Local Government Association of SA

Regional Airports Project

Final Report

February 2012
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EXECUTIVE SUMMARY

Regional airports provide their catchment areas with access to major cities and other major regional centres. This facilitates out-bound and in-bound tourism, personal and business travel, personal and business freight and importantly facilitates access to community services not available in the regions such as education and health services (e.g. Royal Flying Doctor Services).

With the rapid development of the mining industry in regional South Australia, regional airports are playing an increasing role in economic development along with the movement of labour between regions.

For those airports that participated in this project\(^1\), the following table summarises the estimated socio economic impacts at the State level by regional airport:

<table>
<thead>
<tr>
<th>Airport</th>
<th>Employment Impact (FTEs)</th>
<th>Gross State Product Impact ($)</th>
<th>Value of the Air Transport Option</th>
<th>Operating Surplus/(Loss)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mount Gambier</td>
<td>233</td>
<td>$29.7 million</td>
<td>$5.6 million</td>
<td>$590,000</td>
</tr>
<tr>
<td>Naracoorte</td>
<td>35</td>
<td>$4.5 million</td>
<td>No RPT Service</td>
<td>($37,000)</td>
</tr>
<tr>
<td>Port Augusta</td>
<td>179</td>
<td>$23.0 million</td>
<td>$928,000</td>
<td>($135,000)</td>
</tr>
<tr>
<td>Renmark</td>
<td>0.8</td>
<td>$102,000</td>
<td>No RPT Service</td>
<td>($52,000)</td>
</tr>
<tr>
<td>Ceduna</td>
<td>69</td>
<td>$8.7 million</td>
<td>$4.8 million</td>
<td>N/A</td>
</tr>
</tbody>
</table>

These airport comparisons reveal the decision making complexities faced by regional Councils.

Mount Gambier, already making a significant contribution to State employment and Gross State Product, is on the verge of improving this contribution and its financial performance through the expansion of Regular Passenger Transport (RPT) services linked to infrastructure upgrades.

Port Augusta, operating at a loss and the facility is currently unable to generate reserve funds for necessary infrastructure upgrades, is at the cross-roads of protecting the socio-economic benefits generated by the airport against the commercial reality of investing in infrastructure upgrades to maintain and increase services, especially to the expanding mining industry demands.

Naracoorte, which has done well to develop private sector business from its non-RPT airport which supports community benefits of access, emergency services and

\(^1\) This stage of the project included Mount Gambier and Naracoorte Airports as part of the Local Government Research & Development Scheme (LGR&D) project while Renmark and Port Augusta took up the offer from the LGA to take part in this stage of the project at their own cost. The Ceduna assessment had been undertaken previously by Adelaide Airport Limited who agreed to have the findings included in this project.
recreation, needs to demonstrate a community benefit to justify any future airside upgrades as they will put ongoing pressure on Council funds through maintenance and capital replacement provisions.

Renmark, which has no RPT business and supports little local industry activity, has a challenge to develop its real estate to accommodate local industry (e.g. agribusiness), attract charter operations associated with the State’s mining industry development and develop other revenue generating services such as flight training. The potential that the Airport has to contribute to the local economy and socio-economic benefits is reflected in the Naracoorte socio-economic results – i.e. without RPT services, Naracoorte Airport contributes 35 jobs and $4.5 million to Gross State Product (Incomes, profits, etc) which is considered a minimum target that could be adopted for the Renmark Airport.

The long term sustainability of regional airports is being challenged by changing industry and economic factors beyond the control of airport managers. Industry trends and changes, not anticipated by regional Councils when they took over the airports from the Commonwealth Government (mainly to ensure continuity of services), will have large infrastructure funding consequences beyond the airport revenue raising means of regional Councils.

The integrity of the regional airports network, and the support it provides for the State’s economy, industry and the community, is under threat from the move to larger RPT and charter aircraft, compounded by the introduction of new security screening requirements in 2012.

The funding required by most regional airports over the next 5 years is not available in most Council airport reserves (where they exist) and the prospect of corporate support is very low based on recent attempts by northern airports to get support from the mining industry for their infrastructure upgrades.

The research and consultation undertaken for this project has produced evidence that:

- The inevitable shift to larger aircraft (e.g. from SAAB 34 seaters to Fokker 50 seaters) and the application of new security legislation from 2012 will necessitate airside infrastructure and security upgrades at all affected airports. The size and timing of this task is unknown at present and was not a requirement of this project. However, it is a priority for affected Councils and Local Government to understand the financial and other consequences of these trends and it is recommended that this be done on a state-wide basis, possibly by the LGA in collaboration with the Australian Airports Association (SA).

- Most concerning in the context of this project, the current model of airport ownership and management appears to be failing as it generally does not provide for sustainable investment in airport infrastructure – maintenance
and replacement of existing infrastructure or new infrastructure to meet changing aviation needs. Pricing structures are generally inadequate to provide for sinking funds/depreciation for future infrastructure funding.

Continuing with the current model will lead to an escalation of Councils calling on the State Government to assist fund future infrastructure upgrades. Councils unable to secure that support and unable to fund upgrades from their own reserves or debt will run the real risk of losing RPT and charter services, or the ability to attract them in the future. In this project, Port Augusta is an example of a regional airport that will require airside, terminal and security upgrades to accommodate larger aircraft and new security requirements associated with existing services. It is however, a central node in the provision of Fly-In-Fly-Out (FIFO) labour to the mining industry.

Confirmation of the research and consultation evidence, and associated project observations, is what is happening interstate. The decisions by the Queensland, Western Australian, Victorian and Northern Territory Governments to establish State Government funds for regional airport infrastructure confirm that external funding is required in order to maintain the additional socio-economic benefits that accrue to communities through having regional airports, and they are now well ahead of South Australia in ensuring the integrity and security of their regional airport networks.

Perhaps the most significant example of a broader community benefit is the benefits that will accrue to all passengers (regional, State, interstate and international) from the required security upgrades in 2012. **It could be argued that Commonwealth Government funding support is warranted given the overall national security impacts and it is recommended that the Local Government Association and the State Government establish the state-wide funding implications of these regulations and approach the Commonwealth Government for grants to support the implementation of security screening at regional airports.** This is one aspect of a much needed overall plan for regional airports to address changes in the operating environment.

As in other States, there is a case for the funding of some regional airport infrastructure by the State (and possibly Commonwealth) on the basis of the socio-economic benefits that accrue to the regions and the State. This would apply to both ‘profitable’ and non-profitable airports where aviation and commercial surpluses are insufficient to cover the infrastructure funding gap.

**So the critical issue for this project and for Local Government is the funding of necessary airport upgrades that are being triggered by regulatory change, the shift to larger aircraft and consistent growth in passenger numbers that, in most cases, cannot be funded from airport revenues. As Councils have limited capacity (and in some cases limited motivation) to fund airport upgrades, a new strategy is required to ensure sustainability of the State’s regional airport network.**

Options are limited as at least one regional airport, if not more, is likely to resist moves to establish a single local government operating entity or to privatise the
network of airports. This is due to the potential for cross-subsidies implicit in such proposals whereby the larger airports may see their already insufficient revenue streams used to subsidise smaller airports. Some Councils/airports are also extremely protective of the influence they can exert over socio-economic outcomes for their communities through the airports (passenger fees and landing charges).

