Business Case

Port Stephens Koala Hospital and Tourism Facility

May 2017

PORT STEPHENS
COUNCIL

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Executive Summary

The Port Stephens koala population has experienced decline for some time. If the current trend continues, it is possible that koalas in Port Stephens will cease to exist. Recent research into the abundance and dispersal of free living koalas in the region suggests that populations in the east of the Local Government Area (LGA) are not yet endangered but are under significant pressure, but positively some areas in the west suggest population recovery.

To protect and enhance koalas and their environment, Port Stephens Council (PSC) is looking to implement a number of initiatives and actions under an Integrated Koala Management Strategy. In addition to habitat protection and enhancement, and increasing education and awareness around human impacts, it is proposed to build and operate a facility for the treatment and care of sick, injured and orphaned koalas. Within a wider program of work it is intended that the facility will play a vital role in caring for koalas that require attention, with a view to returning these treated animals back to the natural environment.

An opportunity exists to build such a facility within the Port Stephens Council (PSC) operated Treescape Holiday Park at located on Gan Gan Road at One Mile Beach.

The facility will incorporate full hospital function, rehabilitation and staged release facilities, host a permanent breeding population, and enable centralised research programs into disease and population management in partnership with other agencies and universities.

The facility will also comprise of tourist and accommodation offerings, whereby day visitors can view koalas in a natural habitat setting via an elevated canopy bushwalk, and take part in educational presentations and encounters through the tourist centre. Premium eco cabin or tent accommodation will be located along the periphery of the koala enclosures, offering a unique overnight experience. This concept has been modelled through the feasibility study and not only ensures that the operation of the facility is sustainable, but that it is projected to be profitable. This is significant for the facility itself, as well as the wider economic and tourism profile of the Port Stephens area.

It is considered that incorporating the proposed facility into the existing operations at Treescape secure the financial viability of the business, enable the opportunity to provide a much-needed asset in conserving koalas in the area, and will also put the Port Stephens area at the forefront of the $1B a year koala tourism industry in Australia.

The overall environmental, social, and economic benefits suggest that the necessary investment required is substantially justified in both the immediate and long term.

Key points;

- A capital investment of $3m is required to construct the facility and associated infrastructure including, hospital and tourism building, all pens and fences, canopy boardwalk, new amenities block, eco accommodation cabins or tents, and improved access and increased car parking.

- Three capital funding scenarios have been modelled – borrow the required $3M, borrow $1.5M and externally fund the other $1.5M, and externally fund the entire $3M. Working on the model whereby Council borrows the required $3M capital, the financial modelling demonstrates that the facility achieves a positive net result in year 2 of operation with increasing profits year after year, pays period for the loan is in 2027, at which time the net cash result is projected to be a return of over $800K.

- The facility will be financially self-sufficient and ultimately return a profit through the tourism and accommodation components, removing the need for continued operating support for the hospital.

- Private industry sponsorship is a potential funding source but has not been modelled.

- The facility will generate new tourist visitation and is consistent with State Government strategies and action plans for the tourism industry.

- The facility will be a unique and one of a kind education and research centre, partnering with environmental agencies and Sydney, Wollongong and Newcastle Universities.

- The facility will provide a focal point for community and volunteer input and action. It will remedy the challenges facing Port Stephens Koalas where the current situation requires carers to operate from their own homes.

- Under the Port Stephens Council Integrated Koala Management Strategy, the facility will play an integral role in the preservation of the Port Stephens Koala population.

1.0 Introduction

Koala populations are extremely difficult to estimate with accuracy. PSC recently carried out a distribution and abundance study which whilst extremely useful to understand where koalas are, were, and are likely to be, based on records, it is not a comprehensive population study. The results of the distribution and abundance study suggest that there may be up to 1200 free living koalas in the LGA, while the worst case estimations made by others suggest that the population may be as low as 250. With regards to recorded mortality rates, in the last two years 92 koala deaths were registered with an average of almost 50 deaths per year over the last 5 years. From these statistics it is evident that the population is under pressure, particularly in the east of the LGA, whereas there is some evidence to suggest that areas in the west are showing signs of recovery. The risk is that if current trends continue or worsen local populations will be endangered and face an uncertain future.

PSC is in the process of creating an Integrated Koala Management Strategy that will guide all aspects of koala and habitat management. The strategy will give effect to the NSW Koala Strategy developed by Office of Environment and Heritage. Within this integrated approach, a purpose-built facility for the treatment and care of sick, injured and orphaned koalas will significantly assist the conservation of the Port Stephens koala population.

Port Stephens Koalas (PSK), previously the Hunter Koala Preservation Society, was formed in 1987 and is licensed by National Parks and Wildlife to rescue, treat, rehabilitate and release orphaned, injured and sick koalas. The work is currently being undertaken by volunteers in their own homes in and around the Port Stephens area. Despite the commitment and contributions of these individuals, and the high quality of care, the current arrangement is ultimately unsustainable.

PSC operates Treescape Camping and Accommodation at One Mile Beach. Treescape comprises over 8ha of Crown land under lease by PSC and offers low cost camping and accommodation offerings in a unique setting adjacent to National Park and Samurai Beach.

This Business case puts forward the position for inclusion of the required koala hospital and eco-tourism facility to be constructed within the Treescape Holiday Park site to ensure a necessary community resource is provided, whilst positioning Port Stephens at the forefront of koala tourism.

1.1 Aims of the Business Plan

This Business Plan has been developed with the following aims:

- to provide a robust assessment of the proposal;
- to clearly articulate the importance of the situation in terms of the declining koala population;
- to present the options available to Council;

- to present the positive economic, social and environmental benefits of the proposal;
- to present the risks to Council;
- to develop an immediate and medium term budget and financial plan.

1.2 Business Plan Platform

The following issues form the platform upon which the business plan has been built:

- the need to save the Port Stephens koala population;
- the need to ensure the facility is self-funding and does not negatively impact on the overall business position of Treescape;
- the need to minimise ongoing operational investment;
- the need to build a unique product that will remain relevant in the long term;
- the need to satisfy the Crown and Government Departments expectations and guidelines.

1.3 Project /Site Constraints

In developing options and a preferred business model for the site, the following constraints have been identified:

- Terms of the lease ie. use and period;
- Approvable uses;
- Required licenses;
- Access;
- Natural Habitat / Environment;
- Ability to remove vegetation and change landscape;
- Existing infrastructure;
- Capital and recurrent funding;
- Governance.

1.4 Project Opportunities

In considering and developing opportunities for the site/project the following contextual opportunities have been identified:

- Demand for a Koala Hospital facility;
- The need to ensure the continual operation of the hospital facility is self-funding and not reliant exclusively on donations or external fund sources;
- Relevant licensing requirements;
- Significant demand for koala experiences particularly from overseas visitors;
- Opportunity to provide a unique experience with both accommodation and the koalas being located on the same site;
- Nature and education opportunities;
- Importance of referred visitation.

1.5 Success Criteria

The following criteria will be developed as a measure of success for reporting to Council the Crown and the community:

- Koala population numbers;
- Scientific gain;
- Visitation numbers;
- Operating results;
- Media reporting;
- Local use, volunteer numbers.

1.6 Scope and what it includes/ doesn't include

The Business plan has been based on the status quo in terms of current business position of Treescape. It does not include any previous investment or business decisions that informed the way in which Treescape is currently operated.

1.7 Context

This Business plan has been developed in the follow context:

- Council is not by nature or legislation a risk taker and the overall approach will be measured and conservative;
- Outcomes will be measured in terms not only of project specific benefits and costs but the wider social and economic impacts of the project;
- Operation of the ecotourism component of the facility is seen both as a business enterprise of Council's and as part of the implementation of its wider community plan, economic development strategy and tourism destination plan; and
- Council will be subject to the normal procurement and probity constraints and practices for local government in NSW.

2.0 Site

The site consists of 8.915ha and is located at 562 Gan Gan Road, One Mile Beach, Port Stephens. It is legally known as Lot 2 DP 1109948. The site benefits from natural coastal bushland throughout and wetlands that border the site to the north. It forms part of a recognised and mapped Koala corridor and the habitat across the site attracts a wide range of native animals. Treescape Camping and Accommodation Park currently operates at the site.

The site has direct access to both One Mile and Samurai beach (20 minutes' walk on a bush/sand track) and is next to Tomaree National Park. The privately owned Middle Rock Caravan Park adjoins the southern boundary of the site and One Mile Beach Caravan Park is approximately 1.2kms south along Gan Gan Road.

The site is approximately 5 to 6 kilometres from the commercial areas of Anna Bay, Salamander Bay and Nelson Bay. The site is located in the Local Government Area (LGA) and popular tourism destination of Port Stephens.

Figure 1 Site Aerial

Treescape is operated by Council and offers affordable accommodation options ranging from one bedroom studio and suites to powered van and unpowered campsites. Treescape is marketed as the best of both worlds, set in natural bushland and nestled on the edge of One Mile Beach and Samurai Beach sand dunes yet only 10 minutes away from the heart of Port Stephens.

The Park facilities include:

- Pool and heated spa
- Games & equipment
- Tennis Court
- Direct access to walking track to Samurai Beach from the back of the resort.
- Onsite Amenities including family/disabled room (temporary facility)
- On site laundry facilities available (temporary facility)
- Free BBQ facilities around the park available for camping and accommodation guests
- Camp Kitchen (temporary facility)
- On site parking

A Treescape park map is attached at Appendix A.

The park targets active families who want to enjoy a peaceful holiday away from the crowds. It also caters for school groups and group getaways. Corporate and long term stay rates are available.

There is sufficient area in the eastern portion of the site to accommodate the proposed facility without negatively detracting from the existing accommodation offering or substantially impacting existing infrastructure.

3.0 Proposal

There is an opportunity to build a unique facility on approximately 1 hectare of prime koala habitat within the Treescape Holiday Park. The site located at One Mile Beach adjoins Tomaree National Park and has the necessary attributes to facilitate the development of such a proposal. These being:

- Native bushland setting appropriate for koalas;
- Accessibility for both carers and tourists alike;
- Existing infrastructure to partner with;
- Geographically central in the Port Stephens area;
- No neighbouring constraints / sensitive receivers; and
- Long term land tenure.

The koala/ecotourism facility will operate on three key elements:

- Care and conservation;
- Scientific research and education; and
- Eco-tourism and unique accommodation.

The proposed hospital/care component will consist of the following:

- A services building containing a garage and workshop for storage of koala food and supplies and direct access to the hospital;
- Staff amenities including office, administration, vet accommodation quarters, amenities;
- Hospital operating/treatment room and 4 Intensive care rooms; and
- Outdoor rehabilitation pens.

The hospitals main function will be to provide the full range of specialist care and rehabilitation for sick and injured koalas. This activity will be undertaken by Port Stephens Koalas staff and external veterinary experts as required. Associated with the hospital will be a breeding program, and a base for scientific research into disease control.

The hospital facility aims to achieve the following;

- Adequately accommodate koalas needing medium to long term care prior to release;
- Provide shelter and care for koalas displaced due to natural disasters such as fire, flood or storm (as a pre-requisite for translocation or release);
- Provide uniform species management and population recovery via a controlled breeding and release program including translocation agreements;
- Facilitate consistent and linked scientific research programs, veterinary research and veterinary training; and
- Maintain a resident koala population.

The second component of the proposal is the tourism facility which will provide the income stream to support the overall development. A large tourist/education centre building with a

covered entry will be linked to the hospital for staff to move between the two. A raised boardwalk (elevated in the tree canopy) will be provided for visitors to walk around a large outdoor area populated with koalas. Eco tents or cabins are proposed to be located on the periphery of the permanent koala colony habitat for overnight stays in close proximity to the koalas, offering a unique stay experience.

The ecotourism function will provide education opportunities, various koala experiences in a natural habitat setting, and a 'one of a kind' accommodation offering which will aim to significantly increase domestic and international visitation to the region. A key to the proposed tourism operation is that it will operate all year round and does not rely on seasonal aspects.

The single storey built form will be architecturally designed, and include colours and materials to assist as much as possible with its integration into the natural setting of the site. The buildings will be orientated to optimise natural light; achieve cross ventilation; and operate in an ecologically sustainable manner.

Initial plans of the facility are included at Appendix B including site and roof plans, elevations and 3D sketches of the buildings.

A full SWOT analysis is provided in Section 5.

4.0 Project Feasibility

Three realistic funding scenarios have been modelled for the required $3M capital investment to construct the facility. The three options are;

- PSC borrows the required $3M.
- PSC borrows $1.5M and externally sources the other $1.5M.
- The required $3M is externally funded.

The summary financial modelling for three funding scenarios is presented below, and full financial workings are included in Appendix C.

The project feasibility is based on the following assumptions:

- Full visitor numbers are modelled on 45,000 (this number is a conservative estimated based on the Port Macquarie Koala Hospital and Oakdale Farm visitor numbers);
- Accommodation uplifts are based on a 25% increase in occupancy rates and 20% rise in rates, but don't take into account other potential accommodation in the future;
- Base case assumes Treescape forecast numbers based on current offering; and
- Trading has been forecast to increase over the first 3 years at 50%, 75% and then 100% respectively.

