maintenance	n.a.	$14,706	$8,624	n.a.
Consumables	n.a.	$9,724	$4,173	n.a.
TOTAL EXPENSES	**n.a.**	**$168,148**	**$107,555**	**n.a.**
OPERATING SURPLUS/DEFICIT	**n.a.**	**-$92,251**	**-$47,485**	**n.a.**

The information provided in Table 1 shows that:

- The facility made a substantial operating deficit in 2011 and 2012.
- The largest expense category was payroll.
- Insurance and depreciation were not included in the financial statements.

RMCG's experience with a range of clients in the community services, agriculture and natural resource management sectors would suggest that the cost of insurance (public liability, professional indemnity, buildings and contents) could range from $20,000 - $50,000 for such a facility, depending on its exact use.

RMCG has sought an estimate of the value of the assets on site from DEPI and an estimate of the annual depreciation cost associated with these assets from MRCC. Unfortunately, neither was available at the time of writing.

In 2009, when RMCG prepared the original business case for SuniTAFE to takeover the management of the MRS, we estimated the annual cost of operating the facility at approximately $170,000 - $220,000. RMCG believes that this estimate is still relevant today, given the actual costs presented in Table 1, the estimated cost of insurance, and making allowance for depreciation of such a sizeable asset.

2.5 Alternative approaches

A number of stakeholders interviewed believed that the facility could be operated differently to either reduce its costs, or increase its income.

Increased promotion and use

SuniTAFE's stated aim of taking over the lease at the MRS was to give the community time to investigate viable alternative uses for the facility. Therefore, it is reasonable to assume that more proactive management and promotion may have led to greater use and income. However, even a cursory review of the financial statements summarised in Table 1, shows that the scale of the increase required for the facility to break-even is enormous, i.e. income from the facilities would have to approximately triple in each of 2011 ($39,022 to $131,273) and 2012 ($21,195 to $68,680) for the facility to break-even before the cost of insurance and depreciation are even counted. RMCG believes the likelihood of this is extremely low, without the emergence of a significant new user that would underpin the entire operation. While our investigation has uncovered several possible candidates for this role, such a user has not yet been identified.

Increased farm lease

It has also been intimated that the current farm lease is at less than full commercial rates. Whilst RMCG is unable to comment on the exact terms of the lease, the income generated from the farm lease is equivalent to approximately 4-5% of the land value. In RMCG's experience and opinion, this is consistent with broad acre farm leases. Thus, there is little room for increased income from the farm lease.

Reduced costs as a community facility

Some in the local community believe that the estimated cost of operating the facility provided by RMCG in 2009 (and again within this document) overstate the cost of operating the MRS as a community facility only, i.e. if the assets were "stripped down" to their bare needs to simply provide a community facility, e.g. the main building and conference centre.

An examination of the costs presented in Table 1 would suggest that such a situation would lead to a significant reduction in payroll costs, motor vehicles and consumables. If these costs were all assumed to be $0, then the total expenses reported for 2011 would be reduced to approximately $30,000. However, once again, this does not include insurance and depreciation. Thus, RMCG estimates that the cost of operating such a facility at the MRS would be of the order of magnitude of $50,000 - $100,000 per year.

2.6 Conclusion

It can be concluded from RMCG's review of current and potential future users that:

1. There is limited opportunity for a significant increase in use by the existing users, but some potential for new users, who have indicated they may require substantial time and/or a different process to initiate a firm commitment to become a significant user of the facility.
2. It is estimated that the annual cost of operating the facility is $170,000 - $220,000, when the cost of insurance and depreciation is included.
3. Alternative approaches would not significantly alter the financial viability of the facility, because RMCG believe that:
   a) Income from facilities would have to triple to reach break-even before insurance and depreciation, which is highly unlikely;
   b) The farm lease rate is consistent with broad acre farm leases; and
   c) The estimated cost of operating a "stripped down" community facility would be between $50,000 - $100,000 without the offsetting income from the other facilities.

Therefore, RMCG believes that it is highly unlikely that a viable sustainable business model can be developed for usage of the MRS, as we currently know it.

3 Options

3.1 Potential models

RMCG believes that there are four basic models that could potentially operate at the MRS. They are:

1. Community facility – strip the assets to their bare needs, but maintain them for community use and allow low-level casual use, as per current arrangements.
2. Multi purpose facility – maintain current facilities and actively manage it as a multi purpose facility, much as SuniTAFE did.
3. Anchor tenant – similar to a multi purpose facility, but find one tenant who provides the majority of use and income, whilst still maintaining access for casual users, e.g. like a supermarket in a new shopping centre.
4. Divest – initiate the process of divestment where the facility is offered to other government agencies initially, before being put to the market if no agency wishes to take over management of it.

The advantages and disadvantages of each of the four basic models explained above are presented in Table 2 below.