The convenient solution interstate has been State Government funding strategies. While this has been unsuccessfully proposed previously in South Australia (2000 DTEI Regional Airports Strategy for SA), the regional and State-wide socio-economic benefits demonstrated in this report will substantiate a fresh approach to the State Government to fund the ‘community good’ component of regional airport infrastructure investment. This coordinated advocacy role is recommended as a minimum position for adoption by the Local Government Association and will require the preparation of a strategy and business case including:

- Identification and costing of existing infrastructure upgrade requirements.
- The costed implications and timing of regulatory and security requirements for each airport.
- Aggregation at the State level of the socio economic benefits (community good) of regional airports. This would require an assessment, on an airport by airport basis, of the community benefits that accrue to regions from the existence of the regional airport network which would be an extrapolation of the current project.
- Identification of the ‘do nothing’ scenario and its implications.
- Preparation of a benefit/cost business case for State Government funding of the community good component of regional airports.
- Demonstration of the ability of Local Government and regional Councils to fund the gap between infrastructure funding requirements and the community good component proposed for State Government funding.
- Recommendation of a strategy and priorities for the upgrading of regional airports.

Should the State Government be prepared to consider such an approach, and should this approach be successful, Councils that are still unable to fund essential infrastructure upgrades with State Government assistance must look to other options. These would include:

- Airport closure.
- Sale of the airport to private interests (Adelaide Airport Limited has publically expressed its interest in several regional airports). Airports that have
communities of interest could package their airports for sale.

- Outsourcing of management and operations. Again, airports that have communities of interest could package their airports for outsourcing.

- Do nothing and await the consequences.

*Notwithstanding the above, Council asset and financial management plans required under the Local Government Act should clearly demonstrate the position of Council airport assets, and it is recommended that this be a requirement of future Council asset and financial management plans.*

Another option to achieve a collaborative State-wide approach would be to collaborate with the State Government on infrastructure funding (subject to the above) on the basis that only those airports committing to a collaborative approach getting access to the State-wide strategy and funding. On this basis, it would be possible for the LGA to coordinate and negotiate a move to a single local government entity to own and operate all regional airports wishing to participate in the infrastructure funding program and/or the privatisation of the regional airport network.

The benefits of having one single LGA entity, or a resource sharing model, were widely acknowledged in the consultation and were seen to also include:

- Access to a pool of qualified staff capable of dealing with specific aviation matters across all airports (e.g. security) plus associated cost savings from not needing to employ staff at every location.

- Central and consistent points of contact between airports, regulators, airlines, etc.

- Broader career path opportunities for staff engaged on airport activities with opportunities to progress, for example, from small (RFDS only) to medium (Kingscote) to large (Port Lincoln) airports.

- Centralised and lower cost access to aviation specific technical and engineering knowledge such as runway design, terminal design, security and terminal operations/maintenance.

- Ability to spread managerial overheads across airports/Councils.

- Common aviation specific risk and incident systems and procedures.

Such a centralised management system could also lead to unexpected revenue opportunities as having highly skilled aviation staff would enable the offer of consultancy services to regional airports across Australia.
It is noted however, that there would still need to be a small local management role for the management of day to day operations.

*It is therefore recommended that the LGA consider the establishment of a single local government regional airport management entity, subject to achieving State Government support for a state-wide funding strategy.*

Should the State Government reject this approach, regional Councils that own airports will need to consider resource sharing opportunities and the other 3 options outlined at the commencement of the concluding section of this report, i.e.

- Do nothing, which will see negative economic, industry and community consequences as measured in this report.
- Borrow and increase airport fees and charges to cover interest and principal repayments.
- Commercialise operations either by sale of airports or private sector partnerships for management and funding of ongoing operations.

*The last option, the commercialisation of operations, should also be considered even if State and Commonwealth Government funding does materialise as, in the long run, there is no doubt that industry and economic trends will see new infrastructure requirements that will challenge the funding capacities and motivation of regional Councils. It is therefore recommended that regional Councils consider this approach in their own right, or in collaboration with Councils where there are some regional communities of interest.*
1.0 Introduction and Project Objectives

Hudson Howells was engaged by the Local Government Association of South Australia (LGA) to provide Local Government in the State with a blueprint to guide the sustainable management of airports under their control.

In order to achieve this objective, the project required identification of the following core requirements for regional airports.

- Business opportunities and constraints.
- Industry trends and implications for regional airports.
- Quantification of community benefits (market and non-market).
- Ownership, governance and management options.
- Current and emerging skills for airport management and operations.
- Future funding challenges, options and opportunities.

The project included the following key stages:

**Document Review** – a review of all available documentation including previous studies in order to inform the above requirements.

**Desk Research and Environmental Scan** – an extensive literature search to complement the information gathered in the Document Review.

**Airport Owners Forum** – an open forum for airport owners held at the LGA in September 2011 to consider and discuss:

- Key issues, opportunities & constraints facing regional airports.
- Options for collaboration between Councils, State and Federal government agencies, other key stakeholders – including outsourcing and other related issues.
- The means/rationale by which regions could present a solid case for Government funding.
- The skills and experience – including training – required for regional airport managers and other staff.
- Councils’ role in airport marketing and demand building.
- Councils’ consideration of alternative ownership and control models.

**Socio Economic Cost Benefit Assessment** – focusing on the Mount Gambier, Naracoorte, Port Augusta and Renmark Airports, quantification of the market and non market benefits that accrue to communities through airport
ownership by Local Government – the net benefit or net cost to ratepayers. This stage of the project included Mount Gambier and Naracoorte Airports as part of the Local Government Research & Development Scheme (LGR&DS) project while Renmark and Port Augusta took up the offer from the LGA to take part in this stage of the project at their own cost. The Ceduna assessment had been undertaken previously by Adelaide Airport Limited who agreed to have the findings included in this project.

*Project Discussion Paper* – preparation and circulation of a Project Discussion Paper that identified some of the key issues and questions that emerged during the project and provided an opportunity for regional airport owners and key stakeholders to provide feedback to Hudson Howells prior to the drafting of the Draft and Final Reports.

### 2.0 The Role of Regional Airports

Regional airports provide their catchment areas with access to major cities and other major regional centres. This facilitates out-bound and in-bound tourism, personal and business travel, personal and business freight and importantly facilitates access to community services not available in the regions such as education and health services (e.g. Royal Flying Doctor Services).

With the rapid development of the mining industry in regional South Australia, regional airports are playing an increasing role in economic development along with the movement of labour between regions.