4.1 Option 1 - $3 Million (100% debt funding – largest impost on PSC)

SCENARIO 1- EXTERNALLY BORROW $3M @ 3.95%												
Treescape	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25**	**FY26**	**FY27**	**Total**
Income	723,026	813,461	854,135	1,124,968	1,181,217	1,240,278	1,302,292	1,367,406	1,435,777	1,507,565	1,582,944	13,133,069
Expenditure	627,972	652,313	698,906	854,104	881,527	925,603	971,884	1,020,478	1,071,502	1,125,077	1,181,330	10,010,696
EBIT	**95,054**	**161,148**	**155,229**	**270,864**	**299,690**	**314,675**	**330,408**	**346,928**	**364,275**	**382,488**	**401,614**	**3,122,373**
Interest	0	0	0	0	0	0	0	0	0	0	0	0
Net Operating Result	**95,054**	**161,148**	**155,229**	**270,864**	**299,690**	**314,675**	**330,408**	**346,928**	**364,275**	**382,488**	**401,614**	**3,122,373**
Koala Hospital												
Income	0	486,833	712,617	938,400	985,320	1,034,586	1,086,315	1,140,631	1,197,663	1,257,546	1,320,423	10,160,334
Expenditure	0	393,027	404,818	438,092	451,235	464,772	478,715	493,077	507,869	523,105	538,798	4,693,508
EBIT	**0**	**93,806**	**307,799**	**500,308**	**534,085**	**569,814**	**607,600**	**647,554**	**689,794**	**734,441**	**781,625**	**5,466,826**
Interest	0	(118,500)	(108,607)	(98,323)	(87,634)	(76,521)	(64,970)	(52,963)	(40,482)	(27,507)	(14,020)	(689,527)
Net Operating Result	**0**	**(24,694)**	**199,192**	**401,985**	**446,451**	**493,293**	**542,630**	**594,591**	**649,312**	**706,934**	**767,605**	**4,777,299**
Combined Operations												
EBIT	**95,054**	**254,954**	**463,028**	**771,172**	**833,775**	**884,489**	**938,008**	**994,482**	**1,054,069**	**1,116,929**	**1,183,239**	**8,589,199**
Interest	0	(118,500)	(108,607)	(98,323)	(87,634)	(76,521)	(64,970)	(52,963)	(40,482)	(27,507)	(14,020)	(689,527)
Net Operating Result	**95,054**	**136,454**	**354,421**	**672,849**	**746,141**	**807,968**	**873,038**	**941,519**	**1,013,587**	**1,089,422**	**1,169,219**	**7,899,672**
Principal repayments	0	(250,453)	(260,346)	(270,630)	(281,319)	(292,432)	(303,983)	(315,990)	(328,471)	(341,446)	(354,930)	(3,000,000)
Net Cash Result	**95,054**	**(113,999)**	**94,075**	**402,219**	**464,822**	**515,536**	**569,055**	**625,529**	**685,116**	**747,976**	**814,289**	**4,899,672**
Pay back period of the $3M loan is complete by 31 December 2024												

Comment

- Financial modelling suggests a year 1 loss, but profits are forecast every year following.
- Payback period for $3M loan is 31 December 2024, full loan principle and interest repayment by 2027, forecasted net cash result in same year $814,289.

4.2 Option 2 – $1.5 Million (50% debt funding – BBRF Grant Fund case)

SCENARIO 2 - EXTERNALLY BORROW $1.5M @ 3.95% MATCHED WITH A GRANT FOR $1.5M												
Treescape	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25**	**FY26**	**FY27**	**Total**
Income	723,026	813,461	854,135	1,124,968	1,181,217	1,240,278	1,302,292	1,367,406	1,435,777	1,507,565	1,582,944	13,133,069
Expenditure	627,972	652,313	698,906	854,104	881,527	925,603	971,884	1,020,478	1,071,502	1,125,077	1,181,330	10,010,696
EBIT	**95,054**	**161,148**	**155,229**	**270,864**	**299,690**	**314,675**	**330,408**	**346,928**	**364,275**	**382,488**	**401,614**	**3,122,373**
Interest	0	0	0	0	0	0	0	0	0	0	0	0
Net Operating Result	**95,054**	**161,148**	**155,229**	**270,864**	**299,690**	**314,675**	**330,408**	**346,928**	**364,275**	**382,488**	**401,614**	**3,122,373**
Koala Hospital												
Income	0	486,833	712,617	938,400	985,320	1,034,586	1,086,315	1,140,631	1,197,663	1,257,546	1,320,423	10,160,334
Expenditure	0	393,027	404,818	438,092	451,235	464,772	478,715	493,077	507,869	523,105	538,798	4,693,508
EBIT	**0**	**93,806**	**307,799**	**500,308**	**534,085**	**569,814**	**607,600**	**647,554**	**689,794**	**734,441**	**781,625**	**5,466,826**
Interest	0	(59,250)	(54,304)	(49,162)	(43,817)	(38,261)	(32,485)	(26,482)	(20,241)	(13,753)	(7,010)	(344,765)
Net Operating Result	**0**	**34,556**	**253,495**	**451,146**	**490,268**	**531,553**	**575,115**	**621,072**	**669,553**	**720,688**	**774,615**	**5,122,061**
Combined Operations												
EBIT	**95,054**	**254,954**	**463,028**	**771,172**	**833,775**	**884,489**	**938,008**	**994,482**	**1,054,069**	**1,116,929**	**1,183,239**	**8,589,199**
Interest	0	(59,250)	(54,304)	(49,162)	(43,817)	(38,261)	(32,485)	(26,482)	(20,241)	(13,753)	(7,010)	(344,765)
Net Operating Result	**95,054**	**195,704**	**408,724**	**722,010**	**789,958**	**846,228**	**905,523**	**968,000**	**1,033,828**	**1,103,176**	**1,176,229**	**8,244,434**
Principal repayments	0	(125,226)	(130,172)	(135,314)	(140,659)	(146,215)	(151,991)	(157,994)	(164,235)	(170,723)	(177,471)	(1,500,000)
Net Cash Result	**95,054**	**70,478**	**278,552**	**586,696**	**649,299**	**700,013**	**753,532**	**810,006**	**869,593**	**932,453**	**998,758**	**6,744,434**
Pay back period of the $1.5M loan is complete by 31 May 2021												

Comment

- Financial modelling shows increasing profits are forecast every year.
- Payback period for $1.5M loan is 31 May 2021,
- Full loan principle and interest repayment by 2027, forecasted net cash result in same year $998,758.

4.2 Option 3 – $0 Million (0% debt funding – RGETF Grant Fund case)

SCENARIO 3 - $3M GRANT												
Treescape	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25**	**FY26**	**FY27**	**Total**
Income	723,026	813,461	854,135	1,124,968	1,181,217	1,240,278	1,302,292	1,367,406	1,435,777	1,507,565	1,582,944	13,133,069
Expenditure	627,972	652,313	698,906	854,104	881,527	925,603	971,884	1,020,478	1,071,502	1,125,077	1,181,330	10,010,696
EBIT	**95,054**	**161,148**	**155,229**	**270,864**	**299,690**	**314,675**	**330,408**	**346,928**	**364,275**	**382,488**	**401,614**	**3,122,373**
Interest	0	0	0	0	0	0	0	0	0	0	0	0
Net Operating Result	**95,054**	**161,148**	**155,229**	**270,864**	**299,690**	**314,675**	**330,408**	**346,928**	**364,275**	**382,488**	**401,614**	**3,122,373**
Koala Hospital												
Income	0	486,833	712,617	938,400	985,320	1,034,586	1,086,315	1,140,631	1,197,663	1,257,546	1,320,423	10,160,334
Expenditure	0	393,027	404,818	438,092	451,235	464,772	478,715	493,077	507,869	523,105	538,798	4,693,508
EBIT	**0**	**93,806**	**307,799**	**500,308**	**534,085**	**569,814**	**607,600**	**647,554**	**689,794**	**734,441**	**781,625**	**5,466,826**
Interest	0	0	0	0	0	0	0	0	0	0	0	0
Net Operating Result	**0**	**93,806**	**307,799**	**500,308**	**534,085**	**569,814**	**607,600**	**647,554**	**689,794**	**734,441**	**781,625**	**5,466,826**
Combined Operations												
EBIT	**95,054**	**254,954**	**463,028**	**771,172**	**833,775**	**884,489**	**938,008**	**994,482**	**1,054,069**	**1,116,929**	**1,183,239**	**8,589,199**
Interest	0	0	0	0	0	0	0	0	0	0	0	0
Net Operating Result	**95,054**	**254,954**	**463,028**	**771,172**	**833,775**	**884,489**	**938,008**	**994,482**	**1,054,069**	**1,116,929**	**1,183,239**	**8,589,199**
Principal repayments	0	0	0	0	0	0	0	0	0	0	0	0
Net Cash Result	**95,054**	**254,954**	**463,028**	**771,172**	**833,775**	**884,489**	**938,008**	**994,482**	**1,054,069**	**1,116,929**	**1,183,239**	**8,589,199**
No payback period as there is no capital outlay by Council.												

Comment

- Financial modelling shows increasing profits are forecast every year.
- No borrowings utilised in funding, so no repayment or payback period.
- Forecasted net cash result in same year in 2027 is $1,188,289.

4.4 Feasibility Summary

- The financial analysis is based on conservative assumptions. The rationale for this position is to manage expectations, demonstrate that the proposed business can successfully operate in depressed circumstances to show 'worst case' business resilience, and in doing so demonstrate that risks to Council can be successfully managed and absorbed.

- The analysis also does not consider additional income generating activities such as use of the educational buildings for functions, or other activities where the facility could be 'rented out' in which Council would receive additional income. The feasibility also only takes into account existing accommodation and the glamping product proposed. There is additional scope at Treescape to increase the amount of available accommodation that will realise increased revenue associated with the koala aspect of the business.

- There is not a significant overall net position difference between a 50% or 100% debt funded model. The attached financial models show that the project on a 100% debt funded model will be viable in its first year of operation.

Refer to the detailed financial modelling attached in Appendix C.

5.0 Justification

The koalas in Port Stephens will suffer under the threats that they face unless significant action is taken on a number of fronts. The proposed purpose-built hospital for treatment of sick and injured koalas and a breeding program will play important roles in the conservation of the local population. The Port Stephens koalas are integral to the Hunter region, and if numbers fall below a sustainable population then it is possible that they may be lost from the Hunter region. The project therefore has wider benefits than just to the local area. Despite the commitment of PSK volunteers, the current model for koala conservation is unsustainable. There can be up to 20 koalas in medium to long term care at any one time, and growing need for care is stretching resources to critical levels.

The proposed facility will adequately treat and accommodate koalas needing medium to long term care prior to release. This ensures 24hr expert veterinarian care to sick, injured and orphaned koalas. The eco-tourism component will enable the hospital facility to be self-sufficient by providing a sustainable income base. It will add over $1M to the local economy per annum and will place Port Stephens at the forefront of koala tourism globally. The tourism component of the proposed facility will complement existing environmentally based tourist activities in the area.

It is conservatively estimated that 45,000 tourists will visit the site on average per year of operation (year 3 onwards). In addition, it is expected that there will be a 25% increase in occupancy rates and 20% rise in tariff rates at Treescape Holiday Park.

The Australian Koala Foundation has reported that koala driven tourism is worth in excess $1 billion dollars annually. It is also recognised that this market is only just starting to mature, particularly the Chinese visitor market.

Preliminary operating models have been developed on several different scenarios with variable visitation numbers, tariffs for accommodation, and expense scenarios. The scenarios modelled suggest that the overall combined Treescape / koala operation will be profitable in year 1, albeit an overall net loss compared to the base case.

Conservative models (based on 100% debt on $3M) demonstrate the facility can be in a net positive position within 2 years of opening, with an overall net gain in profit of 4.8million for the 10 years modelled.

Modelling suggests that should only 70% of the already conservative target forecast be achieved, then the project shows significant enough financial gain to warrant the investment.

PSK and PSC have demonstrated the capacity to operate the facility with the tourism aspect of the proposed facility integrated into the existing infrastructure of Treescape.

In order to transition the concept to a reality and preserve the Port Stephens koala population, capital funding is required to construct this critically necessary facility and to

set it up to be operationally sustainable (i.e. not reliant on donations). An investment of circa $3million is required.

Funding options include Council borrowings, State Government funding, Federal Government funding, corporate sponsorship or investment, or any combination of these options.

Benefit Summary

Social

- Ensures that generations to come can visit koalas in the local region.
- Provides a goodwill and social responsibility creditability for Council.
- Creates job and training opportunities
- Creates volunteer opportunities and increased scope for direct contributions.
- Strengthens the community identity of Port Stephens.
- Enables education opportunities.
- Increases involvement of indigenous people in the community.

Environmental

- Provides a 24hr state of the art hospital for the care of sick, orphaned and injured koalas.
- Provides a breeding population to bolster numbers of free living koalas in Port Stephens.
- Is in keeping with natural amenity and market positioning of Treescape.
- Provides resources for wider habitat protection and enhancement actions under the Port Stephens Council Integrated Koala Management Strategy.
- Provides a facility to focus research into koala disease.

