

## 8.2 Mudgee Valley Park Expansion

REPORT BY THE MANAGER - ECONOMIC DEVELOPMENT  
TO 19 APRIL 2023 ORDINARY MEETING  
GOV400103, COM100023

### RECOMMENDATION

#### That Council:

1. receive the report by the Manager - Economic Development on the Mudgee Valley Park Expansion;
2. approve the proposed expansion of the Mudgee Valley Park;
3. allocate a \$6.76 million expenditure budget for the 2023/24 year to be fully loan funded; and
4. forward a copy of the capital expenditure review to the Office of Local Government as required under Section 23A of the Local Government Act 1993.

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### Executive summary

The purpose of this report is to present a business case assessment and capital expenditure review to Council for consideration of the investment opportunity for the further expansion of Mudgee Valley Park.

The proposed development of 20 x new cabins involves a total development cost of \$6.76 million. If Council wishes to proceed with this project, it will need to adopt an expenditure budget of \$6.76 million to be fully loan funded over a 10-year period.

This proposed expansion will deliver key worker housing in the short term (3-5 years) and in the long term increase the tourism beds available to meet these growing demands.

### Disclosure of Interest

Nil

### Detailed report

A new business case and capital expenditure review has been prepared for the expansion of the Mudgee Valley Park.

The proposal involves the following mix of cabin types:

Cabin Type	No. Cabins	No. Beds
1 Bedroom	11	11
2 Bedroom	1	2
3 Bedroom	5	15
4 Bedroom	3	12
<b>Total</b>	<b>20</b>	<b>40</b>

The total estimated cost of the proposed Stage 3 project is \$6.76 million.

For the purpose of this business case, three scenarios have been examined:

- **Scenario 1** (Best Case) – cabins are booked for 5 years under contract based on a fixed weekly rate, increased annually by CPI and 5 years under normal tourism conditions at 100% occupancy. After 5 years the cabins are booked under normal tourist conditions at 100% occupancy. Whilst this is not the most likely scenario, it demonstrates the potential of the cabins with favourable economic activity.
- **Scenario 2** (Predicted Case) – cabins are booked for 2 years under fixed contract conditions, 3 years by business travellers or workers with a minimum stay period of 3 – 5 nights and weekly servicing conditions, and 5 years under normal tourism conditions at average occupancy. Based on historical trends and the expectations around future economic activity, this is considered the most likely outcome.
- **Scenario 3** (Worst Case) – cabins are booked for 2 years under fixed contract conditions, 3 years by business travellers or workers with a minimum stay period of 3 – 5 nights and weekly servicing conditions, and 5 years under normal tourism conditions at low occupancy. Whilst this is not likely to be the most likely scenario, it demonstrates the potential risk to revenue in unfavourable economic activity.

The following table shows the total return on investment over a 10 year period based on these 3 scenarios:

10 Year Return on Investment	Scenario 1	Scenario 2	Scenario 3
Cabin Revenue	15,454,625	12,096,515	11,123,964
Loss of Revenue House	600,000	600,000	600,000
Cabin Expenses	5,416,087	3,881,110	3,453,998
Operating Profit	9,438,538	7,615,405	7,069,966
Operating Profit %	61.1%	63.0%	63.6%
ROI %	139.6%	112.7%	104.6%
Net Profit (After Overheads)	8,532,014	6,708,881	6,163,442
Operating Profit %	55.2%	55.5%	55.4%
ROI %	126.2%	99.3%	91.2%

Under each scenario the development cost is \$6.76 million.

- **Scenario 1** (Best Case). The new cabins would deliver an estimated net profit of \$8.5 million over a 10-year period, which represents a 126% return on investment over 10 years.
- **Scenario 2** (Predicted Case). The new cabins would deliver an estimated net profit of \$6.7 million over a 10-year period, which represents a 99% return on investment over 10 years.
- **Scenario 3** (Worst Case). The new cabins would deliver an estimated net profit of \$6.1 million over a 10-year period, which represents a 91% return on investment over 10 years.

The payback period for each of the three scenarios have been examined. The following table shows the payback period based on these 3 scenarios:

	Scenario 1	Scenario 2	Scenario 3
Payback period	8.1 years	10 years	11.3 years

Under each scenario the development cost is \$6.76 million and is funded 100% from existing Council funds (unrestricted cash reserves).

**FUNDING OPTIONS**

There are many funding options available to undertake the proposed Stage 3 development of 20 x new cabins, with total development cost \$6.76 million. They include:

- Funding from unrestricted cash reserves;
- Partial funding from grants; and/or
- Full or partial funding from borrowed funds.

There may be funding opportunities to apply for grants to contribute to the project, however there are no suitable grants currently available. Full funding from unrestricted cash reserves is not the preferred option for funding as it would require the allocation of funds from alternative uses and other major infrastructure projects already planned for delivery.