Information from the Department of Planning, Transport and Infrastructure (DPTI) indicates that there are over 400 regional airports and airstrips in South Australia including 8 that receive regular passenger transport (RPT) services from regional airlines including:

- Ceduna
- Coober Pedy
- Kingscote
- Mount Gambier
- Olympic Dam
- Port Augusta
- Port Lincoln
- Whyalla

The remaining airports generate from significant to occasional commercial charter services, support emergency services such as the Royal Flying Doctor Service and provide infrastructure for casual and recreational aviation. All airports are owned by Local Government authorities with the following exceptions:
- Adelaide and Parafield Airports – both owned by the Commonwealth Government and leased to Adelaide Airport Limited.
- Woomera, Edinburgh and 4 minor airstrips still owned by the Commonwealth Government.
- Leigh Creek which is owned by the State Government and leased and operated by Alinta Energy.
- 10 airstrips in Regional Reserves owned by the State Government and operated by National Parks and Wildlife SA.
- Aerodromes on Aboriginal Lands that are owned by Aboriginal organisations such as the Aboriginal Lands Trust, Oak Valley (Maralinga) Inc. and Anangu Pitjantjatjara Yankunytjatjara (APY) Council.
- Aerodromes owned by mining companies such as Moomba, Prominent Hill, Jacinth Ambrosia (Iluka) and Challenger Gold Mine.
- Aerodromes owned by the Outback Communities Authority (Marla and Oodnadatta).
- Aerodromes owned by Local Progress Associations.
- Aerodromes owned by pastoralists and farmers.

While having a commercial purpose to facilitate RPT and charter services, regional airports are important pieces of social infrastructure for regional communities, even for those that are unable to sustain commercial operations. Like infrequently used roads, some airports/airstrips are maintained and operated at a loss because they are occasionally used and required in the event of emergencies. They offer some peace of mind to regional communities and add to the physical and social capital required to make regions attractive places to live and work.

3.0 Business Opportunities and Constraints

Regional airport owners have substantial flexibility to set charges and levies and to commercially develop airport land and infrastructure. They do however need to strike a commercial balance that supports regular passenger services, charter operations and acceptable passenger costs.

Some key issues identified during the project included:

- There is a national trend for major city airports (mostly capital city) to generate non-aeronautical revenue streams (e.g. commercial property development) that are fast becoming major income sources for such airport owners.

- In comparison with major city airports, regional airports have fewer opportunities to generate revenue and capital from non-aeronautical sources.
Population and business activity are the primary drivers of aviation business at regional airports. DPTI passenger surveys indicate that business travel (including Government business) is the primary reason for travel on regional flights for the following destinations² (where surveys have been undertaken):

- Ceduna
- Port Lincoln
- Port Augusta
- Whyalla
- Coober Pedy

SA's highest density routes (Port Lincoln, Mt. Gambier and Whyalla) are driven by population size (i.e. outbound resident travel from the centres), business and delivery of government services. The tourism component is relatively small. The two major inbound tourism routes that South Australia does have, Kingscote and Coober Pedy, are not considered to be high density.

There is an opportunity for the state to develop additional growth plans that would support population growth, business investment and airport development as supporting infrastructure, similar to the "Paradise Girt by Sea" report prepared by the South Australian Economic Development Board that recommends the formation of the Kangaroo Island Future Authority and the upgrading of Kingscote Airport.

Airport charges vary across regions depending on local circumstances and charging objectives (e.g. tourism incentives).

Threats to regional airports include:

- Improvements to road infrastructure networks
- Improved motor vehicle capabilities
- The removal of the regional airline en-route navigation charge subsidy
- Carbon tax which will increase fuel prices through increases in excise
- For those airports that will be subject to passenger and baggage screening, potentially all airline carriers paying a higher passenger head tax for this facility.
- In the case of Kingscote Airport, competition from ferry services to Kangaroo Island, which is the primary reason for the decline in air passenger numbers in recent years.

Some of the major commercial revenue sources for regional airports include:

- Landing charges - levied by airports on non-RPT traffic. However, it is difficult for smaller regional airports to raise landing fees when the majority of activity is for the flying doctor service.

² Source: DPTI
o Passenger head tax - per passenger charges levied against airlines on the basis of the number of passengers to, from or through each regional airport. Landing charges are normally levied on itinerant aircraft/general aviation activity/RFDS. In most cases airlines pay passenger head taxes. For airports with RPT services the bulk of the revenue therefore comes from head taxes and only a small amount from landing charges. General Aviation demand is highly elastic and raising landing charges is likely to divert activity to other aerodromes. Airlines argue that passenger head tax increases cannot be recovered from passengers without suppressing demand, so that the overall revenue from this source may be reduced as a result of fee increases. Suggestions to increase charges should therefore be treated with caution and applied only after careful assessment of the circumstances applying to the location.

o Car parking charges.

o Advertising – billboards, terminal, etc.

o Rents/leases of sites and buildings for aviation and non-aviation purposes.

o Terminal concessions for (e.g.) food and beverage facilities.

**Other opportunities for consideration by regional airports include:**

- Partnering with airlines (e.g. REX) to grow the market, promote the regions and associated air services in some instances. It is understood that partnering with Rex has been tried at some regional airports in South Australia, with mixed success. An airline’s aim would be to lower its costs through sharing airport revenue from passenger growth. This obviously can conflict with an airport’s need to achieve sustainable revenue streams to provide for future infrastructure development needed to accommodate the growth.

- Targeting existing and new charter business as the mining sector and the regions develop. Most mining charter traffic is currently from Adelaide to mine sites at which the aerodromes are owned and operated by mining companies, rather than local government. (e.g. Prominent Hill, Moomba etc). Exceptions are Port Augusta, which has accommodated some originating FIFO charters, and Coober Pedy which has been used as a FIFO destination. It is noted that most regions aspire to achieve FIFO operations with the mining sector expansion. FIFO charters from regional centres such as Mount Gambier direct to mine sites may result in significant costs (both capital and operating) that may not be offset by the revenue generated from the flights. There are a range of issues that may affect the viability of such proposals:

  o Is the labour force appropriately skilled and large enough to support a
FIFO schedule?

- Can the aircraft be profitably utilised?
- Do the flights require airport infrastructure upgrading?
- Does the aircraft type trigger security screening?
- Would it make more sense to fly the workers on scheduled air services to Adelaide and then on charter flights to the mine?

- Developing and marketing flight training to national and international markets. The majority of flying training for international and national carriers in South Australia is currently undertaken at Parafield Airport. Training around Australia is focused on airports located close to capital cities or major regional centres which must be taken into consideration by regional airports should they wish to explore this opportunity further. There are essentially two different categories of flying training. The training of pilots sponsored by airlines and the training of private pilots. Training of airline pilots is generally focused on capital cities because of the proximity to controlled airspace, the wide variety of navigational aids and proximity to amenities for the trainee pilots. The training of "other" pilots is more suited to regional centres.

- Development of business and industrial parks based on regional economic strengths.