Governance

- Satisfies Crown lease requirements.
- Satisfies agency license requirements for the keeping and care of koalas.
- Minimises cost to rate payers.
- Seeks to implement wider Council and State Government policies and action plans.
- Will provide a skills based board or committee to ensure the successful operation of the facility.

Financial

- Requires capital outlay upfront but provides a self-financing operation;
- Maximises the investment made to date in Treescape;
- Financial modelling suggest significant profitability is a reality in both the short and long term.
- Multiplier effect into the local economy is greater than $1 million per annum;

5.3 SWOT Analysis

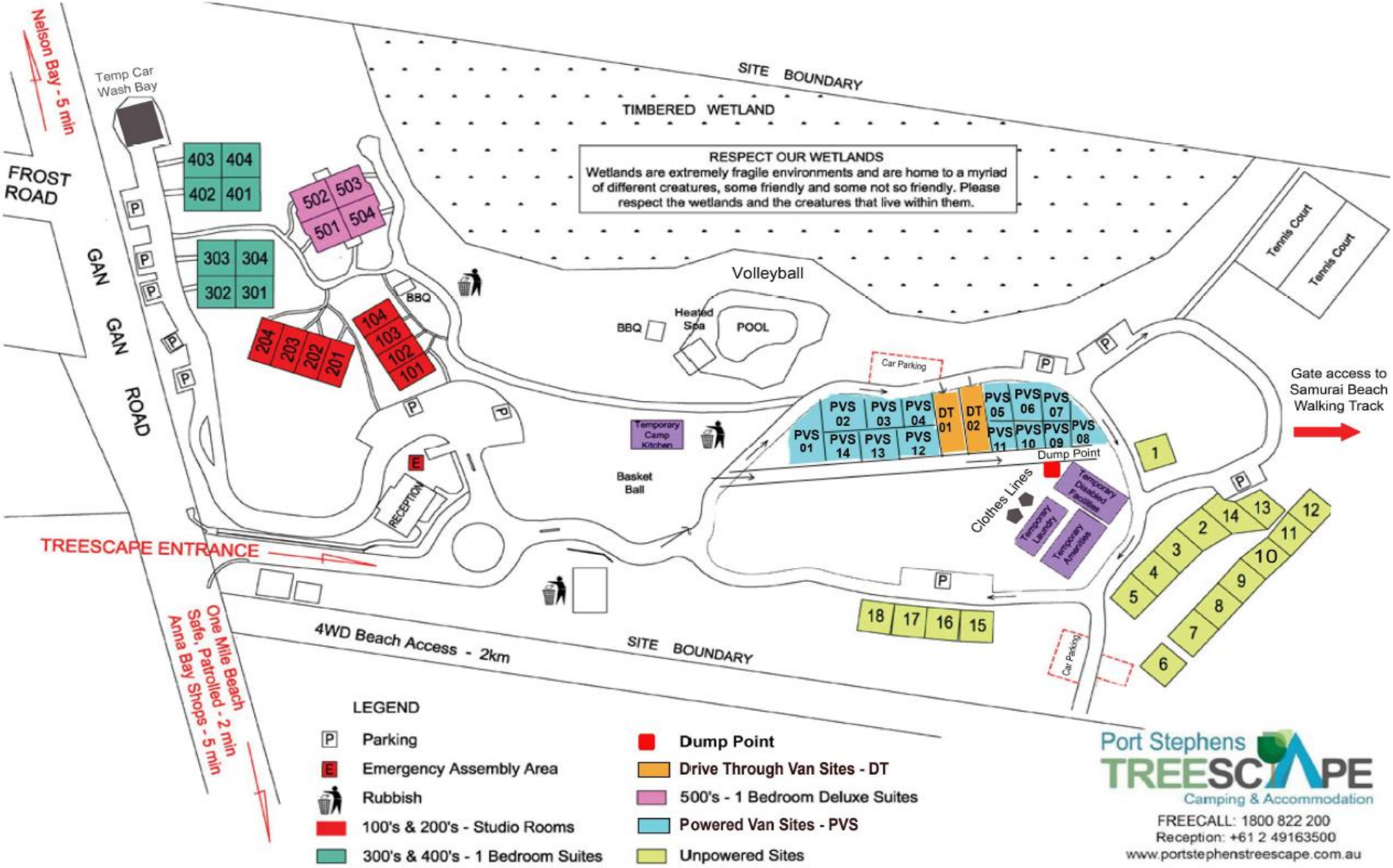
STRENGTHS	WEAKNESSES
▪ Unique natural ambience and bushland area ▪ Prevalence of core koala habitat and feed trees ▪ Access to Hunter /Newcastle market; Sydney market; and East Coast market (through Newcastle Airport) ▪ Site already in a semi-disturbed state through the existing Treescape Park ▪ Essential infrastructure and services already provided to the site ▪ Financial benefit to the Treescape business ▪ Opportunity for simple, affordable accommodation options to further the tourism appeal	▪ A number of trees including habitat trees requiring to be removed to accommodate the development and to achieve bushfire compliance ▪ No onsite food/beverage outlet ▪ Adverse impact to Treescape operation during construction ▪ Capital funding required
OPPORTUNITIES	**THREATS**
▪ Varied accommodation options on offer when combined with Treescape offering ▪ Tap into existing guest network of Treescape ▪ Future potential direct flights from Williamtown airport to Asia ▪ Introduce a food offering could then lead to the education facility doubling as a function facility for corporate/weddings and the like ▪ Unique offering in its ability to ‘ stay’ with the koalas ▪ Opportunities with investment in key transport nodes in Newcastle Airport and cruise terminal.	▪ Highly competitive Port Stephens tourism market ▪ Global market factors could deter international visitors if the $AUS is high ▪ Extreme weather conditions could be a deterrent ▪ Overall expected tourist numbers are not realised

6.0 Next Steps

6.1 Next Steps (subject to funding)

- Develop a full detail scope for the development including architectural plans and final costs;
- Gain all development approvals and licences;
- Develop a governance structure;
- Develop a full marketing strategy including branding of facility;
- Develop a full and final project management plan to deliver the facility;
- Commence development; and
- Open and operate facility.

Appendix A – Treescape Park Map



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Appendix B – Concept Plans

- - - - - - TREE TO BE REMOVED
———— IDENTIFIED HABITAT TREE
———— BUSHFIRE SETBACK
- - -H- - - HABITAT TREE TO BE REMOVED

No	Date	By	Chk	Description	No	Date	By	Chk	Description
A	10.01.2017	CH		WORK IN PROGRESS					
B	24.01.2017	CH		WORK IN PROGRESS					
C	01.02.2017	CH		FOR CLIENT REVIEW					
D	24.02.2017	CH		WORK IN PROGRESS					

0 3 6 9 12 15 m
SCALE 1:300 AT ORIGINAL SIZE

webber architects
COMMERCIAL AND INDUSTRIAL

SITE PLAN

DRAWING NO 0202

SCALE 1 : 300 @ A1

PROJECT CODE 2006

PORT STEPHENS TREESCAPES
KOALA HOSPITAL & TOURIST CENTRE

Rev	Date	By	Chk	Description	Rev	Date	By	Chk	Description
A	10.01.2017	CH		WORK IN PROGRESS					
B	24.01.2017	CH		WORK IN PROGRESS					
C	06.02.2017	CH		FOR CLIENT REVIEW					
D	24.02.2017	CH		WORK IN PROGRESS					

0 1000 2000 3000 4000 5000mm
SCALE 1:100 AT ORIGINAL SIZE

webber architects
commercial and residential

FLOOR PLAN - GROUND

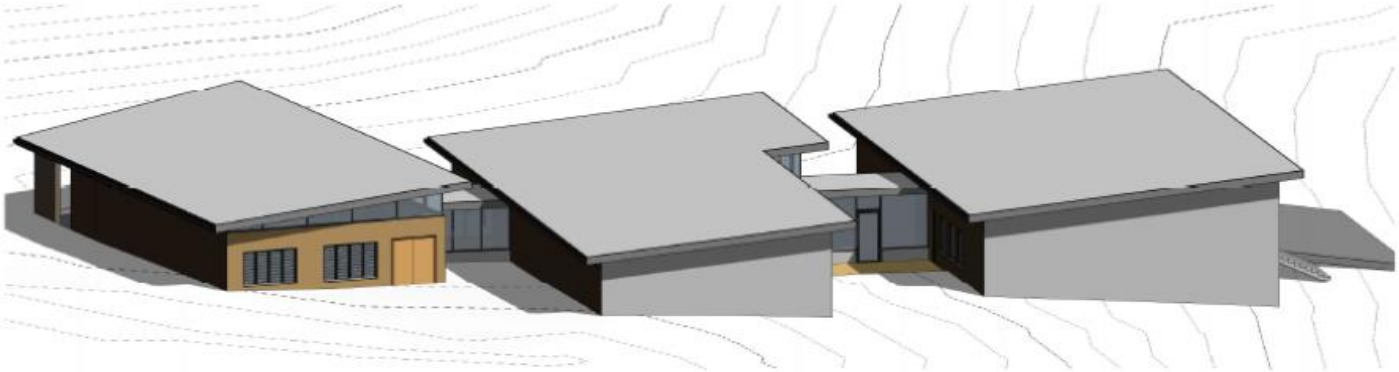
DRAWING NO 0301

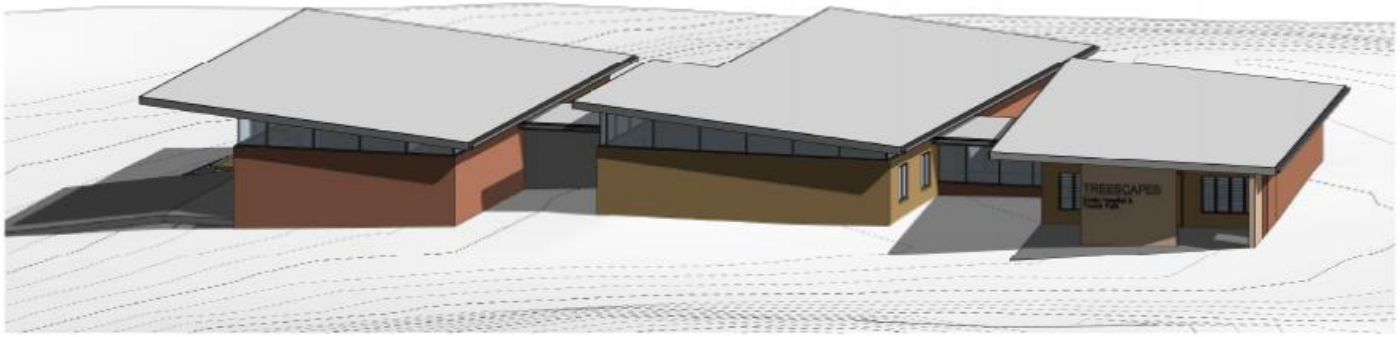
1 : 100 @ A1

2008

DEC 2016

PORT STEPHENS TREESCAPES
KOALA HOSPITAL & TOURIST CENTRE





COLOURS INDICATED FOR MATERIAL DIFFERENTIATION ONLY

Rev	Date	By	Chk	Description	Rev	Date	By	Chk	Description
A	18.02.2011	CH		WORK IN PROGRESS					

webber architects
commercial and residential

SKETCH 02

PORT STEPHENS TREESCAPES
KOALA HOSPITAL & TOURIST CENTRE

DRAWING NO SK02
SCALE NOT TO SCALE
PROJECT CODE 2006
DRAWING DATE DEC. 2010

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Appendix C – Financial Models

TREESCAPE KOALA HOSPITAL PROPOSAL
SUMMARY - BORROWINGS $1.5m

1. Is the project viable?

At 100% of forecast marginal contributions from the Koala Hospital proposal, increased net profit over ten years to FY27 would be $5.1m. The Base Case forecasts profits over the next 10 years totalling $3m.
Total profits including the Koala Hospital proposal are $8.1m an increase of $5.1m.
100% of forecast increased contributions from the Koala Hospital proposal are based on revenues from visitors and accommodation uplift:

VISITOR REVENUE

Number of visitors	45,000	
Average visit rate	15	
Visitor revenue	**675,000**	**The projections provide for a ramp up to this over 3 years from FY18 at .750%, FY19 7.75% and FY20 100% = $67.75k**

Visitor revenue at full capacity (45,000 visitors at average $15 each) , assumed to be reached by Y3

ACCOMMODATION REVENUE (UPLIFT)

Uplift in occupancy	25%	
Uplift in average rate	20%	
Accommodation revenue (uplift)	345,000	**The projections provide for a ramp up to this over 3 years from FY18 at approximately .750%, FY19 approximately 7.75% and FY20 100% = $34.75k**

Uplift in accommodation revenue is based on a 25% rise in occupancy with a 20% rise in average rate, assumed to be reached by Y3

NET RESULT (KOALA 100%)

	TOTAL	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY2.75	FY26	FY27
Net result: Base Case		95,054	161,148	155,229	270,864	299,690	314,675	330,408	346,929	364,275	382,489	401,613
Net result: Koala Proposal (before interest)			93,806	307,799	500,308	534,085	569,814	607,600	647,555	689,794	734,441	781,625
Net Result: Combined Base & Proposal (before interes		**95,054**	**254,954**	**463,028**	**771,172**	**833,775**	**884,489**	**938,008**	**994,483**	**1,054,069**	**1,116,930**	**1,183,238**
Interest			(59,250)	(54,304)	(49,162)	(43,817)	(38,261)	(32,485)	(26,482)	(20,241)	(13,753)	(7,010)
Combined net result after interest	**8,149,383**	**95,054**	**195,704**	**408,724**	**722,010**	**789,958**	**846,228**	**905,523**	**968,002**	**1,033,828**	**1,103,176**	**1,176,228**
Change in profit / cashflow	**5,122,063**		**34,556**	**253,495**	**451,146**	**490,268**	**531,553**	**575,115**	**621,073**	**669,553**	**720,687**	**774,615**

At 100% of forecast uplift in revenue, the Koala Hospital proposal would increase total profits from the Base Case $3m by $5.1m to $8.1m over 10 years.

