

The Next Stage in the Evolution of Management Models at Jenolan Caves, NSW, Australia

Peter Austen and Alan Griffin

Jenolan Caves Reserve Trust

Abstract

Our previous paper examined the impact of privatisation accommodation and the commercialisation of its cave tours. This was part of the Greiner Government's overall reform agenda which focussed on the application of New Public Management Principles.

It was concluded the business model adopted in 1989 at Jenolan, had more to do with the commercial issues at Jenolan than the introduction of New Public Management Principles. The lessons learnt from the initial foray into commercialisation of the Jenolan tourist operations is now aiding the development of long term management arrangements at Jenolan.

Since 2007, extensive work examining management options to best ensure the commercial and environmental sustainability of Jenolan has been undertaken. The experience gained by Government in its management of an integrated business at Jenolan since July 2006 has greatly assisted this work.

This paper presents the results of this recent work and examines two options; either of which might serve as the Jenolan business model for the short to medium term. The development of the options was complicated by three factors: the rapidly changing nature of regional tourism and competition for discretionary spending; the emergence of a holistic approach to geo-tourism and geo-management; and the impact of the current international financial environment.

The two options present a balanced approach to the objectives of commercial and environmental sustainability utilising the strengths and expertise of the public and private sectors.

Introduction

Jenolan Caves is situated approximately 120 kilometres west (as the crow flies) and 2.5 hours drive from Sydney on the western side of the Blue Mountains.

Since its discovery by Europeans in 1838, Jenolan Caves has remained one of Australia's iconic tourist locations and is known for its use of innovative strategies to protect the geological and heritage assets of the area.

However, its dual role as a popular tourist location with over 220,000 visitors a year and a site of geological and heritage significance, creates the possibility of conflicting management objectives. In order to balance these objectives, the NSW Government, in 1990, separated the responsibility for managing the hospitality services provided by Caves House from the management of the caves (both tourist and wild), and the reserve in general. At the same time the Government entered into a lease arrangement with the private sector to operate the hospitality services.

Due to issues arising from the separation of management responsibilities, these arrangements were modified in 1995 and the responsibility for managing the lease, the caves and the reserve was brought back into one entity the Jenolan Caves Reserve Trust (JCRT) reporting to the Minister for Environment.

However, the separation of delivering the hospitality services from the cave operations proved increasingly dysfunctional and, following a review, it was determined that the preferred option was to have one operator, managed by the Parks and Wildlife Division of the Department of Environment and Conservation, manage all services provided at Jenolan.

Having traversed a full circle, the Government is now considering new management arrangements at Jenolan. This paper examines

the influences that determined previous decisions regarding management of the reserve and identifies the lessons gleaned from the experience of alternative management arrangements at this popular tourist and strategically significant environmental location.

Historical Overview

The area we know as Jenolan Reserve and its caves were well known to the Gundungarra and Wiradjuri indigenous peoples who left many artefacts and other evidence of their use of the area.

European contact purportedly commenced around 1838 to 1839 with a runaway convict James McKeown using the area as a hideout. Around 1840 the pastoralist James Whalan made the first reported contact with the Caves. Over time visitation increased and with it damage from the souveniring of cave formations (speleothems). This resulted in the colonial government reserving the area to protect the natural features. The Fish River Caves Reserve was gazetted in 1866 preceding the establishment of Australia's first national park (the Royal) by 12 years and the world's first national park Yellowstone by 6 years. (Note: Yosemite was granted as a public trust in 1864).

Due to its natural and rich cultural heritage, in 2004 the whole reserve was placed on the State's Heritage Register and consideration is now being given to placing it on the National Register. The reserve also forms part of the Greater Blue Mountains World Heritage Area.

Historic Management Arrangements

Prior to 1989 management of the Jenolan Reserve was undertaken within a mainstream government agency using cash flow accounting. It would appear Caves House was treated as a separate cost centre and there is also evidence that it was financially cross subsidised by revenue from the tourist cave operations.