### 4.0 Industry Trends and Implications for Regional Airports

This section of the report identifies major aviation industry trends and their implications for regional airports in South Australia. The following graphs and charts summarise:

- **Australian Regional Trends**
  - Passenger movements at regional airports
  - Number of regional airports served.
  - General aviation and regional airline activity.

- **South Australian Major Regional Airport Trends**
  - Passenger and aircraft movements
  - Trends 1999 - 2010
Australian Regional Trends

Figure 13.1 Passenger movements at regional airports and number of regional airports served, 1984 to 2008


(BITRE - Bureau of Infrastructure, Transport and Regional Economics)
South Australian Major Regional Airport Trends

Total Passenger Trends - SA
Key industry trends of importance to regional airports noted from the above graphs and charts along with other major trends identified during the project’s research and consultation include:

- Passenger movements at regional airports continue an upward trend. However, nationally there is a downward trend in the number of regional airports being serviced by airlines. This reflects an increase in the level of market concentration which has been accompanied by a high rate of companies entering and exiting the industry. Bureau of Infrastructure, Transport and Regional Economics (BITRE) research indicates that between 1984 and 2008 the number of regional airports served by scheduled airlines fell from 278 to 138 while the number of airlines serving regional airports fell from 53 to 27.3

- While overall passenger growth has been strong, there are contrasting trends between air routes. High density routes (nationally), generally major city to regional tourist destinations, have recorded the strongest growth. Other major city to regional city routes have recorded consistent growth but somewhat lower than the high density routes. Regional area to regional area routes have however been in decline and this is reflected in the national downward trend in the number of regional air routes.

- Nationally, the aviation industry is moving towards the use of larger aircraft to service regional markets. A move in South Australia by regional airlines to larger aircraft will have significant implications for regional airports, both RPT

and non-RPT. Both may need to accommodate relevant infrastructure and security requirements where aircraft are greater than 20 tonnes. For RPT airports, larger planes and capacity could lead to reduced frequency of services. It also increases the number of passengers required to justify daily services. In the case of non-RPT airports, larger aircraft will reduce charter opportunities due to airport limits. Alliance’s Fokker F50s (53 seats) for example require airport certification and security (by July 2012 for RPT and open charter services) as does the Qantas Link Q400.

- The probability of REX and other airlines introducing larger aircraft is high but the timing is unsure. Nevertheless, regional airports need to be planning now for their introduction. Associated infrastructure funding will be a major issue for regional airports. Pavement dimensions (apron area/runway length etc) are an issue as well as pavement strength and quality. QantasLink has already triggered infrastructure upgrades at Port Lincoln Airport through the operation of its Dash 8 – Q400. The upgrades are being funded by Commonwealth and State grants as well as airport revenues.

- Whyalla and Ceduna airports have indicated a requirement to expand their terminals as a result of existing services operated by Rex's Saab 340Bs. Both need funding assistance to carry out the upgrades. Kingscote, Coober Pedy and Mount Gambier airports have sufficient infrastructure to cater for existing Rex services, but will require upgrading when Rex retires the Saabs.

- Kingscote currently limits the weight of some chartered and private business jet aircraft because of insufficient aircraft pavements strength and in some cases insufficient runway length. These aircraft do not generate enough revenue to fund the necessary upgrades so the expenditure would have to be justified on the basis of wider economic benefits.

- The Port Augusta terminal is struggling to cope with the increasing mining traffic and the existing Sharp Airlines Metro services. The terminal requires expansion but the airport does not generate sufficient revenue to fund it. The airport manager has indicated that charter aircraft (F50) that have operated to the airport will be refused access once the new security regulations come into force for closed charter operations because of the associated cost.

- Emerging air charter (F50 and Dash 8-300 aircraft) for tourism to the northern Flinders Ranges and outback South Australia is threatened because airports currently don’t meet CASA and security requirements. Revenue from the charters is insufficient to fund necessary upgrades and ongoing operating costs.

- The introduction of larger aircraft may reduce the frequency of services thereby disadvantaging regional communities through lack of choice.
• Inability to cope with larger planes (pavement strength and aerodrome dimensions) not only impacts airport activity but also impacts on tourism revenue (as large planes with tourists are refused access). The hurdle points need to be identified and planned for as part of airport master plans.

• From a regional perspective, if regional cities are outside a certain radius from the capital city then regional air services are more likely to be viable. In South Australia, examples include Mount Gambier (outside the circle and viable) and the Riverland and Naracoorte (inside the circle and less likely to be viable). Generally, air services to regional airports within 300km (by road) from Adelaide are less viable because people in most cases choose to travel by car rather than air. This may be part of the reason that Naracoorte, for example, cannot sustain scheduled air services but other factors could include:
  ○ Proximity to Mount Gambier airport.
  ○ Frequency of air services available at Mount Gambier airport.
  ○ Small population base at Naracoorte.
  ○ Inadequacy of airport infrastructure.
  ○ Unavailability of a suitable (small) aircraft type to serve the route.
  ○ Poor seat/km economics of small aircraft and resulting high fares.

• Very little export air freight is generated from regional airports to Adelaide because the cargo capacity of aircraft operating regional air services is very limited and few products are of high enough value to sustain the air freight cost irrespective of back loading issues. None of the regional airports can accommodate freight flights to interstate freight consolidation points. The only regional high value time sensitive product that has been carried by air in significant quantities in the past is live lobster out of Port Lincoln on light aircraft charter to Adelaide.

• General aviation activities are being priced out of major city airports and are gravitating to secondary/regional airports. This presents an opportunity for Regional Airports.

• As already noted, there is an increasing importance of non-aviation income in city and regional airports. However, this trend:
  ○ Needs to be integrated with state, regional and local land use and infrastructure planning and development; and
  ○ Requires effective governance arrangements to ensure integration rather than development in isolation.

*Some key strategic issues to consider from a regional airports perspective are:*

• What infrastructure requirements, funding and timing are necessary to plan
for the introduction of larger aircraft?

- Is there an opportunity for regional locations to rationalise facilities to improve viability (e.g. the Riverland Region?). However, profitable airports do not want to subsidise non-profitable airports. Also, opportunities to rationalise facilities may be limited. Generally, communities in SA are so widely spaced that basic access facilities must be maintained for Royal Flying Doctor Services/emergency services etc. so that closures are not realistic.

- Should governments be lobbied for Commonwealth infrastructure funding (Remote Aerodrome Safety Program etc.) for regional airports to be changed to include the larger RPT and other airports? DPTI has argued strongly that the Commonwealth should extend the criteria for airport funding to include “outer regional” and terminal works, so far without success. Other Commonwealth funding through various programs, most recently Regional Development Australia, has been applied to airport projects in South Australia. The “shovel ready” criteria of current Commonwealth programs make it important that councils invest in planning and design for potential projects.

- Should the South Australian Government be lobbied to introduce a long term regional airport infrastructure funding strategy and scheme similar to those established in some other states? The matching State funds for the Commonwealth’s Remote Aerodrome Safety Program (RASP) over the past 4 years (and $2m pa over the next 4 years) are a very significant step forward. While RASP projects are limited to airside infrastructure to improve emergency access, many projects have delivered economic/tourism benefits as well.

