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department of
economic, small business development,
tourism and environmental affairs
FREE STATE PROVINCE

Provincial Reserves and Resorts Viability Report

Recommendations based on “The Free State’s municipal tourism resorts: Feasibility study for selected resorts” Research by the Free State Provincial Treasury

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1. Purpose of the Report

This report is based on the research which was commissioned by the Provincial Treasury. The objective herewith is to draw lessons and customise the recommendations for the purpose of turning around the state of reserves and resorts as indicated in the 2017/18 DETEA MEC's Budget Speech.

2. Introduction and Background

The Free State Province boasts a number of nature reserves and resorts. Some are owned by the provincial government and others by the various municipalities. The Department of Economic, Small Business Development, Tourism and Environmental Affairs (DESTE) is the custodian of the provincial reserves and resorts. These resorts and reserves play an important role in so far as tourism activities in the Free State Province are concerned; whether in the form of hiking trail, game drive, viewing wildlife or accommodation through chalets and camping.

There are five tourism routes in the province which DESTE is managing through its agent, the Free State Tourism Authority. These routes and the relevant reserves and resorts are outlined in table 1 below:

Table 1: DESTE Resorts and Reserves

| Route | Resorts and Reserves |
|-----------------|--|
| Lion route | Koppies Dam Nature Reserve and Resort which is situated 16km east of Koppies. The town of Koppies lies 55km north of Kroonstad, just off N1 between Kroonstad and Sasol. |
| Flamingo route | The Willem Pretorius Nature and Reserve and Resort which is located 30km from Ventersburg and 130km from Bloemfontein. The turn-off to the reserve is clearly indicated on the N1 between Windburg and Ventersburg. |
| | The Erfenis Dam Nature Reserve which is situated 18km east of Theunissen on the Theunissen - Windburg road (R708). From the N1 highway, the turnoff to the reserve lies 20 km west of Windburg. |
| | The Soetdoring Nature Reserve, Resort and Predator Park which is situated on the Bloemfontein- (R700) Bultfontein road 45km from Bloemfontein. |
| Springbok route | The Tussen Die Riviere Nature Reserve and Resort located in the Southern Free State 65km east of the N1 and 15km from Bethulie on the R701. The entrance gate to the reserve is situated on the road between Bethulie and Smithfield (R701) Southern Free State. |
| | Gariëp Dam Nature Reserve and Resort situated 200km south of Bloemfontein adjacent to the Gariëp Dam and the small town of Gariëp Dam (8km to the |

| | |
|---------------|--|
| | east of the N1). Road signs indicate the turn-off on the N1. |
| | The Caledon Nature Reserve situated 130km southeast of Bloemfontein on the R701 between Wepener and Smithfield. Closest towns are Wepener and Dewetsdorp |
| | The Kalkfontein Nature Reserve located between Koffiefontein and Jagersfontein. |
| Cheetah route | The Franklin Nature Reserve in the Central Bloemfontein. |
| | The Maria Moroka National Park situated 90km east of Bloemfontein adjacent to the popular Black Mountain Hotel near the town of Thaba Nchu. |
| | The Rustfontein Dam Nature Reserve situated 50km east of Bloemfontein just off the Bloemfontein/Thaba Nchu road (N8). |
| | Philip Sanders Resort situated 30km east of Bloemfontein |
| Eagle route | The Sterkfontein Nature Reserve and Resort located 23km from Harrismith on the R74 road to Bergville. |
| | Seekoeivlei Resort and Reserve situated adjacent to the town of Memel in the north-eastern Free State. |
| | The Golden Gate Highlands National Park and Resort located 17km from Clarens. |
| | The Meiringskloof Nature Reserve and located 17km from Fouriesburg. |
| | The Witsieshoek Mountain Lodge in Qwaqwa |

While the Provincial Government's key source of revenue is the equitable share, it also generates additional revenue from motor vehicle licenses, patient fees, interest on investments, gambling receipts, resorts and reserves and the sale of game. So the reserves and resorts are some of these additional sources of revenue, including game from the reserves. Every year millions of rands are put aside for the development of resorts and reserves, revenue enhancement projects, infrastructure development and environmental management.¹

In his 2017/18 Budget Speech, the MEC of DESTEA, Dr Benny Malakoane, indicated that the department had allocated R18 276m to promote the Free State as a preferred inland tourism destination of choice. To this end, resorts would be revitalised and profiled through an extensive marketing and promotional campaign which would target schools, social clubs, stokvels and nature lovers. To ensure that this campaign results in improved income generation from these facilities, a new strategy which would entail a central booking system and a digital application promoting popular tourism sites in the Free State would be implemented. In this resorts and reserves renewal process, Maria Moroka, Sandveld, Soetdoring, Willem Pretorius and Phillip Saunders would be upgraded and refurbished to four star status

¹ Treasury 2014 Budget Speech

with the help of the Grading Council. The MEC also acknowledged inputs from members of the community who called for the resorts to have spacious halls to enable “churches to hold conferences and enjoy nature”.