With the election of the Greiner Government in 1988, Jenolan Caves was not immune from the ideologies of free market and New Public Management. In response to the Government's agenda, a decision was made to separate the hospitality services (accommodation, food and drink outlets) and the reserve management (including the tourist caves). In addition, it was decided that the

private sector would be better placed to manage the hospitality services and accordingly a 99 year lease was granted over Caves House.

Administratively, the lease and the reserve and the caves were managed by the Jenolan Caves Reserve Trust (JCRT) along with Wombeyan, Abercrombie and Borenore Karst Conservation Reserves.

The Trust was to be self funding. This was compromised, however, by low visitation levels at the smaller reserves where, at best, Wombeyan broke even in cash flow terms, whilst the other two reserves required supplementation from the Jenolan businesses for their day to day management costs. Although Jenolan made a steady return, it did not return the profit needed to reinvest in essential cave and above ground infrastructure, let alone cross subsidise the other reserves or fund environmental programs.

2003 Review into the Management Arrangements

With the support of the Trust Board, the Hon Bob Debus, Minister for the Environment, initiated a special review of the Trust by the Council on the Cost and Quality of Government in 2003 (JCRT Special Review, 2003). The review found the Trust had been managing its finances without recourse to recurrent funding, despite long standing structural and commercial impediments caused by the business model established in 1989. It was determined that the business model was unsustainable. The Review recommended that the Trust be disbanded and the responsibilities for managing the reserves be transferred to the Parks and Wildlife Division within the Department of Climate Change (DECC) and the option of integrating the operations at Jenolan be investigated by an Administrator appointed to implement the Review's recommendations.

In adopting the recommendations of the Review and various studies, the Government established a State Karst Management Advisory Committee supported by a specialist Karst Conservation unit located within DECC. It also transferred the Wombeyan, Abercrombie, Borenore and Jenolan Reserves to DECC, with the Jenolan visitor zone to follow upon resolution of management issues relating to Caves House and the finalisation of

a new Plan of Management for the Jenolan Reserve.

Negotiations with the then lessee of Caves House to integrate the commercial businesses at Jenolan failed. The Government subsequently acquired the lease and issued an Expression of Interest for an operator to manage the businesses at Jenolan under a 21 year lease/licence arrangement. The investment required to upgrade Caves House to a contemporary standard, depressed regional tourism conditions and the cost required to undertake due diligence resulted in a poor response to the EOI. Since July 2006 the NSW Government has been managing an integrated business operation as an interim measure until a final decision is made on the long term management arrangements at Jenolan.

To date the Government has injected \$2.9M into outstanding capital and maintenance works within the caves and above ground and some \$3M to carrying out catch up maintenance within Caves House.

The Lessons Learnt from the Previous Commercialisation of Jenolan caves

There are a number of fundamental lessons to be learnt from the arrangements in place at Jenolan between 1989 to 2006. These are:

- The businesses at Jenolan have to be managed as an integrated operation irrespective of whether they are managed in-house by government, by a private sector operator or a combination through an alliance type of arrangement. Caves House, built originally to reflect the romantic and picturesque relationship with the caves and targeted towards wealthy travellers (Jenolan Caves Reserve Plan of Management, 1988), is economically unsustainable on its own, as it is too large for a boutique operation and too small for a resort type facility.
- There is a need not only to achieve, but also be seen to achieve, a balanced approach towards conservation and commercial objectives. This requires a division of the day to day responsibilities for managing the commercial businesses and regulating compliance with conservation and heritage requirements. This division is required regardless of whether the businesses are being managed in-house by government or by a private sector operator.
- A strategic tourism development plan, including finance and implementation plans, is needed with clear role definition for the various stakeholders and government.
- A Board made up of various and disparate stakeholders is not regarded as best practice. A report from a 2003 review into governance boards discourages representational appointments to Boards of commercial entities as they “can fail to produce independent and objective views” (Uhrig, 2003). A key reason for the success of the JCRT Board despite significant challenges was the strong leadership qualities provided by its Chairs (JCRT Special Review, 2003).
- A small dedicated agency managing a reserve such as Jenolan is not efficient or financially viable. Small agency overheads as a percentage of turn over are double that of a large agency and access to financial, legal, marketing, information technology and human resource expertise is limited and more expensive given its limited buying power.
- The Trust was able to effectively develop a remarkable degree of expertise in cave management and science, however, its expertise in other areas (e.g. management of the above ground reserve) was compromised by the resources available to it.
- The future operation must meet both government and community expectations in respect of cultural, environmental, social and heritage standards. In addition, the needs of the various stakeholders at Jenolan must be considered.
- The most effective method of maintaining Caves House as a heritage asset is to use it. Deferred expenditure for a heritage asset is generally considerably higher when it is left idle for prolonged periods.
- Despite attracting on average around 220,000 visitors per annum over the last 6 years, the businesses at Jenolan have never been self sustaining to the point where