- Most regional airports have Master Plans that identify the critical infrastructure trigger points. The issue is not planning, but rather lack of funding.

5.0 Quantification of Community Benefits

As part of its regular Master Plan updates, Adelaide Airport Limited undertakes socio economic impact assessments for Adelaide and Parafield Airports every 5 years. A similar once-off study was undertaken recently (2011) on Ceduna Airport and has also been undertaken for the Whyalla Masterplan. This current Regional Airports Project is incorporating similar assessment for Mount Gambier, Naracoorte, Port Augusta and Renmark Airports.

*Some important considerations noted during the consultation stages of the project include:*

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• How to best integrate airports into regional economies and urban form?
• Should there be a sharing of the costs and benefits of airport development between benefiting Councils?
• The need to better recognise the role of airports as commercial, industrial and employment centres for their respective regions.
• Some communities believe they are disadvantaged by a lack of airline competition resulting in higher airfares than those experienced at airports that have contested routes.

The assessment of Community Benefits is detailed below by participating airport.

5.1 Mount Gambier

Mount Gambier Airport has in the order of 92,500 annual passenger movements. It is currently served by REX Airlines employing SAAB 340 aircraft (34 seats). The terminal is adequate for existing passenger services and could cater for the larger Fokker 50 and DASH 8-300 and Council is currently in the process of strengthening the runway and pavements to cater for these larger aircraft. The current works were funded with the assistance of a $500,000 grant from the State Government. In 2010/11, the Airport recorded an operating surplus of $590,000 after providing for depreciation of $118,000. Total revenue for the year exceeded $1.1 million, the majority ($800,000) being passenger levies. Should passenger growth be associated with current airport infrastructure upgrades, an additional 10,000 passengers (for example) would have additional income potential of $95,000 per annum.

In addition to personal travel, business and tourism facilitation, the Airport offers residents the ability to access health and medical facilities in Adelaide. In this context the Airport is considered a ‘social good’ by Council.

The following section estimates the level of Gross State or Regional Product (GSP/GRP)⁴ and employment generated due to the operations of the Mt Gambier Airport. The assessment is based on the survey of operators (including airport and ancillary operations), and economic modelling to determine an indicative measure of total activity measured at both the regional (Mount Gambier) and State levels. The regional impacts are lower than those for the State in total due to the ‘leakage’ of activity to outside the region.

The survey of operators revealed that there are 29.8 FTE’s of employment on site (including employees of the Airport itself, and in operations such as rental cars, etc).

⁴ Gross state product (or gross regional product) is a measurement of the economic output of a state or region (i.e., of a sub national entity). It is the sum of all value added by industries within the state or region.
Other businesses that interact with the airport (e.g. ground agents, taxi companies, etc.) were identified as having a total of 40.0 FTE’s of employment working on business associated only with Mt Gambier Airport – this includes, for example, pilots and crew who operate flights to and from Mt Gambier.

Salary information provided indicates an average salary the order of $65,600 per FTE.

The airport earned annual passenger fees in 2010/11 of a $796,166, from 92,554 passenger movements.

The following assumptions have been used in order to estimate the level of economic activity associated with the airport’s operations:

- The off-site employment associated with the airport is assumed to be 50% in Mt Gambier and 25% in Adelaide (i.e. Adelaide employment based around facilitating traffic to and from Mt Gambier). The survey identified the direct employment in Mt Gambier, and this assumption has been used in the identification of total SA impacts.

- An average salary per FTE of $65,568, including on-costs, has been assumed from the financials and survey information.

- The ratio of value added (or GSP) to employment from the Input-Output tables has been used for this sector. Additionally the induced multipliers for the sector are used to calculate the indirect impacts.

Based on these assumptions, the following table summarises the level of economic activity associated with the operations of Mt Gambier Airport:

<table>
<thead>
<tr>
<th>Estimated Economic Activity</th>
<th>Mt Gambier</th>
<th>South Australia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Employment (FTE’s)</td>
<td>69.8</td>
<td>87.3</td>
</tr>
<tr>
<td>Direct Wage and Salary Income ($’000)</td>
<td>4577</td>
<td>5721</td>
</tr>
<tr>
<td>Direct Value Added ($’000)</td>
<td>10470</td>
<td>15125</td>
</tr>
<tr>
<td>Total Employment (FTE’s)</td>
<td>125.9</td>
<td>232.6</td>
</tr>
<tr>
<td>Total Wage and Salary Income ($’000)</td>
<td>6849</td>
<td>13924</td>
</tr>
<tr>
<td>Total Value Added ($’000)</td>
<td>15395</td>
<td>29658</td>
</tr>
</tbody>
</table>

In summary the Mt Gambier Airport supports 126 jobs (FTE’s) in the Mt Gambier region, and generates Gross Regional Product (value added) of $15.4 million annually ($6.8 million in wages and salaries and $8.6 million in Gross Operating Surplus), while at the State level it supports 233 FTE jobs and Gross State Product (value added) of $29.7 million per annum.

5 The Input-output table for the limestone coast has been used for regional impacts and the state table for South Australian impact in this assessment.
The Airport as Critical Regional Transport Infrastructure

The second perspective of this study is related to the role of Mt Gambier Airport as a facilitator and generator of economic and business activity through its transport role. The airport facilitated an average of 92,554 passenger movements in 2010/11. The following assumptions are indicatively used for understanding the characteristics of airport use, based on information on regional airports more generally used in other studies.

<table>
<thead>
<tr>
<th>Type of Travel</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business</td>
<td>60%</td>
</tr>
<tr>
<td>Personal</td>
<td>15%</td>
</tr>
<tr>
<td>VFR</td>
<td>10%</td>
</tr>
<tr>
<td>Leisure</td>
<td>8%</td>
</tr>
<tr>
<td>Medical</td>
<td>6%</td>
</tr>
<tr>
<td>Education</td>
<td>1%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Area of Residence</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mt Gambier</td>
<td>40%</td>
</tr>
<tr>
<td>Other SA</td>
<td>10%</td>
</tr>
<tr>
<td>Adelaide</td>
<td>25%</td>
</tr>
<tr>
<td>Interstate</td>
<td>24%</td>
</tr>
<tr>
<td>Overseas</td>
<td>1%</td>
</tr>
<tr>
<td>Total</td>
<td>100.00%</td>
</tr>
</tbody>
</table>

The surveys identified that passengers use air services due to the time savings involved. Therefore it can be reasonably expected that there is value created in this context. The full cost of travelling by air is estimated using the following assumptions:

- The full length of a one-way trip is assumed to be 2.6 hours (travel to and from airport, wait time, and time on plane).
- The full opportunity cost of business travel time is based on ABS average weekly earnings (June 2011) – with an assumed 40 hour working week, and estimated at $34 per hour.
- There is assumed an average cost of getting to and from the airport (taxi, or drop-off) of $20 each way.
- The average flight costs is estimated at approximately $400 return (based on on-line price from Rex Airlines – prices vary and this is at the cheaper end).