In table 1 above, we listed the resorts and reserves under the control of DESTEA. However, there are other resorts under the control of the municipalities. Noting the potential important role these reserves and resorts can play to promote the tourism industry and accelerate economic growth and thus strengthen the revenue base of municipalities, the Provincial Treasury conducted a feasibility study on three municipal resorts, namely the KroonPark Resort in Kroonstad, Mimosa Gardens in Parys and the Water Park in Frankfort.²

3. The Provincial Treasury Research Report

Tourism is one of the priority sectors of the Free State Growth and Development Strategy. It is in this context that the Provincial Treasury commissioned a research on the Northern Free State municipal resorts to determine how these resorts could be leveraged to support the tourism sector growth and socioeconomic development in the municipalities. Furthermore, the research aimed at determining what the municipalities could do to realise financial benefits, including revenue generation for municipalities and reduction in budget allocations required to fund operational deficits.

Accordingly, the research identified and valued options for achieving financial viability of the following municipal owned resorts:³

- KroonPark, located on the bank of the Vaal River in Kroonstad (Moqhaka Local Municipality)
- Mimosa Gardens, located on the bank of the Vaal River in Parys (Ngwathe Local Municipality)

² Treasury 2017 Budget Speech

³ The Free State’s municipal tourism resorts: Feasibility study for selected resorts. June 2016. At pg. 3

- Water Park, located 5 kilometres outside Frankfort on the bank of the Wilge River (Mafube Local Municipality)

The research found that these resorts were not financially viable and thus were a financial burden to the relevant municipalities. At the heart of the resorts' poor performance were significantly low occupancy rates as well as average daily rates paid for chalet or room accommodation per day. In turn the low occupancies rates were in the main a function of the poor quality of the resorts and limited facilities mix. Consequently, these conditions constrained the resorts' ability to attract the corporate and conferencing market and thereby balance weekend with midweek demand. The other problems these resorts faced revolved around challenges in management, marketing, operations, maintenance and capital investment.⁴

Due partly to this poor performance, the resorts were found not to be financially viable as they were not generating sufficient revenues to cover operating expenses, and sufficient allowance was not being made for capital investment or growth.

4. Discussion of factors contributing to performance

Key factors driving poor performance of the resorts were found to be a lack of market diversification and a lack of alignment of offering with buyer preferences in key segments. In addition, the resorts' current scale of accommodation is not optimised for taking advantage of potential economies of scale. Furthermore, management and operational challenges affect resort performance by contributing to low occupancies and cost inefficiencies.⁵

4.1 Level of market diversification

Low occupancies relative to competitors are due to the resorts' high reliance on the leisure market, with 90% of KroonPark's demand and 80% of Mimosa's demand estimated to come from the leisure segment. Mimosa Gardens is estimated to

⁴ The Free State's municipal tourism resorts: Feasibility study for selected resorts. June 2016. At pg. 9

⁵ Ibid. at pg. 11

receive a further 5% of demand from the wedding market. Demand for both the leisure and wedding market segments is highly concentrated during weekends and holiday periods. Together, these periods make up only 44% of the calendar. This concentration of demand results in significantly lower annual overall occupancies.⁶

In contrast, the overall market across the three towns is more balanced across key market segments, with the leisure and wedding segments making up only 59% of the market.⁷

4.2 Alignment of offering to buyer preferences in key segments

A key factor contributing to poor performance is a misalignment in the resorts' offering relative to buyers' preferences - across quality, price, facilities mix, and accommodation type and scale. In particular, resorts offerings are misaligned to corporate and conferencing segment preferences. Market diversification towards these segments is critical for improved viability. Misalignment to leisure market preferences is also leading to a decline in leisure demand. For example, visitors to Mimosa Gardens will arrive at the resort to check-in and cancel their bookings after seeing the poor quality of the resort.⁸

Buying preferences across the key market segments - leisure, wedding, conference and corporate are described in table 2 below. The most critical buying requirement for the corporate and conferencing markets is quality, with a preference for midscale or entry-level 3-star quality, followed by food and beverage options (and breakfast for the corporate market). In order to be competitive in the market, the resorts need to prioritise these two factors.⁹

In terms of pricing, a rate of R850 aligns with preferences across the market segments.