they are able to invest in long term major capital upgrades to infrastructure. Even with this level of visitation, it is probable Jenolan will always, to some extent, be dependent on government supplementation.

2008 Business Analysis

An assessment in 2007 looked at what was needed to complete the upgrade of cave infrastructure and bring the accommodation assets and above ground infrastructure to an acceptable level. It was estimated that some \$10m was required over a three year period.

Given the estimated cost of the upgrade, the Government decided it required an independent review of the Trust's marketing, operational and financial plans. The review, carried out by Deloitte Touche Thomatsu (Deloitte Touche Tohmatsu, 2008) under the supervision of the Trust and the State Property Authority, was also to advise on future management options.

Essentially Deloitte's analysis confirmed the Trust's findings in that;

- The businesses should be run as an integrated operation.
- Governments are not well placed to directly manage hotels/ accommodation services.
- The private sector would unlikely be interested in managing Jenolan's accommodation services in their current state. In addition, given the current economic environment and tourism markets, the arrangement most likely to attract a private sector operator in the short to mid term would be a management agreement and not a lease arrangement.
- Given the current environment within the tourism sector there is limited revenue growth opportunities due to competition for discretionary spending (including home entertainment).

The Deloitte study did, however, provide valuable additional insights into a number of areas such as making greater use of internet solutions to increase market penetration, increasing operational efficiencies, streamlining operational and financial reporting and

widening the range of key performance indicators to measure the performance of the various operations within the hotel.

The Challenges

Since the 2008 review, the economic climate has deteriorated even further exacerbating the challenges already being faced at Jenolan. The primary challenges, which are not unique to Jenolan but also relevant to other commercial caving operations and regional tourism, include:

General Challenges

1. *Visitation levels.* Empirical evidence is showing that domestic day visitor numbers for tourist attractions within a two to three drive of Sydney to date have not been seriously affected by current economic climate. However, overnight stays and international visitor numbers have declined markedly. The high fixed costs associated with accommodation assets such as Caves House means this is having a dramatic effect on revenue and cash flow.
2. *Increased competition for discretionary spend.* Recent government grants to the Australian tax payers and pensioners have resulted in increased spending on home entertainment including plasma screens, blue ray technology and electronic games. These are in direct competition to tourist attractions such as Jenolan. This position is worsening due to the availability of a myriad of choices for entertainment and tourism (domestic and international) available on the internet. Federal Tourism Minister, Martin Ferguson, in launching the development of a National Tourism Strategy (Ferguson, 2008) suggests that the tourism industry needs to keep abreast of and adapt to the changing needs of the marketplace
3. *Availability Government Funding.* The current economic stimulus packages are focused on mainstream government infrastructure such as education and health services. This further reduces the priority of funding for eco-tourist facilities. However, on the plus side, government is concerned with the state of the Australian Tourist Industry and money may become available from the Commonwealth and State for tourist infrastructure that can demonstrate

that it is critical to local regional economies.