The full cost of a return trip Adelaide - Mt Gambier (or Melbourne – Mt Gambier) is
therefore estimated to be $620 taking into consideration travel time and associated costs.

The full cost of travel by road is estimated based on the following assumptions:

- The full length of a one-way trip is 4.9 hours (440 km, average speed of 90 km per hour.

- The full opportunity cost of business travel time is based on average weekly earnings, and estimated at $34 per hour.

- There is an average travel cost of $217 (440 kilometres by a full cost of 74c per kilometre, as per Australian Tax Office deduction allowance, and an average of 1.5 occupants per vehicle).

- Given a 4.9 hour each way trip – it is assumed there would be 1 overnight stay as part of the travel. An average (across all passengers) cost of additional stay is conservatively estimated at $50 per return trip.

The full cost of a return trip is therefore estimated to be $817.

The full cost saving in travelling by air is therefore estimated to be $200.00 per return trip.

Applying this saving to the number of trips, and assuming that non-business use is discounted to 2/3 of this amount (time not as ‘valuable’ and more flexibility), the estimated value created by travelling by air rather than by road is:

<table>
<thead>
<tr>
<th>Value of Cost Savings - Maximum ($'000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business</td>
</tr>
<tr>
<td>Other</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

However, it is noted that a road trip is not the only alternative to air travel, and people might choose not to travel (e.g. conference calls, phone links, etc). Other options have some quality costs, however the benefit/value of air travel should be discounted to take into consideration these other options. If an indicative discount of 30% is applied, the estimated benefit/value attributable to having an airport with Adelaide - Mt Gambier services is as follows:

<table>
<thead>
<tr>
<th>Value of Cost Savings – Indicative ($'000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business</td>
</tr>
<tr>
<td>Other</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>
Key issues relevant to the future of the Mount Gambier Airport include:

- While it will be able to accommodate the Fokker 50 and DASH 8-300, even larger aircraft such as the DASH 8-Q400 and ATR72 will require an additional strengthening of the runway along with a terminal expansion to accommodate security screening (this will be required for all aircraft exceeding a Maximum Take Off Weight (MTOW) of 20,000 tonnes which includes the Fokker F50). Currently planned works include:
  - Further lighting upgrade.
  - Branded and coordinated welcome signage.
  - Forestry Interpretative Centre.
  - Extension of the executive lounge to enable a conference facility.
  - Extension of the existing Aeroexpresso Café (management would also like to pursue a liquor license).
  - Secure long term car parking.

- The Airport is in need of a long term masterplan and it is understood that Council will be progressing this in the near future.

- Businesses operating at the Airport complained that telecommunications are too slow for internet access and that mobile telephone coverage is poor.

- Passenger numbers have declined in recent years from a peak of 117,000 in 2007/08 to 92,500 in 2010/11. This has and will continue to impact Airport finances as costs continue to rise against declining passenger revenue. While the Global Financial Crisis may be responsible for this decline, the regional economy has suffered some setbacks with a mill closure and proposed forward sale of forestry harvesting rights.

- Consultation with REX indicated that it is interested in partnering with the Airport in order to undertake joint marketing, grow the market and consider charter work for the mining industry.

- There is an opportunity for the Airport to investigate flight training. As already noted, the majority of flying training for international and national carriers in South Australia is currently undertaken at Parafield Airport. Training around Australia appears to be focused on airports located close to capital cities or major regional centres which must be taken into consideration.

- There is sufficient land within the Airport to consider the establishment of an Industrial Precinct.

- Council is committed to continued Airport management by the Council through the Mount Gambier Airport Management Committee.
- Infrastructure, maintenance, operations and future development are funded from Airport revenues (and grants) as the Council rate base is too small to support the Airport. Passenger charges are therefore important for future funding initiatives but this puts pressure on already high prices. This may ease with the infrastructure upgrades and potential introduction of an additional airline.

5.2 Naracoorte

Naracoorte is a registered airport constrained by runway pavement strength and runway length. According to DPTI, in general aircraft size is limited to MTOW of 5,700 kgs or aircraft with a maximum of 9 passenger seats.

In 2010/11, the Airport recorded an operating loss of $37,000 after providing for depreciation of $7,000. Total revenue for the year was $22,000, the majority ($13,000) being user fees.

The Airport provides an important business and community service. It provides a regional base for agricultural aerial spraying, bank freight and flight training while also providing access for the RFDS and CFS water bombing. In the absence of an RPT service, the Airport has developed a strong industry base (agribusiness and flight training) which generates revenue to offset operational costs while making a good contribution to community socio-economic impacts.

The following section estimates the level of GSP and employment generated due to the operations of the Naracoorte Airport. The assessment is based on the survey of operators (including airport and ancillary operations), and economic modelling to determine an indicative measure of total activity.

The survey of operators revealed that there are 12 FTE’s of employment on site (including employees of the Airport itself, and in operations that use the airport as a base). Other businesses that interact with the airport were identified as having a total of 1.1 FTE’s of employment working on business associated only with Naracoorte Airport.

Salary information provided indicates an average salary of $72,519 per FTE.

The airport earns average annual fees of approximately $23,000 per annum, and has operating expenditure of $194,000.

The following assumptions have been used in order to estimate the level of economic activity associated with the airport’s operations:

- The ratio of value added to employment from the Input-Output tables has
been used for this sector. Additionally the induced multipliers for the sector⁶ are used to calculate the indirect impacts.

Based on these assumptions, the following table summarises the level of economic activity associated with the operations of Naracoorte Airport:

<table>
<thead>
<tr>
<th>Estimated Economic Activity</th>
<th>Naracoorte</th>
<th>South Australia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Employment (FTE’s)</td>
<td>13.1</td>
<td>13.1</td>
</tr>
<tr>
<td>Direct Wage and Salary Income ($’000)</td>
<td>950</td>
<td>950</td>
</tr>
<tr>
<td>Direct Value Added ($’000)</td>
<td>1965</td>
<td>2271</td>
</tr>
<tr>
<td>Total Employment (FTE’s)</td>
<td>23.6</td>
<td>34.9</td>
</tr>
<tr>
<td>Total Wage and Salary Income ($’000)</td>
<td>1285</td>
<td>2091</td>
</tr>
<tr>
<td>Total Value Added ($’000)</td>
<td>2889</td>
<td>4453</td>
</tr>
</tbody>
</table>

In summary the Naracoorte Airport supports 24 jobs (FTE’s) in the Naracoorte region, and generates Gross Regional Product (value added) of $2.9 million annually ($1.3 million in wages and salaries and $1.6 million in Gross Operating Surplus), while at the State level it supports 35 FTE jobs and Gross State Product (value added) of $4.5 million per annum.