BASE CASE

	TOTAL	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY2.75	FY26	FY27
Cabins revenue		413,375	434,044	455,746	478,534	502,461						
Van Sites revenue		94,500	120,450	126,473	132,797	139,437						
Unpowered sites revenue		75,600	98,550	103,478	108,652	114,085						
Powered sites revenue		89,250	83,767	87,955	92,353	96,971						
First time camping		50,301	76,650	80,483	84,507	88,732						
Powered Dormitory Sites					228,125	239,531						
Total Revenue		**723,026**	**813,461**	**854,135**	**1,124,968**	**1,181,217**	**1,240,278**	**1,302,292**	**1,367,406**	**1,435,777**	**1,507,565**	**1,582,944**
Expenses		627,972	652,313	698,906	854,104	881,527	925,603	971,884	1,020,478	1,071,502	1,125,077	1,181,330
Net result: Base Case	**3,027,320**	**95,054**	**161,148**	**155,229**	**270,864**	**299,690**	**314,675**	**330,408**	**346,929**	**364,275**	**382,489**	**401,613**

The Base Case (as is with no Koala Hospital) forecasts total profits for the ten years from FY18 to FY27 of $3m.

TREESCAPE KOALA HOSPITAL PROPOSAL

KOALA PROPOSAL TRADING - 100%

	TOTAL	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27
Visitor Revenue		337,500	506,250	675,000	708,750	744,188	781,397	820,467	861,490	904,565	949,793
Accommodation revenue (uplift)		191,667	268,333	345,000	362,250	380,363	399,381	419,350	440,317	462,333	485,450
Total incremental revenue	11,043,841	529,167	774,583	1,020,000	1,071,000	1,124,550	1,180,778	1,239,816	1,301,807	1,366,898	1,435,242
Less: Crown 8%		(42,333)	(61,967)	(81,600)	(85,680)	(89,964)	(94,462)	(99,185)	(104,145)	(109,352)	(114,819)
		486,833	712,617	938,400	985,320	1,034,586	1,086,315	1,140,631	1,197,663	1,257,546	1,320,423
Operating Expenses	4,693,507	393,027	404,818	438,092	451,235	464,772	478,715	493,077	507,869	523,105	538,798
Net result: Koala Proposal (before financing)	5,466,827	93,806	307,799	500,308	534,085	569,814	607,600	647,555	689,794	734,441	781,625
Interest	(344,764)	(59,250)	(54,304)	(49,162)	(43,817)	(38,261)	(32,485)	(26,482)	(20,241)	(13,753)	(7,010)
Net result after interest	5,122,063	34,556	253,495	451,146	490,268	531,553	575,115	621,073	669,553	720,687	774,615

Incremental revenues from the proposal are ramped up from Y1 to capacity by Y3 at approximately 50% of capacity in Y1, 75% in Y2 and 100% in Y3. From Y3 revenues are increased at 5% per annum. Total revenues over 10 years are $11m, total operating expenses $4.7m an interest expense of $340k for a net profit of $5.1m.

VISITOR REVENUE

Percentage of capacity	50%	75%	100%	105%	110%	116%	122%	128%	134%	141%
Number of visitors			45,000							
Average charge			15							
Visitor Revenue	337,500	506,250	675,000	708,750	744,188	781,397	820,467	861,490	904,565	949,793

Incremental visitor revenue is based on 45,000 visitors by Y3 (FY20) at an average fee of $15 (capacity = $675k revenue). Y1 is forecast at 50% capacity and Y2 at 75%.

ACCOMMODATION REVENUE (UPLIFT)

Occupancy increase	15.0%	20.0%	25.0%							
Rate increase	10.0%	15.0%	20.0%							
Accommodation revenue (uplift)	191,667	268,333	345,000	362,250	380,363	399,381	419,350	440,317	462,333	485,450

Incremental accomodation revenue is based on an occupany increase of 25% and average rate increase of 20% producing incremental revenue of $345k.

Crosscheck	FY17	Uplift	Uplifted
Capacity	16,040		
Occ %	51%		64%
Nights	8,200	25%	10,250
Rate	88.2	20%	106
Revenue	723,240		1,084,860
Increment		361,620	

This crosscheck calculation supports the $345,000 revenue increase from 25% increase in occupancy combined with 20% increase in rate.

The crosscheck confirms this to be a reasonable estimate of increased revenue (crosscheck calculates $361k.

KOALA PROPOSAL DEBT

	TOTAL
Principal	1,500,000
Interest rate	3.95%
Annual repayment	184,476

	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27
Principal	1,500,000	1,374,774	1,244,601	1,109,286	968,627	822,411	670,420	512,425	348,189	177,466
Interest (TOTAL 344,764)	59,250	54,304	49,162	43,817	38,261	32,485	26,482	20,241	13,753	7,010
Repayment	(184,476)	(184,476)	(184,476)	(184,476)	(184,476)	(184,476)	(184,476)	(184,476)	(184,476)	(184,476)
Balance	1,374,774	1,244,601	1,109,286	968,627	822,411	670,420	512,425	348,189	177,466	0

Borrowings of $1.5m over 10 years at 3.95% would result in interest paid of approx $344k.

TREESCAPE KOALA HOSPITAL PROPOSAL

2. What happens if the forecast revenue uplifts are not achieved?

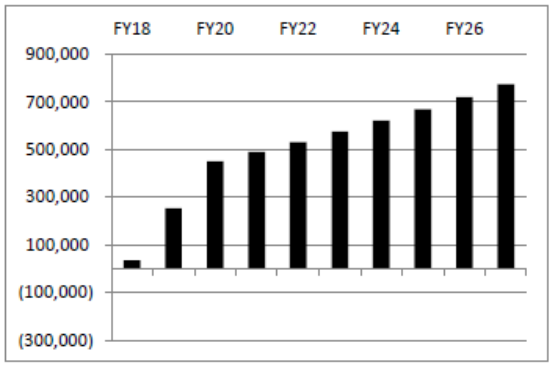
As noted the projections are scaled to ramp up to the forecast impacts over three years. That is, the forecast revenues from visitors and accommodation uplift are ramped up over three years at approximately 50% in year 1, 75% in year 2 reaching 100% in year three. The effect of achieving different levels of forecast impacts is calculated below.

		FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	TOTAL
+ Better than / - Worse than Base Case (Koala	@100%)	34,556	253,495	451,146	490,268	531,553	575,115	621,073	669,553	720,687	774,615	5,122,063
+ Better than / - Worse than Base Case (Koala	@75%)	(87,152)	75,341	216,546	243,938	272,907	303,536	335,915	370,137	406,301	444,509	2,581,980
+ Better than / - Worse than Base Case (Koala	@70%)	(111,494)	39,710	169,626	194,672	221,178	249,220	278,884	310,254	343,424	378,488	2,073,963
+ Better than / - Worse than Base Case (Koala	@60%)	(160,177)	(31,551)	75,786	96,140	117,719	140,589	164,821	190,488	217,669	246,446	1,057,929
+ Better than / - Worse than Base Case (Koala	@55%)	(184,519)	(67,182)	28,866	46,874	65,990	86,273	107,789	130,605	154,792	180,425	549,913
+ Better than / - Worse than Base Case (Koala	@50%)	(208,860)	(102,813)	(18,054)	(2,392)	14,260	31,957	50,757	70,722	91,915	114,404	41,896

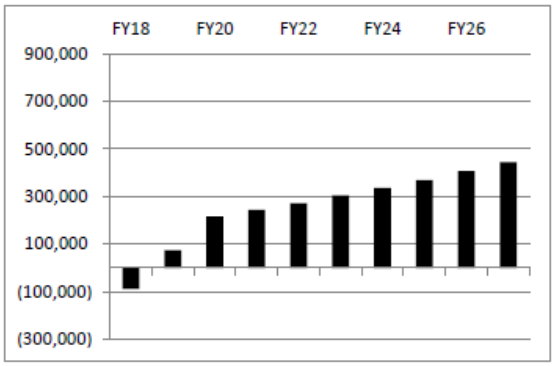
This table assesses net results at different levels of forecast achievement, ranging from the top line - 100% of forecast to the bottom row 50% achievement. The outcomes are graphed below.

NET RESULT / CASHFLOW FROM VARIOUS LEVELS OF FORECAST ACHIEVEMENT

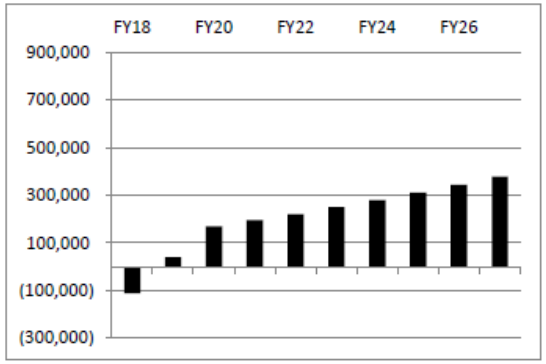
KOALA PROPOSAL ACHIEVES 100%



KOALA PROPOSAL ACHIEVES 75%

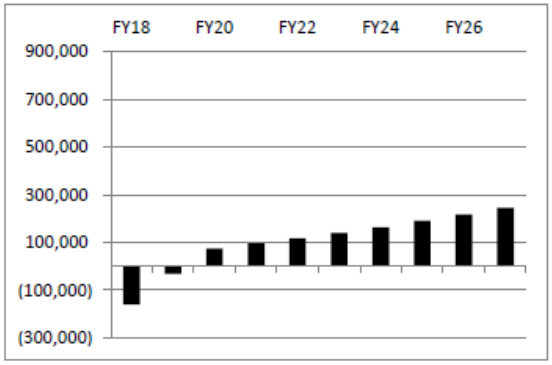


KOALA PROPOSAL ACHIEVES 70%

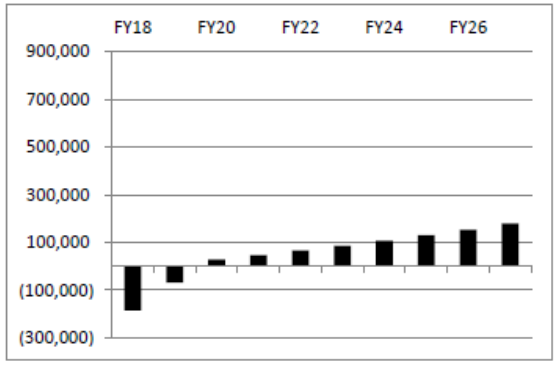


From approximately 60% of target, forecast future cashflows are positive and significant enough to warrant the proposal.

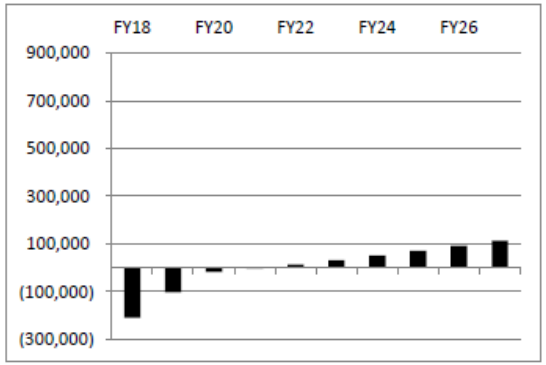
KOALA PROPOSAL ACHIEVES 60%



KOALA PROPOSAL ACHIEVES 55%



KOALA PROPOSAL ACHIEVES 50%



Below 55% of target, forecast future cashflows are negative / not significant enough to warrant the project.

From approximately 60% of target, forecast future cashflows are positive and significant enough to warrant the proposal.

