

Evolution of management models at Jenolan Caves, NSW, Australia

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The privatisation in 1989 of accommodation and commercialisation of cave tours at Jenolan was part of the Greiner Government's overall reform agenda which focussed on the application of New Public Management Principles.

The acquisition of the 99-year accommodation lease by government in 2006, provided a timely opportunity to examine the implications of the management reforms introduced in 1989. The analysis indicates the business model adopted in 1989 had more to do with the commercial issues at Jenolan than the introduction of New Public Management principles.

The lessons learnt should aid the development of long term management arrangements for Jenolan and ensure the preservation of its natural and built assets for future generations.

Introduction

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

Since its discovery by Europeans in 1838, Jenolan Caves has remained one of Australia's significant tourist locations and a site known for its innovative strategies for protecting the geological and heritage assets of the area.

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

Due to issues arising from the separation of management responsibilities, these arrangements were modified in 1995 with the responsibility for managing the lease, the caves and the reserve being brought back together within the Jenolan Caves Reserve Trust (JCRT) reporting to the Minister for Environment. At that time it was also decided as the management of Jenolan was a specialised activity it should remain outside of the mainstream public sector.

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

Having traversed a full circle, the Government is now considering new management arrangements at Jenolan. This paper examines the influences that determined previous decisions regarding management of the reserve and identifies the lessons gleaned from the experience of alternative management arrangements at this popular tourist and strategically significant environmental location.

Historical Overview

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

European contact purportedly commenced around 1838 to 1839 with a runaway convict James McKeown using the area as a hideout. Around 1840 the pastoralist James Whalan made the first reported contact with the Caves. Over time visitation increased and with it damage from the souveniring of cave formations (speleotheims). This resulted in the

colonial government reserving the area to protect the natural features. The Fish River Caves Reserve was gazetted in 1866 preceding the establishment of Australia's first national park (the Royal) by 12 years and the world's first national park Yellowstone by 6 years. (Note: Yosemite was granted as a public trust in 1864).

The area is rich with European heritage including but not limited to:

- The first hydro-electric system in Australia
- The first use of electricity to light caves anywhere in the world
- The 1895 limestone bridge (de Burgh's Bridge) in front of the Grand Arch
- Caves House with the first wing constructed in 1898 and subsequent additions in 1907, 1914 and 1923
- A number of other buildings dating from around 1895.

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

Initially the Jenolan Reserve was managed by the Lands Department until 1879 when responsibility was transferred to the Mines Department. The NSW State Tourist Bureau became responsible for the Reserve upon its establishment at the beginning of the 20th Century. This arrangement continued until 1989, although at times the Tourist Bureau was part of larger agencies including the Chief Secretaries Department and the Department of Railways¹.

Management Arrangements

Prior to 1989 management of the Jenolan Reserve was undertaken within a mainstream government agency using cash flow accounting

¹ State Record NSW - Online search: <http://www.records.nsw.gov.au/indexes/cgsd/etails.aspx?849>

although it would appear Caves House was treated as a separate cost centre. There is also evidence that Caves House was financially cross subsidised by revenue from the tourist cave operations.

With the election of the Greiner Government in 1988, Jenolan Caves was not immune from the ideologies of free market and New Public Management. In response to the Government's agenda, a decision was made to separate the hospitality services (accommodation, food and drink outlets) and the reserve management (including the tourist caves). In addition, it was decided that the private sector would be better placed to manage the hospitality services and accordingly a 99 year lease was granted over Caves House.

Administratively, the lease was managed by the Jenolan Caves Dedicated Area Reserve Trust administered by the Tourism Commission of NSW whilst the reserve and the caves were managed by the Jenolan Caves Reserve Trust (JCRT). Both bodies were to be self funding and reported to the Minister of Lands.

It is uncertain why it was decided to separate the commercial businesses at Jenolan and have a government agency run the tourist and adventure cave business and the private sector manage the hospitality businesses. There is no doubt there was a view that the private sector could manage a hotel more efficiently than the public sector and that the granting of a long term lease would alleviate the necessity of expending public monies on a much needed upgrade of the hotel.