Table 2: Advantages and disadvantages of the available models at the MRS

Potential models	Advantages	Disadvantages
1. Community facility	▪ Reduces the cost of depreciation, and repairs and maintenance ▪ No need for substantial new investment in community facilities ▪ Provides ongoing access for a range of local community activities ▪ Provides some form of "compensation" for the loss of DPI and SuniTAFE	▪ Even a "stripped-down" facility would have substantial upkeep costs relative to the size of the community and the amount of use ▪ Substantial public liability risk without active management ▪ Potentially cheaper to establish a "purpose built" facility or upgrade existing facilities within the town of Walpeup ▪ With a significant reduction in the activities possible at the facility, it would reduce the economic benefit derived from the facility, yet still incur substantial cost
2. Multi purpose facility	▪ Maintains all of the advantages of the community facility above, with the exception of reduced costs ▪ Provides greater economic activity in the town and surrounding district, due to greater utilisation ▪ Provides an accessible facility for a number of business and community groups who currently operate in the region, who would otherwise have to go elsewhere, including outside	▪ A substantial and sustained increase in utilisation required to achieve a viable, sustainable model of operation ▪ Without a significant increase in use, the facility is underutilised as a community and economic asset ▪ Continuation of the current uncertainty, without a substantial long-term commitment from an organisation willing to take on the role previously fulfilled by SuniTAFE

Potential models	**Advantages**	**Disadvantages**
	the region	▪ There is currently no organisation or individual with the desire, capacity and capability to take on this role
3. Anchor tenant	▪ Maintains all of the advantages of the multi purpose facility above ▪ Long-term commitment from an organisation that provides the majority of the income required to achieve a viable, sustainable business model	▪ Lease conditions that require the anchor tenant to maintain the site and provide access to other casual users may prove uninviting to potential anchor tenants and/or reduce the lease paid ▪ Current users, who have potential to be an anchor tenant have no incentive to fulfil this role, as it only increases their costs and risk profile without gaining any greater control of the facility
4. Divest	▪ May flush out potential users in either the public or private sector, who have no interest in being an anchor tenant, but are interested in utilising and managing the whole site ▪ May provide the best opportunity for a significant and ongoing contribution to economic activity in the town and surrounding district ▪ New “owner” has the opportunity and incentive to create a viable, sustainable business model, as they have full control of the facility and have made an investment for which they will be seeking a return	▪ The community may lose access to the facilities for their activities ▪ The price realised may be well below the “book value” of the facility, as any new “owner/manager” would need to acquire it cheaply to establish a viable, sustainable business model ▪ If there is a new high-use tenant, they may prefer to lease for a period of time to investigate demand for their operation (or due to shortage of capital), rather than committing funds to purchasing the facility

Based on these advantages and disadvantages, RMCG believes that the best approach is to initiate the process of divestment, i.e. model 4.

We believe that model 1 provides little economic benefit at substantial cost, whilst model 2 is unviable. The value of divestment is that it may flush out an anchor tenant, i.e. another public agency, which wishes to take over management of the facility, or a private purchaser, who has the opportunity and incentive to create a viable sustainable business model, which would provide economic benefits to the community.

The risk of divestment is that there are no public or private organisations that want the facility. If this were to occur, then RMCG imagines that the farm land would be purchased by an adjacent farmer for commercial grain production, whilst the facilities would either be mothballed, relocated or demolished in the long-term to reduce the public liability risk and the ongoing costs of depreciation, and repairs and maintenance (the current trajectory!). If this were to occur, then it would prove conclusively that no one believed there was a viable sustainable business model that could be established at the site.

3.2 Partial sale and re-investment

A common strategy discussed by many of the stakeholders was the opportunity for partial sale of the site to facilitate re-investment in the facilities. In particular, sell the majority of the farming land and retain some or all of the proceeds to re-invest in the hostel and the buildings, or other relevant facilities to increase usage and income.

The leasing of the farming land currently provides a return of between 4-5% on the value of the asset at little or no risk to the landlord. Thus, the proceeds of the sale would have to be re-invested in an asset that would earn greater than 4-5% with a similar risk profile for the operator of the facility to be better off. If the investment were not able to generate such a profit, then the facility would be worse off than before it sold the farming land.

Thus, a strategy involving partial sale and re-investment does not necessarily improve the viability of the facility.

3.3 Maximising economic activity

It is important to structure the sale of the facility in a way that maximises its use and the potential for local economic development. It is unlikely that there is one organisation that would use all of the different pieces of infrastructure on the site. For instance, while it is possible that the accommodation, kitchen and function centre could be used for education, it is unlikely that education groups would also want to use (say) the laboratory. If sold as one lot, it is possible that it would be bought for the farming land only, and the facility would not be used at all.

For this reason, the option of splitting the facility up into a number of different titles for separate sale should be considered.