TREESCAPE KOALA HOSPITAL PROPOSAL

CONCLUSION

1. **At 100% of forecast returns from the Koala Proposal, there are increasing net returns after interest from Y2 of the proposal, rising to $770k by year 10.**
2. **At 75% of forecast returns from the Koala Proposal, there are increasing net returns after interest from Y1 of the proposal, rising to $444k by year 10.**
3. **At 50% of forecast returns from the Koala Proposal, there are negative net returns until Y4 and only negligible positive returns till Y10 (ie the proposal is not attractive @50%) At between 50% and 55% of projected returns the Koala proposal is not viable. Between 55% and 60% the proposal is marginal. Over 60% the project is viable and at 100% of forecast returns the proposal is very attractive.**

Tcorp requires future cashflows are discounted to assess viability of a project. The discount rate, based on Tcorp requirements by PWC in its merger viability calculations was 9.5%, which is adopted here.
The discounted cashflows are calculated below.

	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	TOTAL
+ Better than / - Worse than Base Case (Koala @100%)	34,556	231,503	376,261	373,415	369,735	365,329	360,295	354,720	348,686	342,262	3,156,761
+ Better than / - Worse than Base Case (Koala @75%)	(87,152)	68,805	180,602	185,797	189,827	192,815	194,870	196,094	196,578	196,406	1,514,640
+ Better than / - Worse than Base Case (Koala @70%)	(111,494)	36,265	141,470	148,273	153,845	158,312	161,785	164,369	166,156	167,234	1,186,216
+ Better than / - Worse than Base Case (Koala @60%)	(160,177)	(28,814)	63,207	73,226	81,882	89,306	95,615	100,918	105,313	108,892	529,368
+ Better than / - Worse than Base Case (Koala @55%)	(184,519)	(61,354)	24,075	35,702	45,901	54,803	62,530	69,193	74,892	79,720	200,943
+ Better than / - Worse than Base Case (Koala @50%)	(208,860)	(93,893)	(15,057)	(1,822)	9,919	20,300	29,445	37,467	44,470	50,549	(127,481)

CONCLUSION

1. **At 50 to 60% of projected incremental revenue, the proposal is not viable (the positive NPV at 60% is not significant).**
2. **Above 60% of forecast incremental revenue from the Koala Proposal, the project returns a significant positive NPV ie is viable**

TREESCAPE KOALA HOSPITAL PROPOSAL

CASHFLOW (KOALA 100% ONLY)

No debtors and consistent creditors -> assume that Combined net result = net cashflow (net result before interest - interest is inlcuded in debt repayments below)

Net cashflow (ie net result before interest)	95,054	254,954	463,028	771,172	833,775	884,489	938,008	994,483	1,054,069	1,116,930	1,183,238
Debt repayments (principal and interest)		(184,476)	(184,476)	(184,476)	(184,476)	(184,476)	(184,476)	(184,476)	(184,476)	(184,476)	(184,476)
Net cashflow effect	**95,054**	**70,478**	**278,551**	**586,696**	**649,299**	**700,012**	**753,532**	**810,007**	**869,592**	**932,453**	**998,762**

KOALA PROPOSAL TRADING - 75%

	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27
Visitor Revenue	253,125	379,688	506,250	531,563	558,141	586,048	615,350	646,118	678,423	712,345
Visitor Revenue	143,750	201,250	258,750	271,688	285,272	299,535	314,512	330,238	346,750	364,087
Total incremental revenue	**396,875**	**580,938**	**765,000**	**803,250**	**843,413**	**885,583**	**929,862**	**976,355**	**1,025,173**	**1,076,432**
Less: Crown 8%	(31,750)	(46,475)	(61,200)	(64,260)	(67,473)	(70,847)	(74,389)	(78,108)	(82,014)	(86,115)
	365,125	**534,463**	**703,800**	**738,990**	**775,940**	**814,736**	**855,473**	**898,247**	**943,159**	**990,317**
Operating Expenses	393,027	404,818	438,092	451,235	464,772	478,715	493,077	507,869	523,105	538,798
Net result before financing	**-27,902**	**129,645**	**265,708**	**287,755**	**311,168**	**336,021**	**362,397**	**390,378**	**420,054**	**451,519**
Interest	(59,250)	(54,304)	(49,162)	(43,817)	(38,261)	(32,485)	(26,482)	(20,241)	(13,753)	(7,010)
Net result after interest	**(87,152)**	**75,341**	**216,546**	**243,938**	**272,907**	**303,536**	**335,915**	**370,137**	**406,301**	**444,509**

KOALA PROPOSAL TRADING - 50%

	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27
Visitor Revenue	168,750	253,125	337,500	354,375	372,094	390,698	410,233	430,745	452,282	474,896
Visitor Revenue	95,833	134,167	172,500	181,125	190,181	199,690	209,675	220,159	231,166	242,725
Total incremental revenue	**264,583**	**387,292**	**510,000**	**535,500**	**562,275**	**590,389**	**619,908**	**650,904**	**683,449**	**717,621**
Less: Crown 8%	(21,167)	(30,983)	(40,800)	(42,840)	(44,982)	(47,231)	(49,593)	(52,072)	(54,676)	(57,410)
	243,417	**356,308**	**469,200**	**492,660**	**517,293**	**543,158**	**570,316**	**598,831**	**628,773**	**660,212**
Operating Expenses	393,027	404,818	438,092	451,235	464,772	478,715	493,077	507,869	523,105	538,798
Net result before financing	**-149,610**	**-48,509**	**31,108**	**41,425**	**52,521**	**64,443**	**77,239**	**90,963**	**105,668**	**121,414**
Interest	(59,250)	(54,304)	(49,162)	(43,817)	(38,261)	(32,485)	(26,482)	(20,241)	(13,753)	(7,010)
Net result after interest	**(208,860)**	**(102,813)**	**(18,054)**	**(2,392)**	**14,260**	**31,957**	**50,757**	**70,722**	**91,915**	**114,404**

TREESCAPE KOALA HOSPITAL PROPOSAL

BASE CASE OCCUPANCY, AVERAGE RATE and REVENUE

	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27
Cabins occupancy	57%	59%	62%	65%								
Cabins average rate	107.53	107.53	107.53	107.53								
Cabins revenue		413,375	434,044	455,746	478,534	502,461						
Van Sites occupancy	36%	41%	45%	50%								
Van Sites average rate	20.00	20.00	20.00	20.00								
Van Sites revenue		94,500	120,450	126,473	132,797	139,437						
Unpowered camping occupancy	20%	25%	30%	35%								
Unpowered camping average rate	39.52	39.52	39.52	39.52								
Unpowered sites revenue		75,600	98,550	103,478	108,652	114,085						
Powered sites revenue		89,250	83,767	87,955	92,353	96,971						
First time camping		50,301	76,650	80,483	84,507	88,732						
Powered Dormitory Sites					228,125	239,531						
Total Revenue	**520,196**	**723,026**	**813,461**	**854,135**	**1,124,968**	**1,181,217**	**1,240,278**	**1,302,292**	**1,367,406**	**1,435,777**	**1,507,565**	**1,582,944**

KOALA PROPOSAL OPERATING EXPENSES

EXPENSES	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25**	**FY26**	**FY27**
Annual cost increase		3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Staff Costs										
Booking administration	129,024									
Other administration (management etc)	38,400									
Grounds maintenance	73,728									
Marketing	30,000									
Booking system licence	6,000									
Booking system transaction cost	22,500									
Commission to third party	16,875									
Consumables	7,500									
Insurance	5,000									
Power	12,000									
Water	12,000									
Veterinary costs	20,000									
Rescue vehicle maintenance	10,000									
Feed / medicines	10,000									
Crown (% deducted from gross revenue)										
TOTAL OPERATING EXPENSES	393,027	404,818	438,092	451,235	464,772	478,715	493,077	507,869	523,105	538,798

TREESCAPE KOALA HOSPITAL PROPOSAL
SUMMARY - BORROWINGS $3m

1. Is the project viable?

At 100% of forecast marginal contributions from the Koala Hospital proposal, increased net profit over ten years to FY27 would be $4.8m. The Base Case forecasts profits over the next 10 years totalling $3m.
Total profits including the Koala Hospital proposal are $7.8m an increase of $4.8m.
100% of forecast increased contributions from the Koala Hospital proposal are based on revenues from visitors and accommodation uplift:

VISITOR REVENUE

Number of visitors	45,000	
Average visit rate	15	
Visitor revenue	**675,000**	**The projections provide for a ramp up to this over 3 years from FY18 at 50%, FY19 75% and FY20 100% = $675k**

Visitor revenue at full capacity (45,000 visitors at average $15 each) , assumed to be reached by Y3

ACCOMMODATION REVENUE (UPLIFT)

Uplift in occupancy	25%	
Uplift in average rate	20%	
Accommodation revenue (uplift)	345,000	**The projections provide for a ramp up to this over 3 years from FY18 at approximately 50%, FY19 approximately 75% and FY20 100% = $345k**

Uplift in accommodation revenue is based on a 25% rise in occupancy with a 20% rise in average rate, assumed to be reached by Y3

NET RESULT (KOALA 100%)

	TOTAL	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27
Net result: Base Case		95,054	161,148	155,229	270,864	299,690	314,675	330,408	346,929	364,275	382,489	401,613
Net result: Koala Proposal (before interest)			93,806	307,799	500,308	534,085	569,814	607,600	647,555	689,794	734,441	781,625
Net Result: Combined Base & Proposal (before interes		**95,054**	**254,954**	**463,028**	**771,172**	**833,775**	**884,489**	**938,008**	**994,483**	**1,054,069**	**1,116,930**	**1,183,238**
Interest			(118,500)	(108,607)	(98,323)	(87,634)	(76,521)	(64,970)	(52,963)	(40,482)	(27,507)	(14,020)
Combined net result after interest	7,804,619	95,054	136,454	354,421	672,848	746,142	807,967	873,038	941,520	1,013,587	1,089,423	1,169,218
Change in profit / cashflow	4,777,299		(24,694)	199,192	401,984	446,452	493,293	542,630	594,591	649,312	706,934	767,605

At 100% of forecast uplift in revenue, the Koala Hospital proposal would increase total profits from the Base Case $3m by $4.8m to $7.8m over 10 years.

BASE CASE

	TOTAL	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27
Cabins revenue		413,375	434,044	455,746	478,534	502,461						
Van Sites revenue		94,500	120,450	126,473	132,797	139,437						
Unpowered sites revenue		75,600	98,550	103,478	108,652	114,085						
Powered sites revenue		89,250	83,767	87,955	92,353	96,971						
First time camping		50,301	76,650	80,483	84,507	88,732						
Powered Dormitory Sites					228,125	239,531						
Total Revenue		**723,026**	**813,461**	**854,135**	**1,124,968**	**1,181,217**	**1,240,278**	**1,302,292**	**1,367,406**	**1,435,777**	**1,507,565**	**1,582,944**
Expenses		627,972	652,313	698,906	854,104	881,527	925,603	971,884	1,020,478	1,071,502	1,125,077	1,181,330
Net result: Base Case	3,027,320	**95,054**	**161,148**	**155,229**	**270,864**	**299,690**	**314,675**	**330,408**	**346,929**	**364,275**	**382,489**	**401,613**

The Base Case (as is with no Koala Hospital) forecasts total profits for the ten years from FY18 to FY27 of $3m.

TREESCAPE KOALA HOSPITAL PROPOSAL

KOALA PROPOSAL TRADING - 100%

	TOTAL	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27
Visitor Revenue		337,500	506,250	675,000	708,750	744,188	781,397	820,467	861,490	904,565	949,793
Accommodation revenue (uplift)		191,667	268,333	345,000	362,250	380,363	399,381	419,350	440,317	462,333	485,450
Total incremental revenue	11,043,841	529,167	774,583	1,020,000	1,071,000	1,124,550	1,180,778	1,239,816	1,301,807	1,366,898	1,435,242
Less: Crown 8%		(42,333)	(61,967)	(81,600)	(85,680)	(89,964)	(94,462)	(99,185)	(104,145)	(109,352)	(114,819)
		486,833	712,617	938,400	985,320	1,034,586	1,086,315	1,140,631	1,197,663	1,257,546	1,320,423
Operating Expenses	4,693,507	393,027	404,818	438,092	451,235	464,772	478,715	493,077	507,869	523,105	538,798
Net result: Koala Proposal (before financing)	5,466,827	93,806	307,799	500,308	534,085	569,814	607,600	647,555	689,794	734,441	781,625
Interest	(689,528)	(118,500)	(108,607)	(98,323)	(87,634)	(76,521)	(64,970)	(52,963)	(40,482)	(27,507)	(14,020)
Net result after interest	4,777,299	(24,694)	199,192	401,984	446,452	493,293	542,630	594,591	649,312	706,934	767,605

Incremental revenues from the proposal are ramped up from Y1 to capacity by Y3 at approximately 50% of capacity in Y1, 75% in Y2 and 100% in Y3. From Y3 revenues are increased at 5% per annum. Total revenues over 10 years are $11m, total operating expenses $4.7m an interest expense of $690k for a net profit of $4.8m.

VISITOR REVENUE

Percentage of capacity	50%	75%	100%	105%	110%	116%	122%	128%	134%	141%
Number of visitors			45,000							
Average charge			15							
Visitor Revenue	337,500	506,250	675,000	708,750	744,188	781,397	820,467	861,490	904,565	949,793

Incremental visitor revenue is based on 45,000 visitors by Y3 (FY20) at an average fee of $15 (capacity = $675k revenue). Y1 is forecast at 50% capacity and Y2 at 75%.