However, the separation did not follow the funder-provider or regulator-operator models of New Public Management. Whilst it transferred the cost of capital upgrades to the private sector, the separation of the businesses increased their combined operating costs (marketing, corporate overheads, etc) and this duplication in administration increased government's costs.

One credible argument put forward is that political pragmatism led to the separation of the cave and hospitality businesses. Retention of the cave tour business within government was preferable to facing a public backlash against the privatisation of such iconic assets and the negative perception that the risk of damage to the irreplaceable cave features would be increased.

Following the election of the Carr Government in 1995, the administration of the lease, the reserve and the tourist/adventure caves was centralised within the Jenolan Caves Reserve Trust (the Trust) which, under the new arrangements, reported to the Minister for the Environment. Whilst this eliminated the duplication in administrative and co-ordination costs within Government, the problem of increased operating costs at Jenolan still remained.

The Trust Board was primarily comprised of representatives from various stakeholders. Initially in 1989 it was made up of 4 members representing government agencies. It was expanded in 1990 to 7 members by adding stakeholders including the local council and the lessee. In 1992 it was expanded to 9 members by adding representatives from heritage and speleological groups. Finally the Board was reorganised and expanded to 11 members in 1997 by adding external representatives from the Aboriginal Land Council, the Nature Conservation Council and the National Parks Association.

Another factor that impacted the administration of Jenolan was the Trust's business model. As well as Jenolan, the Trust was responsible for the Wombeyan, Abercrombie, and from December 1997, Borenore Karst Conservation Reserves. Under its self-funded model, the Trust was responsible for the day-to-day maintenance costs and minor capital works. Although Treasury grants were available for significant capital upgrades, the Trust, as a separate small off line agency, experienced difficulties competing against the mainstream government priorities of health, education and policing for capital funds.

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

Review into the management arrangements

With the support of the Trust Board, the Hon Bob Debus, Minister for the Environment, initiated a special review of the Trust by the Council on the Cost and Quality of Government in 2003.² The review found the Trust had been managing its finances without recourse to recurrent funding, despite long standing structural and commercial impediments caused by the business model established in 1989. It was determined that the business model was unsustainable. The Review recommended that the Trust be disbanded and the responsibilities for managing the reserves be transferred to the Parks and Wildlife Division within the Department of Conservation (DEC) and the option of integrating the operations at Jenolan be investigated by an Administrator appointed to implement the Review's recommendations.

The Minister and the Trust Board adopted the recommendations and an Administrator was appointed in January 2004. Subsequent studies building on the Review's work have identified the advantages arising from transferring the non-commercial reserves to DEC, such as:

- greater co-ordination and consistency of karst management in NSW through locating the management of the majority of karst areas in NSW in one agency;
- availability to other karst areas of cave conservation and management expertise developed by the Trust;
- access to a greater degree of support activities such as management of salaries, fleet, information technology, finances, etc than the Trust had been able to afford. This reduces overheads and allows increased funding to be provided to the upkeep of the caves and reserves;
- access to increased legal, marketing and advertising expertise and support available within the larger organisation (DEC);

² Jenolan Caves Reserve Trust Special Review (October 2003) Council on the Cost and Quality of Government.

- access to a wider range of expertise and services for management and maintenance of the aboveground reserves (identified as a problem with the Trust's operations);
- improved co-ordination in the management of the Blue Mountains World Heritage Area covering Jenolan;
- improved career path opportunities for staff;
- greater access to Treasury funding for capital improvements as part of an inner budget government agency.

The advantages of having an integrating the businesses under one operator at Jenolan include:

- single responsibility for the quality of visitor experience rather than a split arrangement;
- single responsibility for marketing the destination to the various user segments;
- shared resources;
- attracting experienced and reputable employees and operators in eco-tourism to the Jenolan precinct by providing a critical mass in business turnover;
- a significant reduction in the combined corporate overheads.

