

CHAPTER 6

Finance

Introduction

6.1. Financial information was supplied by 35 licence-holders and two local authorities which operate holiday caravan sites; these respondents completed our questionnaire and in some instances provided copies of their financial accounts. In the majority of cases the accounts received had been professionally prepared. The total number of holiday caravan sites operated by those giving financial information was 60, of which seven were operated by local authorities (see paragraph 3.9).

6.2. It was expected that many of the licence-holders would be sole traders and, possibly, in a number of cases would not have available professionally prepared accounts. The questionnaire was therefore designed to give the following basic financial information:

- (a) the annual pitch fee(s) for each of the five years from 1977 to 1981 inclusive;
- (b) whether any charge was made—either to new residents or to existing residents buying replacement caravans—for the admission or siting of caravans which had not been purchased from or through the site operator; and
- (c) whether any charges were made for connections to mains services, for permission to sub-let a caravan or for site improvements.

There were two appendices attached to the questionnaire for completion if the financial accounts of the respondent did not give the information required. The first appendix dealt with revenue, namely income and expenditure, dealing separately with site operating and caravan trading, where appropriate, in order to determine the profitability or otherwise of the two activities. The second appendix dealt with the assets employed in the business, distinguishing, where appropriate, between those used in operating the site(s) and those used in selling caravans. Information as to how the business was financed was also requested. There were brief notes designed to assist the respondent in completing the two appendices, and to achieve as much uniformity as possible in the bases used in calculating the information given. The period covered by the appendices was the five years from 1977 to 1981.

6.3. There was considerable variation in the amount of financial information given and the number of years each respondent covered. For example, for the full five years, 26 gave information on pitch fees, 14 gave information regarding trading results and three provided information in respect of capital employed. A summary of the information provided by respondents and the periods covered is given in Table 6.1.

TABLE 6.1 Summary showing nature of financial information provided, periods covered and number of respondents in each case

<i>Number of years</i>	<i>Pitch fees</i>	<i>Trading results</i>	<i>Capital employed</i>
5	26	14	3
4	4	5	10
3	2	2	2
2	—	—	1
1	5	4	5
Nil	—	12	16
Total supplying financial information	37	37	37

Source: MMC study.

6.4. It can be seen from Table 6.1 that most difficulties in supplying information arose in respect of information to enable the capital employed in the business to be calculated. Although eleven licence-holders and the two local authorities between them gave information in respect of capital employed for five or four years there were five licence-holders who did not include the cost of the site land and any buildings, such as toilet blocks, as part of the assets of the business. In some instances this was because the land had been inherited. Where information regarding the cost of land and buildings was given it was invariably the major asset of the business. Hence there were very marked differences in the average capital employed depending on the date at which the land was acquired. As a result of these difficulties any comparison of the rates of return earned on average capital employed would have been misleading as between individual licence-holders.

6.5. For convenience in this chapter we have grouped holiday caravan sites by reference to the number of pitches for which they were licensed in 1982, except where a licence-holder had more than one site, when we have grouped by reference to the total number of pitches held by the licence-holder. The band ranges we have used are 0 to 50; 51 to 100; 101 to 250 and those over 250 pitches. The local authority sites form a separate group.

Pitch fees

6.6. We have already examined in Chapter 3 the levels of pitch fees in relation to the mains services provided and whether the site operator reserved pitches for caravan buyers (paragraph 3.32). Appendix 5 lists all the sites included in our questionnaire survey whose licence-holders supplied particulars of pitch fees charged during the period 1977 to 1981. In respect of those sites for which we have the full five years' figures we have shown the pitch fees on a weighted average basis for each of the five groups in Table 6.2 below. We have also made a comparison between the rate of increases in pitch fees and increases in the Retail Price Index for the period. This shows that although there are fluctuations as between the groups and of course within groups, broadly speaking pitch fees increased in line with the Retail Price Index.

6.7. We examined the levels of pitch fees and the proportion of pitches occupied on a geographical basis to see if there were any marked differences between caravan parks in different areas. We found that parks with high pitch fees had high levels of occupancy, in many cases being full. Parks with

TABLE 6.2 Average pitch fees during 1977 to 1981 on sites whose operators supplied information for the full five-year period, and comparison with changes in the Retail Price Index

	Average number of pitches per site	1977 £	1978 £	1979 £	1980 £	1981 £	Average rate of increase %
Group 1—up to 50 pitches	35	55	63	73	87	98	15.5
Group 2—51 to 100 pitches	67	50	55	63	71	79	12.1
Group 3—101 to 250 pitches	155	59	61	72	78	86	9.9
Group 4—over 250 pitches	276						
Basic pitches		65	71	78	92	104	12.5
Serviced pitches		117	126	136	151	169	9.6
Group 5—local authority sites	201	75/101	83/111	96/136	110/162	127/186	14.1/16.5
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Retail Price Index (Average for the year; 1975=100)		135.0	146.2	165.8	195.6	218.9	12.8

Source: MMC study and Central Statistical Office RPI.

low pitch fees had low occupancy levels, sometimes as low as 50 per cent. By and large the more attractive parks in terms of scenery and amenities were full, or very nearly so, in 1981 and the residents prepared to pay the higher pitch fees.