⁶ Ibid. at 11

⁷ Ibid

⁸ The Free State's municipal tourism resorts: Feasibility study for selected resorts. June 2016. At pg. 13

⁹ Ibid

In addition to these preferences, proximity to a relevant major urban centre is an important buying criteria for the conferencing market. There is high demand for locations between 1 and 3 hours' drive from a major urban centre; low demand for destinations within an hour's drive of a major urban centre (as conferencing demand will not translate into overnight stays); and medium demand for locations between 3 and 5 hours' drive.¹⁰

Table 2. Buying Preferences across market segments¹¹

| Market Segment | Description |
|---------------------|--|
| Leisure | Leisure travellers are generally less quality conscious than other segments and accept quality below 3-star (in particular groups and families). They tend to be more price sensitive (in particular the budget end of the market); and accept rates of approximately R340 per person for chalet accommodation. Leisure market chalet occupancies tend to be higher, therefore they are able to accept higher chalet prices (up to R850). Facilities required include leisure facilities focused at children (e.g. kids' club, swimming pools), braai facilities, and self-catering facilities |
| Wedding | Wedding guests and parties are also less quality conscious, and accept quality below 3-star. They tend to be fairly price conscious and will accept rates of approximately R425 per person. The segment shows a high incidence of double room occupancies; room or chalet rates of R850 are therefore acceptable. Required facilities for wedding parties are on-site wedding chapel and function hall, with scenic locations preferred. Sufficient scale to accommodate all wedding guests is not critical, as guests tend to book their own accommodation. |
| Corporate | Corporate guests are highly quality conscious and prefer 3-star quality. Chalet rates need to align with caps on accommodation allowances / per diems, estimated at R850. Key facilities required are food and beverage facilities on-site. |
| Conferencing | Conferencing guests are sensitive to quality and prefer 3-star quality. This segment is price sensitive with caps at approximately R850 per person for the private sector, Conferencing or approximately R425 for the government sector (where delegates share chalets, thus reducing cost per delegate). Key facilities are professional conference facilities and adequate food and beverage facilities. Sufficient scale of accommodation to allow for all delegates to be accommodated is required. |

4.3 Alignment of scale of accommodation to market demand

Greater scale of accommodation results in improved cost efficiency due to economies of scale – this means that financial viability can be improved by scaling up resorts where potential market demand allows for an expanded offering. In order

¹⁰ Ibid

¹¹ The Free State's municipal tourism resorts: Feasibility study for selected resorts. June 2016. At pg. 13

to avoid significant market dilution and adverse effects on existing establishments, any increase in scale needs to be tempered by the capacity of the market to absorb new supply, or, for the resort to induce new demand to the area by offering facilities that attract new visitors.¹²

4.4 *Effective management and operations*

The resorts face significant management and operational challenges. In terms of strategy, planning and budgeting, there is limited cohesive planning for the resorts, and interventions are made on an ad-hoc basis. Planning is further limited by the absence of activity-based costing, which would support an analysis of efficiency and profitability. Across the resorts there is no comprehensive maintenance planning – this is constrained by available budget allocations from the municipality. This means that resorts' quality levels have declined significantly.¹³

Both operational resorts also have further gaps in key functions, such as marketing, risk management, strategic planning and revenue management. In general, the resorts lack the required operational structure to delegate management to department heads (i.e. food and beverage manager, rooms' division manager). Therefore the managers at KroonPark and Mimosa Gardens have to manage a wider variety of functions without specialist input.¹⁴

At a management level, for both KroonPark and Mimosa Gardens, a key challenge is centralisation at the municipality level of a number of functions, including financial reporting, human resources management, procurement and skills development. This results in ineffective processes and misalignment with the needs of the resorts.¹⁵

Across the resorts there is mixed use of processes, systems and controls. At KroonPark, there is limited use of reporting processes and financial controls at the