ACCOMMODATION REVENUE (UPLIFT)

Occupancy increase	15.0%	20.0%	25.0%							
Rate increase	10.0%	15.0%	20.0%							
Accommodation revenue (uplift)	191,667	268,333	345,000	362,250	380,363	399,381	419,350	440,317	462,333	485,450

Incremental accomodation revenue is based on an occupany increase of 25% and average rate increase of 20% producing incremental revenue of $345k.

Crosscheck	FY17	Uplift	Uplifted
Capacity	16,040		
Occ %	51%		64%
Nights	8,200	25%	10,250
Rate	88.2	20%	106
Revenue	723,240		1,084,860
Increment		361,620	

This crosscheck calculation supports the $345,000 revenue increase from 25% increase in occupancy combined with 20% increase in rate.

The crosscheck confirms this to be a reasonable estimate of increased revenue (crosscheck calculates $361k.

KOALA PROPOSAL DEBT

	TOTAL	
Principal		3,000,000
Interest rate		3.95%
Annual repayment		368,953

		FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27
Principal		3,000,000	2,749,547	2,489,202	2,218,572	1,937,253	1,644,822	1,340,840	1,024,850	696,379	354,933
Interest	689,528	118,500	108,607	98,323	87,634	76,521	64,970	52,963	40,482	27,507	14,020
Repayment		(368,953)	(368,953)	(368,953)	(368,953)	(368,953)	(368,953)	(368,953)	(368,953)	(368,953)	(368,953)
Balance		2,749,547	2,489,202	2,218,572	1,937,253	1,644,822	1,340,840	1,024,850	696,379	354,933	0

Borrowings of $3.0m over 10 years at 3.95% would result in interest paid of approx $690k.

TREESCAPE KOALA HOSPITAL PROPOSAL

2. What happens if the forecast revenue uplifts are not achieved?

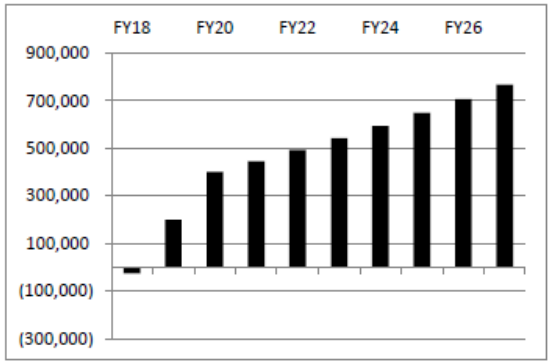
As noted the projections are scaled to ramp up to the forecast impacts over three years. That is, the forecast revenues from visitors and accommodation uplift are ramped up over three years at approximately 50% in year 1, 75% in year 2 reaching 100% in year three. The effect of achieving different levels of forecast impacts is calculated below.

		FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	TOTAL
+ Better than / - Worse than Base Case (Koala	@100%)	(24,694)	199,192	401,984	446,452	493,293	542,630	594,591	649,312	706,934	767,605	4,777,299
+ Better than / - Worse than Base Case (Koala	@75%)	(146,402)	21,038	167,384	200,122	234,646	271,051	309,434	349,897	392,547	437,499	2,237,216
+ Better than / - Worse than Base Case (Koala	@70%)	(170,744)	(14,593)	120,464	150,856	182,917	216,735	252,402	290,013	329,670	371,478	1,729,199
+ Better than / - Worse than Base Case (Koala	@60%)	(219,427)	(85,855)	26,624	52,324	79,458	108,104	138,339	170,247	203,916	239,436	713,166
+ Better than / - Worse than Base Case (Koala	@55%)	(243,769)	(121,486)	(20,296)	3,058	27,729	53,788	81,307	110,364	141,038	173,415	205,149
+ Better than / - Worse than Base Case (Koala	@50%)	(268,110)	(157,117)	(67,216)	(46,208)	(24,000)	(528)	24,276	50,481	78,161	107,394	(302,868)

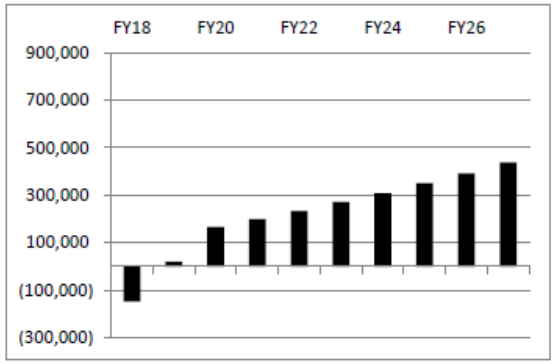
This table assesses net results at different levels of forecast achievement, ranging from the top line - 100% of forecast to the bottom row 50% achievement. The outcomes are graphed below.

NET RESULT / CASHFLOW FROM VARIOUS LEVELS OF FORECAST ACHIEVEMENT

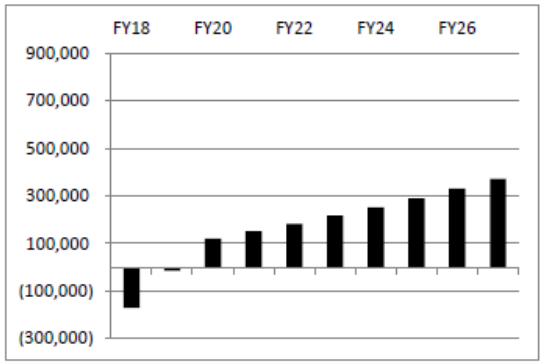
KOALA PROPOSAL ACHIEVES 100%



KOALA PROPOSAL ACHIEVES 75%

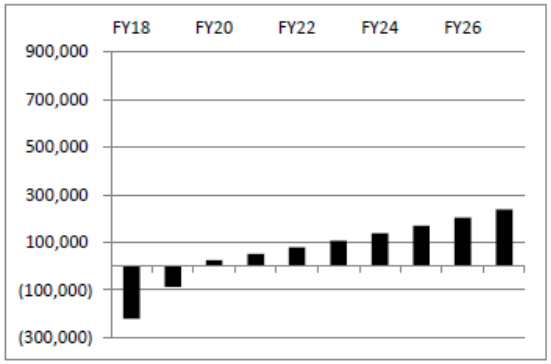


KOALA PROPOSAL ACHIEVES 70%

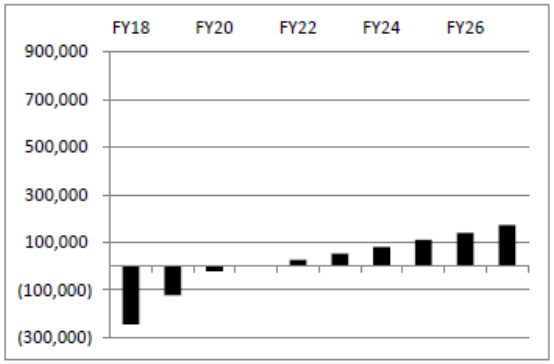


From approximately 70% of target, forecast future cashflows are positive and significant enough to warrant the proposal.

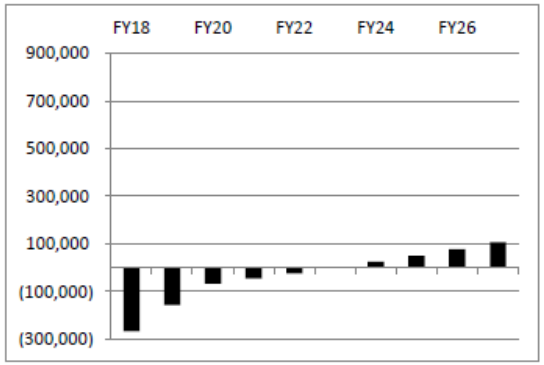
KOALA PROPOSAL ACHIEVES 60%



KOALA PROPOSAL ACHIEVES 55%



KOALA PROPOSAL ACHIEVES 50%



Below 60% of target, forecast future cashflows are negative / not significant enough to warrant the project.

TREESCAPE KOALA HOSPITAL PROPOSAL

CONCLUSION

1. **At 100% of forecast returns from the Koala Proposal, there are increasing net returns after interest from Y2 of the proposal, rising to $770k pa by year 10.**
2. **At 75% of forecast returns from the Koala Proposal, there are increasing net returns after interest from Y1 of the proposal, rising to $437k pa by year 10.**
3. **At 50% of forecast returns from the Koala Proposal, there are negative net returns until Y6 and only negligible positive returns till Y10 (ie the proposal is not attractive @50%). At between 50% and 60% of projected returns the Koala proposal is not viable. Between 60% and 70% the proposal is marginal. Over 70% the project is viable and at 100% of forecast returns the proposal is very attractive.**

Tcorp requires future cashflows are discounted to assess viability of a project. The discount rate, based on Tcorp requirements by PWC in its merger viability calculations was 9.5%, which is adopted here.
The discounted cashflows are calculated below.

	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	TOTAL
+ Better than / - Worse than Base Case (Koala @100%)	(24,694)	181,910	335,259	340,042	343,122	344,693	344,932	343,997	342,031	339,165	2,890,458
+ Better than / - Worse than Base Case (Koala @75%)	(146,402)	19,212	139,600	152,423	163,214	172,179	179,508	185,371	189,924	193,308	1,248,337
+ Better than / - Worse than Base Case (Koala @70%)	(170,744)	(13,327)	100,469	114,900	127,232	137,676	146,423	153,645	159,502	164,137	919,913
+ Better than / - Worse than Base Case (Koala @60%)	(219,427)	(78,406)	22,205	39,852	55,269	68,670	80,253	90,195	98,659	105,794	263,065
+ Better than / - Worse than Base Case (Koala @55%)	(243,769)	(110,946)	(16,927)	2,329	19,288	34,168	47,168	58,469	68,238	76,623	(65,360)
+ Better than / - Worse than Base Case (Koala @50%)	(268,110)	(143,485)	(56,059)	(35,195)	(16,694)	(335)	14,083	26,744	37,816	47,452	(393,784)

CONCLUSION

1. **At 50 to 60% of projected incremental revenue, the proposal is not viable (the positive NPV at 60% is not significant).**
2. **At 70% or above of forecast incremental revenue from the Koala Proposal, the project returns a significant positive NPV ie is viable**

TREESCAPE KOALA HOSPITAL PROPOSAL

CASHFLOW (KOALA 100% ONLY)

No debtors and consistent creditors -> assume that Combined net result = net cashflow (net result before interest - interest is inlcuded in debt repayments below)

Net cashflow (ie net result before interest)	95,054	254,954	463,028	771,172	833,775	884,489	938,008	994,483	1,054,069	1,116,930	1,183,238
Debt repayments (principal and interest)		(368,953)	(368,953)	(368,953)	(368,953)	(368,953)	(368,953)	(368,953)	(368,953)	(368,953)	(368,953)
Net cashflow effect	**95,054**	**(113,998)**	**94,075**	**402,219**	**464,822**	**515,536**	**569,056**	**625,530**	**685,116**	**747,977**	**814,286**

KOALA PROPOSAL TRADING - 75%

	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27
Visitor Revenue	253,125	379,688	506,250	531,563	558,141	586,048	615,350	646,118	678,423	712,345
Visitor Revenue	143,750	201,250	258,750	271,688	285,272	299,535	314,512	330,238	346,750	364,087
Total incremental revenue	**396,875**	**580,938**	**765,000**	**803,250**	**843,413**	**885,583**	**929,862**	**976,355**	**1,025,173**	**1,076,432**
Less: Crown 8%	(31,750)	(46,475)	(61,200)	(64,260)	(67,473)	(70,847)	(74,389)	(78,108)	(82,014)	(86,115)
	365,125	**534,463**	**703,800**	**738,990**	**775,940**	**814,736**	**855,473**	**898,247**	**943,159**	**990,317**
Operating Expenses	393,027	404,818	438,092	451,235	464,772	478,715	493,077	507,869	523,105	538,798
Net result before financing	**-27,902**	**129,645**	**265,708**	**287,755**	**311,168**	**336,021**	**362,397**	**390,378**	**420,054**	**451,519**
Interest	(118,500)	(108,607)	(98,323)	(87,634)	(76,521)	(64,970)	(52,963)	(40,482)	(27,507)	(14,020)
Net result after interest	**(146,402)**	**21,038**	**167,384**	**200,122**	**234,646**	**271,051**	**309,434**	**349,897**	**392,547**	**437,499**