6.8. Pitch fees were, in the main, based on a flat rate regardless of the size of static holiday caravan, the exception being council-owned parks which based their pitch fees on the size of caravan (see paragraph 3.32). One park operator told us that he would adopt a similar system for the 1983 season because of the variation in the individual rate charges on static holiday caravans (see paragraph 5.44). Some parks varied their fees depending on whether the pitch was considered to be in a prime position or not.

Trading results

6.9. We have indicated in paragraph 6.2 that the questionnaire was designed to disclose the separate trading results of site operation and caravan sales where both trading activities were followed. However, it has not been possible to summarise the results of these activities separately in a meaningful way, since several licence-holders were unable to separate the two. We have therefore given separate trading results for the two activities only in relation to specific licence-holders in earlier chapters of this report.

6.10. To achieve comparability as regards proprietor's or directors' remuneration the net income/profit figures given in Table 6.3 below exclude all such amounts charged. The net income/profit after interest therefore represents in each case the income which is available to meet proprietor's or directors' remuneration, taxation and expansion and improvement of the business. A summary of the combined trading results for those who provided particulars

of trading results for the whole of the period is given in Table 6.3; as the sample is relatively small it would not be meaningful to analyse this information by group size.

TABLE 6.3 Summary of combined trading results for 1977 to 1981 of licence-holders who provided information for the full five-year period

	1977	1978	1979	1980	1981	£'000
Turnover—site income and caravan sales	2,392	2,596	2,798	3,002	2,729*	
Net income/profit before interest	341	334	360	368	200†	
Net income/profit after interest	269	236	219	-123	[52]‡ loss	

Source: MMC study.

* Turnover in 1981 does not include the caravan sales and profit or loss therefrom for one licence-holder who was unable to supply the information. The amounts involved are not significant.

† The net income/profit before interest and the net loss after interest figures for 1981 include expenditure by one licence-holder which is property of a capital nature. We were not able to ascertain the amount of such capital expenditure but the amount involved is not significant.

6.11. The rate of increase in turnover between 1977 and 1980 was gradually slowing down from 8.5 per cent in 1978 to 7.3 per cent in 1980, and in 1981 the level of turnover fell. Although site income increased throughout the period, caravan sales, which represented approximately 90 per cent of total turnover, were adversely affected in 1980 and 1981. The effect of the downturn in turnover is reflected in the net income/profit before interest charges, which in 1980 showed very little increase on the 1979 figure of £360,000 and in 1981 showed a marked decline to £200,000. The level of interest charges increased throughout the period, reflecting the higher rates of interest of 1980 and 1981 and the increased levels of borrowing especially by the larger park operators.

6.12. Similar trends, in turnover and profits, were noted from the returns made by park operators which covered only part of the five-year period from 1977 to 1981.

6.13. The majority of park operators who sold caravans, and were able to give a split of their net income/profit, indicated that losses were sustained on operating the sites and their profits came from caravan sales. Frequently the larger operators had invested heavily in expansion and improvement of the caravan parks; profits on caravan sales were therefore of major importance to them to help finance the costs of such expansion and improvement of amenities and in meeting the costs of borrowed money.

6.14. We were not able to establish whether the allocation of overheads generally, and in particular interest charges, as between park operation and caravan trading for those who gave this information had been on a reasonable and consistent basis.

Capital employed

6.15. We have mentioned in paragraph 6.4 the difficulties in making a comparison of the rates of return on the average capital employed in the business, particularly as between individual licence-holders. Examination of the return on capital employed, based on net profits before interest charges, for those

licence-holders who gave this information for four or five years shows that those who did not sell caravans made a fairly consistent return over the period. However, those licence-holders selling caravans indicated a decline from the levels in 1977-78 of approximately 20 per cent per annum to levels in the region of 4 to 10 per cent per annum in 1981, with one major operator making a loss before interest charges. It was not possible to make a useful comparison with the rates of return achieved by the two local authorities, since their policies with regard to profits differed from those of the privately owned businesses.

Profit margins on caravan sales

6.16. We examined the gross profit margins of two major distributors of static holiday caravans in Northern Ireland. The manufacturers' recommended retail prices are based on ex-works prices, to which it can be expected that freight, carriage and insurance costs from the works to site will be added.

6.17. We found that during the period 1979 to 1982 the margins on new static holiday caravans, after allowing for the costs of transportation from mainland works to site in Northern Ireland, were within the manufacturers' discount percentage given to caravan dealers. It was noted that on sales of second-hand static holiday caravans the average margin over the period was, overall, approximately the same as that for new static holiday caravans. However, there were a number of instances where second-hand caravans were sold at a loss. We also noted that at times the gross profit margins in respect of caravan sales on to sites not owned by the dealer were much lower than those obtained in respect of sales on to the dealer's own sites.