**The Airport as Critical Regional Transport Infrastructure**

The second perspective of this study is related to the role of Naracoorte Airport as a facilitator and generator of economic and business activity through its transport role. The airport is not a base for passenger transport, but rather facilitates a small number of businesses that operate from the airport. The survey indicates that these businesses generate economic value of $2.5 million per annum. The economic contribution generated by this revenue base is included in the estimates above, and would be lost to the immediate Naracoorte area if the airport was not supported. However an additional aspect to be considered is that the services would possibly relocate say to Mt Gambier and, as a consequence, would end up costing more for local users. As an indication of the potential impact above the direct employment outcomes, this indirect impact would be valued at $0.5 million if the cost impost was 20%.

Key issues relevant to the future of the Naracoorte Airport include:

- The continued development of Mount Gambier Airport as the regional ‘hub’ airport for RPT and charter air services.

- Proximity to Adelaide within the 4 hour drive/no fly zone is a deterrent to RPT services (in addition to proximity to Mount Gambier).

- The Airport is restricted by its pavement strength and runway length in that

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⁶ The Input-output table for the Limestone Coast has been used for regional impacts and the state table for South Australian impact in this assessment.
aircraft size is generally limited to a MTOW of 5,700 kgs or aircraft with a maximum of 9 passengers. Council is currently considering a runway and other airside infrastructure upgrades with a capital cost in the order of $530,000. Business consulted during this project expressed concern about the impact that this might have on landing charges and rates including the requirement for longer term maintenance. Given that the Airport is already operating at a loss ($37,000), it is likely that this will increase. A Business Case and/or Benefit/Cost assessment to substantiate the new investment appears warranted given the current situation.

- Council has indicated it is prepared to consider ownership options as the Airport is predominantly used by the private sector.

### 5.3 Port Augusta

Port Augusta Airport is currently serviced by Sharp Airlines RPT services (twice daily) and charter flights (e.g. Alliance) utilising Fokker F50 and occasionally BAE 146 aircraft.

In 2010/11, the Airport recorded an operating loss of $135,000 after providing for wages and depreciation of $220,000. Total revenue for the year was $163,800.

The Airport has seen considerable passenger and landings growth in recent years associated with RPT and charter services servicing the expanding mining industry. 90% of passenger movements (approximately 20,000 per annum based on airport data) are for government or business purposes. Sharp airlines currently runs a service to Prominent Hill (19 seat Metro) while Alliance Airlines runs a daily charter (Fokker F50).

The following section estimates the level of GSP and employment generated due to the operations of the Port Augusta Airport. The assessment is based on the survey of operators (including airport and ancillary operations), and economic modelling to determine an indicative measure of total activity.

The survey of operators revealed that there are 43.65 FTE’s of employment on site (including employees of the Airport itself, and in operations such as rental cars, etc, but the main employer is the Royal Flying Doctor Service, with 40 employees). Sharp Airlines were identified as having a total of 10.0 FTE’s of employment working on business associated only with Port Augusta Airport. Salary information provided indicates an average salary the order of $88,900 per FTE (largely impacted by RFDS).

The airport earns average annual passenger fees of approximately $90,200 per annum, from 11,000 passenger movements to and from Adelaide (charged at $1 per passenger, but increasing over time to $5, and 7,200 passenger movements to Prominent Hill (charged at $11 per passenger).
The following assumptions have been used in order to estimate the level of economic activity associated with the airport’s operations:

- The off-site employment associated with the airport is assumed to be 50% in Port Augusta and 25% in Adelaide (i.e. Adelaide employment based around facilitating traffic to and from Port Augusta). The survey identified the direct employment in Port Augusta, and this assumption has been used in the identification of SA impacts.

- An average salary per FTE, including all on-costs, of $88,910 has been used.

- The ratio of value added to employment from the Input-Output tables has been used for this sector. Additionally the induced multipliers for the sector are used to calculate the indirect impacts.

Based on these assumptions, the following table summarises the level of economic activity associated with the operations of Port Augusta Airport:

<table>
<thead>
<tr>
<th>Estimated Economic Activity</th>
<th>Port Augusta</th>
<th>South Australia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Employment (FTE's)</td>
<td>53.7</td>
<td>67.1</td>
</tr>
<tr>
<td>Direct Wage and Salary Income ($'000)</td>
<td>4770</td>
<td>5963</td>
</tr>
<tr>
<td>Direct Value Added ($'000)</td>
<td>8480</td>
<td>11626</td>
</tr>
<tr>
<td>Total Employment (FTE's)</td>
<td>85.6</td>
<td>178.8</td>
</tr>
<tr>
<td>Total Wage and Salary Income ($'000)</td>
<td>6159</td>
<td>10702</td>
</tr>
<tr>
<td>Total Value Added ($'000)</td>
<td>11954</td>
<td>22796</td>
</tr>
</tbody>
</table>

In summary the Port Augusta Airport supports 86 jobs (FTE’s) in the Port Augusta region, and generates Gross Regional Product (value added) of $12.0 million annually ($6.2 million in wages and salaries and $5.8 million in Gross Operating Surplus), while at the State level it supports 179 FTE jobs and Gross State Product (value added) of $23 million per annum.

**The Airport as Critical Regional Transport Infrastructure**

The second perspective of this aspect of the study is related to the role of Port Augusta Airport as a facilitator and generator of economic and business activity through its transport role. The airport has facilitated an average of 11,000 passenger movements a year to and from Adelaide, and 7,200 charter passenger movements to and from Prominent Hill over recent years – and is the base for the Royal Flying Doctor Service. For the standard passenger service we have used data from surveys of other regional airports to provide indicative estimates of the characteristics of passengers, and we have made assumptions re the Prominent Hill charter passengers as follows:

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7 The South Australian table has more detail and the multipliers and ratios for the Air Transport Sector have been used in this assessment.
60% of travel is business related; and

Approximately 50% of travel is visitors to the region, and approximately 50% is residents of the region travelling elsewhere.

<table>
<thead>
<tr>
<th>Type of Travel</th>
<th>Adelaide Service</th>
<th>Prominent Hill</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business</td>
<td>60.00%</td>
<td>100%</td>
</tr>
<tr>
<td>Personal</td>
<td>15.00%</td>
<td>0%</td>
</tr>
<tr>
<td>VFR</td>
<td>10.00%</td>
<td>0%</td>
</tr>
<tr>
<td>Leisure</td>
<td>8.00%</td>
<td>0%</td>
</tr>
<tr>
<td>Medical</td>
<td>6.00%</td>
<td>0%</td>
</tr>
<tr>
<td>Education</td>
<td>1.00%</td>
<td>0%</td>
</tr>
<tr>
<td>Total</td>
<td>100.00%</td>
<td>100%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Area of Residence</th>
<th>Adelaide Service</th>
<th>Prominent Hill</th>
</tr>
</thead>
<tbody>
<tr>
<td>Port Augusta</td>
<td>40.00%</td>
<td>70.00%</td>
</tr>
<tr>
<td>Other SA</td>
<td>10.00%</td>
<td>5.00%</td>
</tr>
<tr>
<td>Adelaide</td>
<td>25.00%</td>
<td>10.00%</td>
</tr>
<tr>
<td>Interstate</td>
<td>24.00%</td>
<td>10.00%</td>
</tr>
<tr>
<td>Overseas</td>
<td>1.00%</td>
<td>5.00%</td>
</tr>
<tr>
<td>Total</td>
<td>100.00%</td>
<td>100.00%</td>
</tr>
</tbody>
</table>

To estimate the value of the time savings involved in access to air travel created by the existence of the airport, the characteristics of the travel can be modeled. The full cost of travelling by air to Adelaide is estimated using the following assumptions:

- The full length of a one-way trip is assumed to be 2.5 hours (travel to and from airport, wait time, and time on plane).
- The full opportunity cost of business travel time is based on ABS average weekly earnings (February 2011) – with an assumed 40 hour working week, and estimated at $34 per hour.
- There is assumed an average cost of getting to and from the airport (taxi, or drop-off) of $20 each way.
- The average return flight cost is estimated at approximately $320 return.