KOALA PROPOSAL TRADING - 50%

	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27
Visitor Revenue	168,750	253,125	337,500	354,375	372,094	390,698	410,233	430,745	452,282	474,896
Visitor Revenue	95,833	134,167	172,500	181,125	190,181	199,690	209,675	220,159	231,166	242,725
Total incremental revenue	**264,583**	**387,292**	**510,000**	**535,500**	**562,275**	**590,389**	**619,908**	**650,904**	**683,449**	**717,621**
Less: Crown 8%	(21,167)	(30,983)	(40,800)	(42,840)	(44,982)	(47,231)	(49,593)	(52,072)	(54,676)	(57,410)
	243,417	**356,308**	**469,200**	**492,660**	**517,293**	**543,158**	**570,316**	**598,831**	**628,773**	**660,212**
Operating Expenses	393,027	404,818	438,092	451,235	464,772	478,715	493,077	507,869	523,105	538,798
Net result before financing	**-149,610**	**-48,509**	**31,108**	**41,425**	**52,521**	**64,443**	**77,239**	**90,963**	**105,668**	**121,414**
Interest	(118,500)	(108,607)	(98,323)	(87,634)	(76,521)	(64,970)	(52,963)	(40,482)	(27,507)	(14,020)
Net result after interest	**(268,110)**	**(157,117)**	**(67,216)**	**(46,208)**	**(24,000)**	**(528)**	**24,276**	**50,481**	**78,161**	**107,394**

TREESCAPE KOALA HOSPITAL PROPOSAL

BASE CASE OCCUPANCY, AVERAGE RATE and REVENUE

	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27
Cabins occupancy	57%	59%	62%	65%								
Cabins average rate	107.53	107.53	107.53	107.53								
Cabins revenue		413,375	434,044	455,746	478,534	502,461						
Van Sites occupancy	36%	41%	45%	50%								
Van Sites average rate	20.00	20.00	20.00	20.00								
Van Sites revenue		94,500	120,450	126,473	132,797	139,437						
Unpowered camping occupancy	20%	25%	30%	35%								
Unpowered camping average rate	39.52	39.52	39.52	39.52								
Unpowered sites revenue		75,600	98,550	103,478	108,652	114,085						
Powered sites revenue		89,250	83,767	87,955	92,353	96,971						
First time camping		50,301	76,650	80,483	84,507	88,732						
Powered Dormitory Sites					228,125	239,531						
Total Revenue	**520,196**	**723,026**	**813,461**	**854,135**	**1,124,968**	**1,181,217**	**1,240,278**	**1,302,292**	**1,367,406**	**1,435,777**	**1,507,565**	**1,582,944**

KOALA PROPOSAL OPERATING EXPENSES

EXPENSES	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25**	**FY26**	**FY27**
Annual cost increase		3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Staff Costs										
Booking administration	129,024									
Other administration (management etc)	38,400									
Grounds maintenance	73,728									
Marketing	30,000									
Booking system licence	6,000									
Booking system transaction cost	22,500									
Commission to third party	16,875									
Consumables	7,500									
Insurance	5,000									
Power	12,000									
Water	12,000									
Veterinary costs	20,000									
Rescue vehicle maintenance	10,000									
Feed / medicines	10,000									
Crown (% deducted from gross revenue)										
TOTAL OPERATING EXPENSES	393,027	404,818	438,092	451,235	464,772	478,715	493,077	507,869	523,105	538,798

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Port Stephens Council

Koala Hospital and Eco Tourism Facility: Modelling and Business Case Review

Prepared: April 2017
Finalised: TBA

PKF

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1.1 Introduction

Port Stephens Council has prepared a Business Case for the proposed Koala Hospital and Eco Tourism Facility to determine the feasibility of establishing a Koala Hospital facility within the Treescape Holiday Park at One Mile Beach.

The purpose is to develop a community asset and establish Port Stephens as a player in the Koala tourism and eco tourism industry. In addition to providing environmental, social, and economic benefits to the Local Government Area (LGA).

The facility would be operated by Port Stephens Koala Preservation Society (PSKPS) who currently do not have a purpose-built location to rescue, treat, rehabilitate and release rescued koalas.

A Department of Environment and Energy 2013 study noted that the koala population in the LGA is in decline and recommended that further conservation efforts are undertaken. Council estimate the current population to range between 125 and 200, with approximately 50 deaths per year, and estimate that the population may disappear within 10 years.

Management of Port Stephens Council ("Council") has requested a review of the modelling to support Council's Koala Hospital and Eco Tourism Facility feasibility study, which is to be submitted to Council for review.

This review has been completed based on the Business Case Koala Hospital and Eco Tourism Facility and appendices prepared by Mr Glenn Bunny (Property Services Section Manager) in February 2017. The review has been completed in conjunction with the Property Services and Financial Services teams at Council.

1.2 Objectives of the review

The Business Case examines the feasibility of building a Koala Hospital facility within the Council operated Treescape Holiday Park. The purpose of the Business Case is to:

- Articulate the importance of stabilising the declining koala population;
- Presenting funding options to Council;
- Outlining the economic, social and environmental benefits of the proposal;
- Identifying risks to Council; and
- Presenting detailed short and medium term budgets, and a 10 year long term plan.

The Business Case modelling focuses on the three year immediate projections based on the available funding options, and the 10 year projections for the funding options. The Case is underwritten by a series of modelling and associated analyses, which consider known events at the time of its preparation, but also makes assumptions with respect to the operation of the Koala Hospital.

Accordingly, the review has focussed on achieving the following objectives:

- Review of the construction and accuracy of the financial model used in the Koala Hospital and Eco Tourism feasibility study;
- Verify and validate the inputs and judgements underwriting assumptions used in the financial model;
- Consideration of model assumptions and judgements against available industry and associated guidance; and
- Consider risk assessment processes utilised as part of building assumptions and the financial model.

1.3 Procedures undertaken

To achieve the objectives noted at section 1.2 above, we undertook the following:

- Discussions with key stakeholders in relation to formulation of assumptions and construction of the model;
- Challenge inputs utilised in the construction of assumptions;
- Benchmarking of inputs used in building assumptions against available industry guidance; and
- Preparation of a Report to Management on observations and findings.

Discussions were held with the following Council representatives:

- Glenn Bunny – Property Services Section Manager;
- Tim Hazell – Financial Services Section Manager; and
- Glen Peterkin –Management Accountant Coordinator.

1.4 Results of the review

The results of the review are as follows:

- We were able to validate and verify the inputs and judgements used in the model;
- Our review of the model's mathematical accuracy did not identify any material issues;
- The assumptions adopted within the plan appear reasonable. However, several material assumptions exist that may impact the ability of the Council to meet the projections. We have disclosed these in section 3 of our report so that Council may consider the impact of these assumptions on the project. In addition, we have included all assumptions at Appendix One; and
- We note that it is a decision for Council to determine the preferred funding option based on Council's risk appetite and success in receiving grant funding.

We have summarised each of the material matters below:

- **Annual visitor numbers:** Full visitor numbers per year of 45,000 by year 3 when the facility is expected to reach maturity and full operations.

Recommendation: We understand that Council has come into possession of visitor numbers for Oakvale Farm and the Port Macquarie Koala Centre. We understand that these statistics were obtained verbally, and not in writing. We are therefore unable to validate these visitor numbers.

- **Trading forecast increase:** Full visitor numbers are to be realised by year 3 of operations. Year 1 visitor numbers are based on 50%, and year 2 numbers are based on 75% of full visitor numbers (i.e. 45,000).

Recommendation: if the proposal was accepted, it would be appropriate for Council to continue to monitor actual trading against the forecast and adjust forecast figures as necessary, to allow for effective monitoring of operations. In light of tourism data and visitor numbers at like centres, this estimate appears reasonable.

- **Visitor fees:** Visitor fee of $15 per person upon entry to the hospital/ tourist facility.

Recommendation: market price in order to prove the viability of the model, this is considered conservative when compared to like facilities. On this basis, it is considered reasonable, and Council should perform ongoing customer research as to whether this is an appropriate price that the market is willing to pay, or if they would pay a higher fee.

1.4 Results of the review (cont'd)

- **Accommodation uplift:** Accommodation uplift at Treescape of 25% in occupancy rates and 20% in room rates, by year 3 of operations.

Recommendation: the uplift appeared reasonable based on our review and recalculation. Council should continue to monitor the impact of changes to room rates on occupancy rates to determine if there is a corresponding or unforeseen impact on occupancy rates.

- **Loan interest rate:** Loan interest rate of 3.95% with the loan to be repaid over 10 years.

Recommendation: we agreed this rate to a recent loan quote for a similar project, and deemed it to be appropriate. We identified a small difference in rates, and our sensitivity analysis noted that this did not have a material impact on the interest expense. Council may consider would need to ensure borrowing process was subject to proper internal due diligence confirming a fixed interest rate to ensure limited fluctuations in future cashflows.

These assumptions are considered most "at risk" based on known information at the date of this report have been analysed at **section 3**.

1.5 Restrictions on use of this report and disclaimer

This report is intended for the use of Council Management only, and permission should be asked of PKF prior to it being distributed to any other party for whom it is not intended. No responsibility will be taken for reliance on this report by any third party.

Forecasts, by their nature, are based on judgements pertaining to future known and unknown events. While every effort has been made throughout our work to review the appropriateness of assumptions as at the date of this report, no assurance is provided with respect to their future accuracy.

2.1 Background and contextual information

The Council developed the Comprehensive Koala Plan of Management (CKPoM) with the principal aim to: *'Encourage the proper conservation and management of areas of natural vegetation that provide habitat for koalas, to ensure permanent free-living populations over their present range and to reverse the current trend of population decline.'*

The Council and the Port Stephens Koala Preservation Society (PSKPS) identified an opportunity to enable to conservation of the koala population through the construction and operation of a facility for the treatment and caring of sick and injured koalas. This work was previously performed by PSKPS volunteers in the homes of volunteers.

The Council have proposed to construct two components:

- Hospital and care facility; and
- Tourism facility (income generating stream): tourist and education centre and overnight stay accommodation option.

Council have identified the ability to apply for Government funding with partial and full funding options.

The financial modelling examines three funding options:

1. Option 1 - $3 million loan (100% debt funding, no grant funding);
2. Option 2 - $1.5 million loan (50% debt funding, 50% grant funding); and
3. Option 3 – no loan (0% debt funding, 100% grant funding).

We note that only options 1 and 2 are tabled in the body of the Business Case.

2.2 Over-arching assumptions

The Business Case prepared by Council contemplates the following scenarios:

Assumption	Option 1 $3m loan	Option 2 $1.5m
Full visitor numbers (no. of visitors per annum)	45,000	45,000
Trading forecast increase over 3 years	Year 1: 50% Year 2: 75% Year 3: 100%	Year 1: 50% Year 2: 75% Year 3: 100%
Visitor fees per person	$15	$15
Accommodation uplift (occupancy rates)	25%	25%
Accommodation uplift (room rate)	20%	20%
Loan interest rate	3.95%	3.95%

Council has also performed sensitivity analysis to quantify the impact on projections if the expected visitor numbers are not met. These are discussed at section **3.**

A list of detailed assumptions and our assessment of the appropriateness of these assumptions has been included as **Appendix One**.

2.3 Key modelling aspects:

Key aspects of the Plan are as follows:

- Council intends to apply for grant funding scheduled to be determined in July 2017;
- Once approved by Council a Development Application (DA) would be lodged, followed by the tender and procurement process;
- Construction and borrowing will commence once grants are received (if granted) and is estimated to commence in late 2017 with an estimate construction period of 8 months; and
- Facility would be operational by the March 2018 quarter.

It should be noted that the feasibility modelling is conservative insofar as the above results base visitor numbers at a discount of approximately 44% of visitor numbers for comparable tourist facilities such as Oakvale Farm and Fauna World and Port Macquarie Koala Hospital.

3.1 Overview

As part of our review, we have analysed the assumptions built by Management within the Koala Hospital model and challenged these with reference to:

- Historical performance;
- Validation against external documentation;
- Reasonableness analysis of the assumptions and sensitivity analysis of the assumptions; and
- Identifying trends and relationships within data, and ensuring consistency exists in these relationships over the course of the model.

All assumptions used to compile the model have been catalogued and assessed at **Appendix One**.

Key assumptions have considered further below.

3.2 Key assumptions

The model has been built on the following key assumptions:

- Full visitor numbers per year of 45,000;
- Full visitor numbers are to be realised by year 3 of operations. Year 1 visitor numbers are based on 50% and year 2 numbers are based on 75% of full visitor numbers;
- Visitor fee of $15 per person upon entry to the hospital/ tourist facility;
- Accommodation uplift of 25% in occupancy rates and 20% in room rates, by year 3 of operations. This increase will be staggered with the following increases:

Accommodation uplift	Occupancy rates	Room rates
Year 1	15%	10%
Year 2	20%	15%
Year 3	25%	20%

- Loan intersest rate of 3.95% wit the loan to be repaid over 10 years.

Note: the only difference between option 1 and option 2 is the borrowed amount and corresponding interest expenses.

We have evaluated the validity and appropriateness of these assumptions in detail at sections 3.3 to 3.6 inclusive.