¹² Ibid pg. 15

¹³ The Free State's municipal tourism resorts: Feasibility study for selected resorts. June 2016. At pg. 21

¹⁴ Ibid

¹⁵ Ibid

resort level – this complicates oversight and makes planning, monitoring, and performance evaluation more difficult, as well as posing a financial control risk for the municipality. KroonPark is, however, using an automated booking system, while Mimosa Gardens is using a manual booking system (allowing payments to be made only by cash or electronic transfer to the municipality). Neither system automatically links into online distribution channels, which would be a cost-effective way of expanding distribution.¹⁶

At an operational level, performance at both operational resorts suffers from low employee productivity, with a lack of application beyond prescribed job roles. Furthermore, skills development is insufficient. The hospitality industry is characterised by employees starting in basic operational functions such as housekeeping, and thereafter progressing through the business – currently the resorts are not using this opportunity to develop employees.¹⁷

A further operational challenge lies in managing day visitors during peak demand periods. Key concerns include personal safety (with drowning a risk at KroonPark and Mimosa Gardens), alcohol abuse, underage drinking, and crime. Furthermore, high numbers of day visitors may lead to conflict with overnight visitors during periods of peak demand.¹⁸

5. Options for municipalities to get value from the resorts

The researchers looked into the market and financial viability of these resorts and presented options aimed at making them financially viable. The analysis focused on the potential for financial viability of options, including financial performance, capital development requirements, and appropriate delivery models. The research noted that municipalities could realise value through refurbishing, developing, or selling the resorts. Accordingly, the alternative options identified that could ensure that the municipalities obtained financial viability were:¹⁹

¹⁶ The Free State's municipal tourism resorts: Feasibility study for selected resorts. June 2016. At pg. 21

¹⁷ Ibid

¹⁸ Ibid

¹⁹ Ibid. at pg. 24

- Option A: Refurbish the resort
- Option B: Develop the resort
- Option C: Sell the resort

Options A and B relate to the target markets and offering (in terms of price and quality). Option B also talks to the scale of resort accommodation and facilities mix. Option C, to sell the resort, was quantified for each property by estimating an indicative sale value using the comparable sales method. The value of the structures was found to be unlikely to be realised through a sale of the resorts. KroonPark and Mimosa Gardens were found to be operating at a loss and the structures at Water Park were of a very poor quality.

The researchers also looked into the socioeconomic benefits across the options, focusing on community access to recreational facilities, tourism sector development, and other socioeconomic benefits. These options are summarised in table 3 below.

Table 3: Alternative options for financial viability²⁰

| Resorts | Option A | Option B | Option C |
|------------|---|---|--|
| KroonPark | Refurbishing the existing infrastructure to 3-star quality level. Option A provides access for communities at a large scale and affordable pricing (peak day visitor numbers are capped at 4,000 people per day). | Expanding the accommodation offering by 10 chalets, bringing the total number to 59. This additional supply will be supported by projected growth in existing demand and by new demand induced by an expanded conference facility. The large size of KroonPark's grounds allows for community access to remain a key offering. A key risk mitigant for both Options A and B is the appointment of a third-party operator. | Selling the property expected to result in an indicative sale value of R6.8m (with no ongoing capital or operational expenditure). |
| Water Park | Development of a recreational park without | Development of a formal camping and caravan park | The value that can be realised through selling the |

²⁰ The Free State's municipal tourism resorts: Feasibility study for selected resorts. June 2016. At pg. 15

| | | | |
|----------------|---|---|--|
| | formal accommodation. This option prioritises community access by day visitors and hosting of events. | that will also target hosting of events – this is due to the high risk of adding room or chalet supply to the small existing market. Required capital investment is estimated at R5.7m over one year. | property is estimated at R3.3m (with no ongoing expenditure) |
| Mimosa Gardens | Extensive upgrade of facilities to enable the resort to compete effectively, by improving quality to 3-star level and reinstating leisure facilities. This option allows for broad community access by day visitors (peak visitor numbers are capped at 1,000 people per day given the smaller size of the property). | An extensive upgrade to existing facilities, expanding the resort to 70 chalets (an additional 29 chalets) and developing a conferencing facility with a restaurant. This option aims to leverage Parys’s attractiveness as a destination to induce demand through provision of a conferencing offering. This option also provides for day visitor access at a maximum capacity of 1,000 people. Key risk mitigants for both Options A and B are appointing a third-party operator and managing day visitor access. | Selling the resort is expected to result in an indicative sale value of R4.9m (with no ongoing expenditure). |