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

Negotiations with the then lessee of Caves House to integrate the commercial businesses at Jenolan failed. The Government subsequently acquired the lease and issued an Expression of Interest for an operator to manage the businesses at Jenolan under a 21 year lease/licence arrangement. The investment required to upgrade Caves House to a contemporary standard, depressed regional

tourism conditions and the cost required to undertake due diligence resulted in a poor response to the EOI. The Government is currently running an integrated business operation as an interim measure until a final decision is made on the long term management arrangements at Jenolan.

The Government has injected \$2.9M into outstanding capital and maintenance works within the caves and above ground and some \$2M to carrying out catch up maintenance within Caves House.

The Future

The Government is currently considering its options which include managing the site using in-house resources or entering into a management agreement with a private operator. Regardless of what option is adopted there are a number of fundamental lessons learnt from the arrangements in place between 1989 and 2006. These are:

- the businesses at Jenolan have to be managed as an integrated operation irrespective of whether they are managed in-house by government or by a private sector operator. Caves House, built originally to reflect the romantic and picturesque relationship with the caves and targeted towards wealthy travellers³, is economically unsustainable on its own as it is too large for a boutique operation and too small for a resort type facility;
- there is a need not only to achieve, but also be seen to achieve, a balanced approach towards conservation and commercial objectives. This requires a division of the day to day responsibilities for managing the commercial businesses and regulating compliance with conservation and heritage requirements. This division is required regardless of whether the businesses are being managed in-house by government or by a private sector operator;

³ Jenolan Caves Reserve Trust Heritage Asset Management Strategy (Dec 2006) Golden Mackay Logan

- a strategic tourism development plan, including a financing and implementation plans, is needed with clear role definition for the various stakeholders and government;
- a Board made up of various and disparate stakeholders is not regarded as best practice. A report from a 2003 review into governance boards discourages representational appointments to Boards of commercial entities as they “can fail to produce independent and objective views”.⁴ A key reason for the success of the JCRT Board despite significant challenges was the strong leadership qualities provided by the former Chairs;⁵
- a small dedicated agency managing a reserve such as Jenolan is not efficient or financially viable. Small agency overheads are double that of a large agency and access to financial, legal, marketing, information technology and human resource expertise is limited and far more expensive due to its limited buying power. The Trust was able to effectively develop a remarkable degree of expertise in cave management and science, however, its expertise in other areas (e.g. management of the above ground reserve) was limited;
- the future operation must meet both government and community expectations in respect of cultural, environmental, social and heritage standards. In addition, the needs of the various stakeholders at Jenolan must be considered;
- the most effective method of maintaining Caves House as a heritage asset is to use it. Deferred expenditure for a heritage asset is generally considerably higher when it is left idle for prolonged periods;
- despite attracting on average around 220,000 visitors per annum over the last 6 years, the businesses at Jenolan have never been self sustaining to the point where they are able to invest in long term major capital upgrades to infrastructure. The physical and environmental constraints will always limit visitation at Jenolan to around 275,000 per annum. Even with this level of visitation, it is probable Jenolan will always be dependent to some extent on government supplementation.

Discussion

The recent history of management regimes at Jenolan provides an interesting test case for assessing the feasibility of the public sector management reforms so popular both nationally and internationally during the 1980s and 1990s.

There is no doubt one of the prime objectives of the application of free market and New Public Management principles at Jenolan (the 99 year lease over Caves House and the establishment of a self funded Trust respectively) was to eliminate inefficiencies by removing the restrictions associated with direct government control.

The social and environmental factors unique to Jenolan, however, meant such a generic reform model had to be tailored to fit and so never had a chance to establish its full worth. The experience at Jenolan was generally the case in other instances where diverse business structures adapted the reform model to fit their particular circumstances. With hindsight, it is plain to see the model never had an opportunity to fully prove itself and its various mutations has led to the merits of New Public Management principles being questioned by many commentators.