The option to borrow funds to deliver the \$6.67 million-dollar project would be at a rate of approximately 6%. This would result in annual repayments of \$908,672 over a 10-year loan period or \$584,853 over a 20-year period.

Loan Period	Annual Repayment
10 Years	\$908,672
20 Years	\$584,853

The interest payable at 6%, assuming bi-annual repayments will amount to \$2.3 million over a 10-year loan and \$4.9 million over a 20-year loan.

Loan Period	Total Interest Payable
10 Years	\$2,327,347
20 Years	\$4,937,689

The net operating profit has been calculated assuming a 10-year loan under the three options.

**10 YEAR LOAN AT 6%**

10 Year Return on Investment	Scenario 1	Scenario 2	Scenario 3
Net Operating Profit (After Overheads)	8,532,014	6,708,881	6,163,442
Operating Profit %	55.2%	55.5%	55.4%
ROI %	126.2%	99.3%	91.2%
Less: Interest on Loan	2,327,347	2,327,347	2,327,347
Net Profit (After Interest)	6,204,667	4,381,534	3,836,095
Operating Profit %	40.1%	36.2%	34.5%
ROI %	91.8%	64.8%	56.8%

The table shows that under all three scenarios, the net profit over the 10-year period, having the \$6.76 million fully funded over a 10-year loan at 6%.

- **Scenario 1** (Best Case). The new cabins would deliver an estimated net profit of \$6.2 million over a 10-year period after interest, which represents a 91.8% return on investment over 10 years.

- **Scenario 2** (Predicted Case). The new cabins would deliver an estimated net profit of \$4.3 million over a 10-year period after interest, which represents a 64.8% return on investment over 10 years.
- **Scenario 3** (Worst Case). The new cabins would deliver an estimated net profit of \$3.8 million over a 10-year period after interest, which represents a 56.8% return on investment over 10 years.

The following table shows the payback period based on these 3 scenarios:

	<b>Scenario 1</b>	<b>Scenario 2</b>	<b>Scenario 3</b>
Payback period	10.5 years	14.4 years	16.7 years

Under each scenario the development cost is \$6.76 million and is funded 100% from loan funding at 6% over a 10-year period.

It is important to note that the useful life of the new cabin assets would extend beyond the 10 year period of analysis. This means that from Year 11 onwards, the full benefit of the increased profits (before loans) will be realised.

A copy of the full business case is provided in Attachment 1.

In accordance with Section 23A of the Local Government Act 1993, Council is required to undertake a capital expenditure review for this project. A copy of the capital expenditure review is provided in Attachment 2. Council is required to forward a copy of this review to the Office of Local Government.

## Community Plan implications

<b>Theme</b>	<b>Building a Strong Local Economy</b>
Goal	A prosperous and diversified economy
Strategy	Support the attraction and retention of a diverse range of businesses and industries

## Strategic implications

### Council Strategies

The Mid-Western Towards 2040 Community Plan includes a strategy to support the attraction and retention of a diverse range of businesses and industries. The 4 Year Delivery Program includes an action under this strategy which is focused promoting the region to target businesses that compliment key local industries.

The expansion of Mudgee Valley Park is consistent with the strategy included in the Towards 2040 Community Plan. It provides an opportunity to increase own source revenue through property whilst increasing the key worker housing stock in the region. This is a short-term solution to key worker housing shortages and cabins can be released as tourism accommodation in the long term.

It is expected that the renewable energy zone construction phase and other construction projects will see 4,000 to 6,000 workers requiring accommodation within the region. The expansion of Mudgee Valley Park will provide critically needed housing for these workers.

### Council Policies

Not Applicable

**Legislation**

Local Government Act 1993

Financial implications

The business case demonstrates that under the various scenarios, the total profits generated by the Mudgee Valley Park will offset the development costs associated with the project in just over 10 years.

Budget Year	Operating Performance Ratio	Own Source Revenue	Building & Infrastructure Renewal
2022/23	✓	✓	✗
Future Years	✓	✓	✗

Associated Risks

The business case has been prepared based on a set of key assumptions which may or may not be fully realised over the 10 year period. Assumptions were made about development costs, occupancy rates, fixed/variable costs, usage types, staffing requirements and local economic conditions. Whilst these assumptions were considered reasonable at the time of undertaking the business case, there is no guarantee that issues beyond Council’s control will not materially impact these assumptions. This is a commercial risk that Council must accept in making the decision to proceed with the project.

MICHELE MINI  
MANAGER - ECONOMIC DEVELOPMENT

ALINA AZAR  
DIRECTOR DEVELOPMENT

31 March 2023

- Attachments:*
1. Mudgee Valley Park Stage 3 Expansion Business Case. (Confidential - separately attached)
  2. Mudgee Valley Park Stage 3 Expansion Capital Expenditure Review. (Confidential - separately attached)

APPROVED FOR SUBMISSION:

BRAD CAM  
GENERAL MANAGER