3.4 Tenure issues for potential users

As identified in Table 2, RMCG believes that initiating the process of divestment may provide the best opportunity to "flush out" potential users in either the public or private sector, who have no interest in being an anchor tenant, but are interested in utilising and managing the whole site. RMCG has categorised potential users into public and private sector users in Table 3 to identify the issues associated with leasing versus buying for these potential users.

RMCG wishes to emphasise that it is unaware of just how committed the potential users identified are to pursuing the MRS for their operations. Our analysis is based on the different business models and perspectives of public and private sector organisations. We believe the analysis is applicable to any public or private sector organisation, which further serves to emphasise the relevance of the strategy proposed.

Table 3: Issues associated with leasing versus buying for potential users

Potential user	Lease	Buy
1. Public sector	▪ As the facility is crown land, a crown land lease would have to be established with the relevant agency, whose use would have to be seen as compatible with the current reservation status ▪ Alternately, the relevant legislation would need to be amended to alter the facility's reservation status	▪ Government agencies would not be required to "buy" the facility ▪ As part of the divestment process, they can submit an expression of interest, which would result in management of facility transferring from DEPI to them
2. Private Sector	▪ A number of current users are private businesses, which pay a lease to the crown for use of the facility ▪ Given the current lease arrangements provide them with the access they require, there is no incentive for them to lease the entire facility, as it would only increase their costs, with no increase in control that would facilitate strategies to decrease costs and/or increase income ▪ It is possible that some proposed uses of the site may be deemed incompatible with the reservation status of the facility	▪ Private sector organisations that are interested in managing the whole facility would gain control to implement their business plans if they were able to buy the facility. ▪ That is, they could reduce the costs associated with maintaining the infrastructure, by stripping it back to those that provided the greatest opportunity to make a profit. ▪ The potential profitability of buying would be strongly related to the purchase price and the success of their business model ▪ The incentive to increase revenue and make a profit from the facility may also result in greater local economic activity

Therefore, RMCG believes that a divestment strategy that first offers the site to other public sector organisations, then for sale in the market is not only compatible with the relevant legislation and regulations pertaining to crown land, but is also compatible with the desired tenure of potential users in the public and private sector.

3.5 Conclusion

In conclusion, RMCG believes that:

1. The best option for developing a viable and sustainable business model at the MRS, which maximises the economic, social and environmental benefits to the community of the Mallee Track, is to initiate the process of divestment.
2. This strategy is compatible with the desired tenure of potential users in the public and private sector.

Therefore, RMCG believes that the MRCC and the Mallee Track ACT Steering Committee should encourage the State Government to proceed with divestment of the MRS.

4 Conclusions and recommendations

It can be concluded from RMCG's review of current and potential future users that:

1. There is limited opportunity for a significant increase in use by the existing users, but some potential for new users, who have indicated they may require substantial time and/or a different process to initiate a firm commitment to become a significant user of the facility.
2. It is estimated that the annual cost of operating the facility is $170,000 - $220,000, when the cost of insurance and depreciation is included.
3. Alternative approaches would not significantly alter the financial viability of the facility, because RMCG believe that:
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Therefore, RMCG believes that it is highly unlikely that a viable sustainable business model can be developed for usage of the MRS, as we currently know it.

Furthermore, RMCG believes that:

1. The best option for developing a viable and sustainable business model at the MRS, which maximises the economic, social and environmental benefits to the community of the Mallee Track, is to initiate the process of divestment.
2. This strategy is compatible with the desired tenure of potential users in the public and private sector.

Therefore, RMCG believes that all involved should encourage the State Government to proceed with divestment of the MRS.

Appendix 1: List of people consulted

Stakeholder organisation	Person consulted
Australian Landscape Trust (ALT)	Pam Parker
Birchip Cropping Group (BCG)	David Chamberlain
Bogong Outdoor Education Centre (BOEC)	Tony Keeble
Bureau of Meteorology (BOM)	Mark Wilgar
Country Fire Authority (CFA)	Tony Shilson
Department of Environment and Primary Industries (DEPI)	Darryl Pearl Kent Schubert
Dodgshun Medlin	Danny Conlan
Mallee Catchment Management Authority (MCMA)	Jo Latta
Mildura Development Corporation (MDC)	Anne Mansell
Mildura Rural City Council (MRCC)	Martin Hawson Mark Jenkins Cassey Gloster
Mallee Sustainable Farming (MSF)	Gemma Walker
Mallee Track Health and Community Service (MTHCS)	John Senior
Regional Development Victoria (RDV)	Jacinta Allen Jan Boynton Mike Mooney Tom Crouch
Residential Outdoor Schools Association (ROSA)	Steve McMurtie
School for Student Leadership	Mark Reeves
SuniTAFE	Jenny Grigg Jenny Heaslip
Top End Training (TET)	Tania Morrish
Tyrell College	John Wright Fiona Best
Victorian No-Till Farmers Association (VNTFA)	Kerry Grigg