3.3 The impact of variations to visitor numbers projections

- The model is based upon full visitor numbers of 45,000 per annum.
- Council obtained the visitor numbers for similar organisations being, Oakvale Farm and Fauna World located at Salt Ash, and Port Macquarie Koala Hospital, and the organisations both had annual patronage of 80,000.
- The Port Macquarie Koala Hospital figures were verbally obtained through contacts of officeholders of Port Stephens Koalas from their contacts at the Hospital.
- The Oakvale figures were obtained by a Council Business Development Partner, Rebecca Smith, through a contact at Oakvale.
- To determine the minimum expected annual patronage once the site is established, the section manager and his team determined the figure based on professional judgement. On this basis, they deemed it appropriate to discount the comparable site patronage by approximately 44% to arrive at 45,000 visitors per year.
- Due to our inability to obtain external documentation to support the visitor number of 80,000 at Oakvale and Port Macquarie, due to commercial confidentiality of these organisations, we are not able to validate the accuracy of the visitor estimates.
- In light of this, we draw attention to this assumption as a significant estimate that may impact the short and long term viability of the project.
- Council have performed additional modelling to examine the viability on each option if the projected full visitor numbers are not met. This analysis identified that for option 1, the facility would need to achieve 70% of full visitor number projections in order to realise positive future cash flows. This would equate to 31,500 visitors annually, which is approximately 39% of the visitor numbers of Oakvale Farm and Fauna World and Port Macquarie Koala Hospital.
- For option 2, the facility would need to achieve 60% of full visitor number projections in order to realise positive future cash flows. This would equate to 27,000 visitors annually which is approximately 34% of the visitor numbers at Oakvale Farm and Fauna World and Port Macquarie Koala Hospital.
- In summary, should the proposal be accepted, Council should actively monitor visitor numbers and put in place measures to adjust available levers, including visitor numbers, admission fees or operating expenses.

3.4 Increase in projected trading forecast

The model assumes that full visitor numbers will be reached by year 3, and have incrementally increased visitor numbers in the model. This is noted as follows:

Increase in visitor numbers	% increase
Year 1	50%
Year 2	75%
Year 3	100%

- The incremental increases factor in potential issues with marketing the facility and establishing a visitor base for the new facility.
- Given the visitor numbers noted above as minimum expected patronage, it would be reasonable to expect these would be reached within 3 years of the venue being open, as it would be expected that by 3 years the public and tourist awareness of the venue as a tourist destination would be established.
- In summary, if the proposal was accepted, it would be appropriate for Council to continue to monitor actual trading against the forecast and adjust forecast figures as necessary, to allow for effective monitoring of operations.

3.5 Impact of variations to visitor fees

- Visitor fees have been estimated at $15 per person in the model in all scenarios.
- Council determined the visitor fee through market research of admission fees for comparable tourist attractions in the local area, including Oakdale Farm and Fauna World, and Irukandji Shark and Ray Encounters. The fees for these venues are summarised below:

Admission type	Oakvale Farm and Fauna World	Irukandji Shark and Ray Encounters	Port Macquarie Koala Hospital
Child	$16.50	$19.50	$2 donation
Student	-	$27	$2 donation
Adult	$28.50	$31.50	$2 donation
Pensioner	$24.50	$27	$2 donation
Average	$23.17	$26.25	$2

3.5 Impact of variations to visitor fees (cont'd)

- Note: Port Macquarie Koala Hospital only requests a donation as consideration for entry, as it does not have the income generating tourist facility component that is proposed in the Council's proposal.
- Based on the research, the Council determined it most appropriate to price the visitor fees in line with Oakvale Farm and Fauna World, as this is the attraction that the facility is most closely trying to emulate. As a result, a flat fee of $15 per person was set for the purpose of the proposal. It is noted that Council set the price below the average market price in order to prove the viability of the model by using conservative estimates.
- In summary, it is important for Council to consider the suitability of the visitor fee closer to the opening date to ensure it is in line with the market and service offering of the facility.

3.6 Accommodation uplift

- The model has factored in accommodation uplifts from an increase in the occupancy rates of the Treescape Holiday Park of 25% by year 3, and an increase in the room rates by 20% by year 3. These increases have been increased incrementally over the three year establishment period, until it reaches the projected full visitor numbers by year 3. These increases are noted as follows:

Accommodation uplift	Occupancy rates	Room rates
Year 1	15%	10%
Year 2	20%	15%
Year 3	25%	20%

- The basis for the occupancy rate increases is that there will be a resulting increased demand to stay at the Treescape Holiday Park with the presence of the Koala Hospital on the site.
- The basis for the room rate increases is that due to increased demand and offerings of the site, there is the opportunity to increase room rates accordingly. We have not reviewed the sensitivity of the room rate to occupancy rates on the tourist overnight market. Further, if additional service offerings are provided there would be a justification to increase rates.
- We tested this assumption for reasonableness by reviewing existing Treescape Holiday Park occupancy rates for the 2016 financial year and 2017 financial year to October 2016, and calculated the number of existing guests. Based on existing guest volumes, we calculated expected additional guests based on the staggered increase in occupancy rates to determine if this was considered a reasonable estimate.
- This review estimated that by maturity it would result in an average of 3,700 additional guests per year. This would be approximately 8% of the projected annual visitor numbers for the facility.
- Further, Port Stephens Tourism statistics indicate 77% of domestic and international visitors to the region stay overnight.
- On the basis of the above, the assumption of an increase in occupancy of 25% by maturity appears an appropriate assumption.

3.6 Fluctuations in quoted interest rate

- The model is based on a loan fixed interest rate of 3.95% obtained from a February 2017 quote from the CBA for a separate project. The quote is for a 10 year loan for offer of finance totalling $1,000,000 to Port Stephens Council ('the Council') to finance the construction of a multipurpose community facility.
- We reviewed the loan quote to assess the appropriateness of this as a basis for the interest rate for the Koala Hospital loan.
- Our review identified that the actual interest rate per the quote was 3.97% with all other details as noted above. We performed sensitivity analysis on the total loan interest expense using a rate of 3.97%, and considered the impact to be immaterial with the impacts on the options listed as follows:
    - Option 1 ($3m loan): $3,679; and
    - Option 2 ($1.5m loan): $1,839.
- Given the currency of the quote, similarity of purpose of the loan, and our analysis, we have deemed it suitable to use this rate as a key assumption of the model.
- Council would need to ensure proper due diligence throughout the borrowing process including confirming a fixed interest rate to ensure limited fluctuations in future cashflows.

4. Appendix One – Assumption Assessment

The key assumptions identified as a result of the completion of the procedures outlined at Section 3 are outlined below.
The reasonableness of the assumption has been determined. The ratings are as follows:

- Yes – The basis of the assumption appears appropriate for use in the Business Case;
- No – The basis of the assumption does not appear appropriate in its current form for use in the Business Case; and
- Disclosed – Factors within the assumption appear appropriate for use in the Business Case, though there are some aspects with significant judgement within these assumptions that we have deemed it necessary to draw to the attention of Management.

Assumption	Basis for assumption	Reasonable	Basis for reasonableness
Full visitor numbers are modelled on 45,000	• Council obtained the visitor numbers for similar organisations being, Oakdale Farm and Fauna World located at Salt Ash and Port Macquarie Koala Hospital, and the organisations had annual patronage of 80,000. • The Port Macquarie Koala Hospital figures were verbally obtained through contacts of officeholders of Port Stephens Koalas from their contacts at the Hospital. • The Oakdale figures were obtained by a Council Business Development Partner, Rebecca Smith, through a contact at Oakdale. • To determine the minimum expected annual patronage once the site is established, the section manager and his team determined the figure based on professional judgement. On this basis, they deemed it appropriate to discount the comparable site patronage by approximately 44% to arrive at 45,000 visitors per year.	Disclose	Due to our inability to obtain external documentation to support the Oakvale and Port Macquarie visitor numbers, we have not been able to validate the accuracy of the visitor estimates. In light of this, we draw attention to this assumption as a significant estimate that may impact the short and long term viability of the project.
Accommodation uplifts are based on a 25% increase in occupancy rates and 20% rise in rates. Accommodation revenue uplift of $345k.	• The model has factored in accommodation uplifts from an increase in the occupancy rates of the Treescape Holiday Park of 25% by year 3, and an increase in the room rates by 20% by year 3. These increases have been increased incrementally over the three year establishment period, until it reaches the projected full visitor numbers by year 3. • The basis for the occupancy rate increases is that there will be a resulting increased demand to stay at the Treescape Holiday Park with the presence of the Koala Hospital on the site. • The basis for the room rate increases is that due to increased demand and offerings of the site, there is the opportunity to increase room rates accordingly.	Yes	We tested this assumption for reasonableness by reviewing existing Treescape Holiday Park occupancy rates for the 2016 financial year and 2017 financial year to October 2016, and calculated the number of existing guests. Based on existing guest volumes, we calculated expected additional guests based on the staggered increase in occupancy rates to determine if this was considered a reasonable estimate. This review estimated that by maturity it would result in an average of 3,700 additional guests per year. This would be approximately 8% of the projected annual visitor numbers for the facility. On the basis of the above, the assumption of an increase in occupancy of 25% by maturity appears an appropriate assumption.

Assumption	Basis for assumption	Reasonable	Basis for reasonableness
Visitor fee of $15 per visit	• Council determined the visitor fee through market research of admission fees for comparable tourist attractions in the local area, including Oakdale Farm and Fauna World, and Irukandji Shark and Ray Encounters. • Based on the research, the Council determined it most appropriate to price the visitor fees in line with Oakdale Farm and Fauna World, as this is the attraction that the facility is most closely trying to emulate. As a result, a flat fee of $15 per person was set for the purpose of the proposal.	Yes	Council have set the price below the average market price in order to prove the viability of the model with using conservative estimates. On this basis it is considered reasonable.
Trading forecast to increase over 3 years at: Year 1: 50% Year 2: 75% Year 3: 100%	• The model assumes that full visitor numbers will be reached by year 3, and have incrementally increased visitor numbers in the model. • The incremental increases factor in potential issues with marketing the facility and establishing a visitor base for the new facility.	Yes	Given the visitor numbers noted above as minimum expected patronage, it would be reasonable to expect these would be reached within 3 years of the venue being open, as it would be expected than by 3 years the public and tourist awareness of the venue as a tourist destination would be established. In summary, if the proposal was accepted, it would be appropriate for Council to continue to monitor actual trading against the forecast and adjust forecast figures as necessary, to allow for effective monitoring of operations.
Interest rate of 3.95%	The model is based on a loan fixed interest rate of 3.95% obtained from a February 2017 quote from the CBA for a separate project. The quote is for a 10 year loan for offer of finance totalling $1,000,000 to Port Stephens Council ('the Council') to finance the construction of a multipurpose community facility.	Disclose	Our review identified that the actual interest rate per the quote was 3.97% with all other details as noted above. We performed sensitivity analysis on the total loan interest expense using a rate of 3.97%, and considered the impact to be immaterial with the impacts on the options listed as follows: • Option 1 ($3m loan): $3,679; and • Option 2 ($1.5m loan): $1,839. Given the currency of the quote, similarity of purpose of the loan, and our analysis, we have deemed it suitable to use this rate as a key assumption of the model.

Assumption	Basis for assumption	Reasonable	Basis for reasonableness
Koala Hospital operating expenses	• Operating expenses for the Koala Hospital were compiled through discussion with Port Stephens Koalas based on their experience of acting as a Koala rescue and carer organisations. • The operating expenses used in the model are all estimates. Council advised they have "revised up" the figures provided by Port Stephens Koalas under their conservative approach.	Disclose	Koala operating expenses assessed against the FY2016 Treescape management account expenses for reasonableness, on the basis of it being a similar facility (ie tourist) at the same location. Overall, expenses appear reasonable with exception of Koala specific expenses (ie veterinary expenses and feed) which there is no comparable expenses for. However, as these projected operating expenses are a significant assumption due to the inability to validate these estimates against external data. As such this should be a key area of scrutiny for management in the context of the proposal and ongoing should the proposal be accepted.
Crown lands royalty	• Model assumes the Crown Lands royalty to remain constant under existing lease agreement of 8% of annual revenue. • The Crown Lands agreement will need to be renegotiated for the Koala Hospital due to change of use and there is potential the rate may change.	Disclose	As the lease agreement has not yet been negotiated there is the potential for the royalty rate to change. We are not able to provide assurance over this assumption as it is beyond the control of Council and scope of the engagement. Council will need to consider the likelihood of any changes in the royalty, and may consider it appropriate to contact Crown Lands to discuss.
Crown Lands lease negotiation	• Council has current tenure of the site until 2029, and to ensure the long term viability of the proposed facility will seek to renegotiate the tenure with Crown Lands. • This has not yet been completed.	Disclose	As the lease agreement has not yet been negotiated there is the risk that Crown Lands may not grant the tenure extension. From discussions with Council this is considered to be highly unlikely, however the possibility of the lease not being renewed needs to be adequately considered in the feasibility review.

Assumption	Basis for assumption	Reasonable	Basis for reasonableness
Model doesn't consider any additional income generating activities such as use of educational buildings for functions, wildlife spotting or catering etc.	On the basis of establishing a conservative model, any other potential additional income generating streams have not been included.	Yes	This is appropriate as other income generating activities have not been adequately scoped, to allow for an accurate estimate of their contribution to revenue and operating expenses.
Koala mortality rate	We understand Council has had studies performed in relation to mortality rates in the area.		We have been unable to confirm the accuracy of these studies, and therefore whether sufficient Koala population exists to support the initiative.