Jenolan Specific Challenges

1. *Changing generational recreational patterns* Attractions such as Jenolan's guided show cave tours generally have little appeal for Generation Y who on average desire instant feedback and gratification. Adventure caving does hold appeal to this market segment but the need to protect the wild caves, limits the capacity to generate sufficient revenue from this source to allow long term sustainability.
2. *Suitable Business Models.* History has shown that for efficiency and financial reasons the various businesses at Jenolan should be managed as an integrated operation. However, at the same time managing a hotel such as Caves House is not a core function of government nor is it within the expertise of government. On the other hand, there are very few, if any, operators in the market place capable of managing a hotel and a sensitive and fragile cave environment; nor is it likely such an operator be interested in, what is in the wider sense, small scale operation such as Jenolan. This dilemma is causing some hesitancy within government in tackling the long term management issues at Jenolan with any sense of urgency.
3. *Invigorating Staff.* The process that Jenolan is now going through commenced in 2003 with the original Review. There have been a number of significant changes and more change is inevitable. For staff it has been a turbulent period and uncertainty has become a part of everyday life. It has to be said it is draining for the morale of staff across the organisation.
4. *Concealment of Passion.* The people of NSW and indeed Australians appear to have a deep and abiding affection for Jenolan. The Government recognises the need to protect the caves and the tourism industry see's Jenolan as a good opportunity. However, because of Jenolan's recent history, the risks associated with its infrastructure and its access challenges, the government prefers to opt for less risky projects. Jenolan has lacked a champion – an eminent person or an organisation who is generally perceived not to be motivated

by self interest to unlock the passion. For many bureaucrats the lack of a champion might be considered an advantage but our experience is contrary to this view especially in competing for discretionary funding from either the public or private sectors.

The Way Forward

Government's priority is to manage Jenolan in a sustainable manner, protecting its indigenous and European heritage whilst maintaining public access (DECC, 2008). This includes protecting the caves and the karst landscape and at the same time minimising financial demands on government.

Securing private sector expertise to manage the hotel operations will depend on finding the right balance between environmental and heritage obligations and commercial sustainability. This will require an alternative delivery management model to that used in the past. Such a model will depend on true partnership between the public and private sectors based on:

- Transparent operational and financial reporting
- Development and acceptance by both parties of new revenue sources
- Clear understanding of the obligations and risk allocation associated with the sites heritage and environmental requirements
- Clear understanding of the commercial requirements of all parties which will be reflected in any agreement.

Prior to any arrangement being finalised there are a number of pre-requisites to address, including the need to upgrade the accommodation assets and streamlining the operating structure currently functioning within the limitations of government requirements. In addition, an environmental regulator will be required to oversight those functions which are separate from the day to day management of the site.

Based on the work to date the only possible options available for the short to medium term future management of Jenolan appear to be:

1. *Management by Government*

This arrangement preserves the status quo with government managing both aspects of the businesses at Jenolan. The advantages of this scenario include the continuance of an integrated commercial operation and retention of government's core expertise in managing sensitive environmental sites. The disadvantages are that management of hotel and leisure facilities is not a core function of government and there are inherent inefficiencies in managing a commercial operation within a government framework.

2. *Management Agreement with a private sector operator to manage the accommodation assets*

Under this arrangement the overall management responsibilities will remain with government and a private sector operator will manage the hotel. Marketing for both cave tours and accommodation can be contracted to the private sector operator and a form of profit sharing and revenue incentives based on an open book approach entered into by both parties. This option allows both the private and public sector to play to their strengths – putting management of the hotel and marketing with the private

sector and keeping conservation and interpretation with government.

3. *Management by the Private Sector of all commercial operations under a management agreement.*

As noted above it is expected that the number of private sector operators capable of managing the accommodation assets is expected to be limited. However, this option must still be investigated as it could bring increased efficiencies to the administration of Jenolan. Again this approach will need to be based on an open book approach but will require tight environmental controls to protect the show caves.

Conclusion

The search for a suitable management model for Jenolan is reaching its final stages. The journey has been prolonged and difficult due to the industry wide challenges and the issues particular to Jenolan.

The challenges include the current world economic downturn, changing recreational needs particularly of the Y generation, the declining Australian Tourist Industry and the disparate nature of the commercial and environmental requirements at Jenolan.

Will the new management model succeed? Only time will tell as it will rely on a truly collegiate approach by the public and private sectors both bringing their core expertise to the adopted arrangement.

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