Across the resorts, Option C, to sell the resort, would result in the most favourable financial outcome, with incremental Net Present Value relative to maintaining the status quo. Options A and B across the resorts (with the exception of Water Park Option A) were however projected to achieve positive operating cash flows after a ramp up period.²¹

Option B, to develop the resort, would generally result in the greatest socioeconomic benefit across the resorts, when evaluated against criteria covering community access to recreational facilities, contribution to tourism sector development, and other socioeconomic benefits such as employment. In the case of Option C, selling

²¹ The Free State’s municipal tourism resorts: Feasibility study for selected resorts. June 2016. At pg. 64

the resort, socioeconomic benefits would be dependent on the new use of the property.²²

Developing the resorts results in the greatest socioeconomic benefit relative to costs, however, involves significant effort for implementation. On the basis of both socioeconomic and financial benefits, option B, to develop the resorts, is preferable to options A and C. This option has the potential to attract external funding; it therefore offers greater socioeconomic returns at a lower direct government contribution than option A.²³

The resorts can support tourism sector development by attracting tourists into the area or extending their stays, thereby increasing overall spend in the province. In addition, they provide a space for community members to enjoy recreational activities. These assets therefore present an opportunity to realise a range of benefits for the municipalities as outlined in table 4.

Table 4. Identified tourism market opportunities

| Opportunity | Activities |
|-------------------------------------|---|
| Small town weekend tourism | Restaurants, Markets, Shopping |
| Arts, cultural and heritage Tourism | Music, cultural and comedy events, Heritage sites, including battlefields tourism, Arts and crafts tourism |
| Eco, adventure and sports tourism | Hiking, rock climbing, horse riding, cycling; four wheel drive and quad bike routes; water sports, including rafting, canoeing, fishing, golf sports events |
| Agri-tourism | Farm holidays |
| Wildlife tourism | Avi-tourism, ²⁴ game farms |
| Business/civil society Tourism | Conferences and meetings (including business, churches, government departments, political parties), corporate accommodation |
| Private functions/Events | Weddings, birthday parties, etc. |

Koppies Dam resort faces many of the same challenges. Some of these challenges are associated with similar institutional structures for ownership and management as those in place for the focus resorts, including centralised procurement and human resources management. Globally, operation of a hospitality asset by a third-party operator rather than by the owner, through either a management contract or lease is

²² Ibid

²³ The Free State's municipal tourism resorts: Feasibility study for selected resorts. June 2016. At pg. 64

²⁴ Avi-tourism/avian tourism has to do local birding opportunities.

generally considered to be best practice. Generally, the appointment of a resort operator results in improved performance due to enhanced revenues and greater cost efficiency.²⁵

6. Conclusion

The Treasury report considered three options for financial viability of the focus resorts. Option C, which entails the selling of the resorts, is not recommended based on policy considerations. We therefore have to choose between Option A, which is about upgrading the resorts to 3-star level, and Option B which is about expanding the facilities to increase their capacity.

The report also suggest that in order to address the gap in performance, the resorts can diversify their markets towards the corporate and conferencing markets to balance weekend and holiday demand with midweek demand. In order to attract a range of market segments, they need to align their offerings with market buying preferences in terms of quality, pricing and facilities mix. Resorts can also improve efficiency through economies of scale, by increasing their scale in line with market demand or attracting new demand into the area. Furthermore, improvements in management and operational efficiency would support improved performance.

Figure 19 of the Treasury Report which has been reproduced here, identifies five phases for the implementation plan for Options A and B. These are:

1. Feasibility study
2. Detailed costing, compliance and approvals;
3. Institutional alignment and contracting mechanism selection;
4. Capital raise and operator selection; and
5. Detailed design and construction

²⁵ The Free State's municipal tourism resorts: Feasibility study for selected resorts. June 2016. At pg. 94

7. Recommendations

7.1 That Options A and B for the Desteas resorts and reserves be considered.

7.2 Further that, in line with figure 19 of the Provincial Treasury Report, that a service provider should be appointed to do phase 2 of figure 19, which a detailed costing, compliance and approvals for these options. This phase 2 should also identify which resorts and reserves will be applicable for Option A and which ones for Option B.

Figure 19: Potential high-level implementation plan