In Jenolan’s case these factors included:

1. *Cost Shifting.* A key objective of the management reforms was to reduce the drain on the public coffers by transferring the responsibility for the required upgrade of Caves House to the public sector and to have the Jenolan Cave touring business (seen as a cash cow) subsidise the other karst reserves at Wombeyan, Abercrombie and Borenore. Regardless of the ideological merits of

4 Review of the Corporate Governance of Statutory Authorities and Office Holders (2003) John Uhrig for Commonwealth of Australia

5 Jenolan Caves Reserve Trust Special Review (October 2003) Council on the Cost and Quality of Government.

this objective, no comprehensive business modelling was undertaken to ascertain its long term sustainability of this objective.

2. *Political Pragmatism.* Many commentators have observed that this factor is common to the introduction of New Public Management reforms⁶. This is not a criticism as it is essential that Government ensures any reform takes account of the particular circumstances of the case under consideration. In Jenolan's case there was a concern not to privatise the caves which not only are of iconic nature nationally and internationally, but also hold a special interest in the hearts of the residents of NSW. There would be very few residents who did not visit Jenolan as part of their school curricula. This pragmatism led to the separation of the Caves House businesses from the cave tours thus creating some of the problems with the business model.
3. *Business Model.* The size of the commercial businesses at Jenolan and the income received was not sufficient to allow the business managed by the Trust to make the necessary long term investments required to protect and maintain the rich and diverse range of natural and built assets at Jenolan. The Trust was only able to meet its day to day commitments by deferring major upgrades and capital works.
4. The separation of the ownership of the businesses to meet political needs (reference 2. above) also meant the model was inherently inefficient with the doubling of indirect costs such as payroll, marketing and so forth. This situation was exacerbated by the need for Jenolan to cross subsidise the other reserves and the changing nature of the tourist industry (e.g. cheap air fares, changing family interests, etc.) in regional NSW which significantly dampened the growth in visitation numbers.

5. The final issue with the business model was that not only was the Trust expected to run the cave tour businesses on a commercial basis, it was also expected to be the regulator, particularly in the conduct of the businesses and in maintaining and protecting the wild caves and above ground areas within the reserve. The regulatory role did not receive any assistance from the State's Budget.

In hindsight, it is apparent the business model adopted for Jenolan was the most significant factor which led to the failure of the management reforms instigated in 1990.

On the positive side, the reforms did bring a commercial approach to the management of the reserve particularly with the introduction of accrual accounting and a detailed understanding of the true costs of various activities undertaken across the reserve. This in turn led to operational efficiencies and an overall reduction in operating costs. In this regard the objectives of the reforms undertaken in 1990 were partially achieved.

The model also allowed the Trust to develop significant expertise in the management of karst environments and the availability of this knowledge through a centralised unit within NPWS will also be an important legacy.

Conclusion

The overall results in implementing the management reforms at Jenolan has raised questions of the effectiveness of commercialisation of government businesses particularly in respect of iconic environmental/heritage assets where there is large interaction with social and cultural issues.

However, experience has shown the problems were more basic than the philosophical or ideological debates of the merits of New Public Management principles. The basis of the problems experienced was more related to the business model adopted and the fragmentation of effort and resources. These decisions were driven more by the desire to shift costs off the Government's books rather than an ideological debate about management models.

⁶ Strategic Planning: Is it the New Model (Nov 2006), Professor Geoff Gallop: Address to the Institute of Public Administration (NSW)

Nevertheless, the empirical trialling of these management arrangements has provided the Government with invaluable lessons and a good basis from which to consider the long term management arrangements at Jenolan.

The Government's major objective is the preservation of the natural and built assets at Jenolan for future generations. The question currently being considered is what management arrangement can deliver this key objective most effectively and efficiently.

Source Material

Jenolan Caves Reserve Plan of Management (1988) Tourism Commission of NSW and NSW Department of Lands.

Jenolan Karst Conservation Reserve Draft Plan of Management (July 2006) Department of Environment and Conservation

Jenolan Caves Reserve Trust Heritage Asset Management Strategy (Dec 2006) Golden Mackay Logan.

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