The full cost of a return trip Adelaide - Port Augusta is therefore estimated to be $530 taking into consideration travel time and associated costs.

The full cost of travel by road is estimated based on the following assumptions:
• The full length of a one-way trip is 3.9 hours (350 km, average speed of 90 km per hour).

• The full opportunity cost of business travel time is based on average weekly earnings, and estimated at $34 per hour.

• There is an average travel cost of $173 (350 kilometres by a full cost of 74c per kilometre, as per Australian Tax Office deduction allowance, and an average of 1.5 occupants per vehicle).

• Given a 3.9 hour each way trip – it is assumed there would be 1 overnight stay as part of the travel. An average (across all passengers) cost of additional stay is conservatively estimated at $50 per return trip.

The full cost of a return trip is therefore estimated to be $659.80.

The full cost saving in travelling by air to Adelaide over car is therefore estimated to be $129.80 per return trip.

The full cost of travelling by air to Prominent Hill is estimated using the following assumptions:

• The full length of a one-way trip is assumed to be 1.5 hours (travel to and from airport, wait time, and time on plane).

• The full opportunity cost of business travel time is based on ABS average weekly earnings (February 2011) – with an assumed 40 hour working week, and estimated at $34 per hour, and is adjusted up by 50% to reflect the nature of the work.

• There is assumed an average cost of getting to and from the airport (taxi, or drop-off) of $20.

• The average return flight cost is estimated at approximately $300 return per passenger (note it is not paid by the passenger, but is charter).

The full cost of a return trip Port Augusta – Prominent Hill is therefore estimated to be $493 taking into consideration travel time and associated costs.

The full cost of travel by road is estimated based on the following assumptions:

• The full length of a one-way trip is 2.9 hours (260 km, average speed of 90 km per hour).

• The full opportunity cost of business travel time is based on average weekly earnings, and estimated at $34 per hour, adjusted up by 50%.
There is an average travel cost of $128 (260 kilometres by a full cost of 74c per kilometre, as per Australian Tax Office deduction allowance, and an average of 1.5 occupants per vehicle).

The full cost of a return trip is therefore estimated to be $551.20.

The full cost saving in travelling by air to Prominent Hill is therefore estimated to be $58 per return trip.

Applying these saving to the number of trips, and assuming that non-business use is discounted to 2/3 of this amount (time not as ‘valuable’ and more flexibility), the estimated value created by travelling by air rather than by road is:

<table>
<thead>
<tr>
<th>Value of Cost Savings - Maximum ($'000)</th>
<th>Adelaide Service</th>
<th>Prominent Hill</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business</td>
<td>428</td>
<td>210</td>
<td>638</td>
</tr>
<tr>
<td>Other</td>
<td>190</td>
<td>0</td>
<td>190</td>
</tr>
<tr>
<td>Total</td>
<td>618</td>
<td>210</td>
<td>828</td>
</tr>
</tbody>
</table>

However, it is noted that for the Adelaide passenger trips a road trip is not the only alternative to air travel, and people might choose not to travel (e.g. conference calls, phone links, etc). Other options have some quality costs, however the benefit/value of air travel should be discounted to take into consideration these other options. If an indicative discount of 30% is applied, the estimated benefit/value attributable to having an airport with Adelaide-Port Augusta services is as follows:

<table>
<thead>
<tr>
<th>Value of Air Transport Option – Indicative ($'000)</th>
<th>Adelaide Service</th>
<th>Prominent Hill</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business</td>
<td>300</td>
<td>210</td>
<td>509</td>
</tr>
<tr>
<td>Other</td>
<td>133</td>
<td>0</td>
<td>133</td>
</tr>
<tr>
<td>Total</td>
<td>433</td>
<td>210</td>
<td>643</td>
</tr>
</tbody>
</table>

Lastly there is the value created through the ‘hosting’ of the Royal Flying Doctor Service. If Port Augusta did not host the service, the RFDS would need to be located at an alternative airport, with Whyalla perhaps being an alternative. Given this is slightly further from Adelaide, and also from the far north – which would be the core target destinations, this would most likely increase operational costs. If the operational costs were to increase by 5%, and wages represented say 70% of operational costs, this would represent a value increment of $285,000 per annum.

Key issues relevant to the future of the Port Augusta Airport include:

- Airside infrastructure is good and the main runway is capable of handling larger aircraft expected in the future. The main limitation airside is the size of the current aircraft parking area which needs to be enlarged/relocated to
accommodate increasing users.

- Although the Airport airside infrastructure can accommodate the larger Fokker F50, DASH 8-Q400 and ATR72, the Airport terminal is too small even for existing services and security screening will be required for these larger aircraft in 2012 (> 20 tonne MTOW).

- Expected capital costs (as advised by Council) are:
  - Aircraft parking apron - $5 million.
  - Terminal - $1 million.
  - Security screening (2012) - $1.5 million.

- The Airport does not raise sufficient funds to cover its operating costs let alone providing for necessary future infrastructure upgrades. This will mean that Council will need to consider other funding sources to be able to provide the necessary infrastructure to meet aviation industry needs.

- If a terminal upgrade and the larger aircraft parking and security requirements are not funded, the City may be at risk of losing charter and possibly RPT services associated with mining industry developments. Sharp’s RPT service using the smaller 19 seat Metro will not trigger security screen but Alliances 20.5 tonne Fokker F50, which it currently uses for its daily charter service, will trigger screening requirements in 2012. To fund these improvements, either airport charges need to be increased, or some form of Government or Council grant or subsidy will be required. Ultimately this is a challenge for the regional community and airport users (including Government) but as long as the Council owns the airport it will be challenged to provide leadership on the issue.

- Similar to other regional airports, there is an opportunity for Port Augusta to develop flight training services, potentially in association with providers at Parafield Airport.

- A major opportunity exists for Council to sell 318 hectares of land contiguous to the airport for a proposed 3,500 allotment housing development (although this could impact on the above flight training opportunity).

- As the major base for RFDS services employing in the order of 40 people, there is potential for the RFD to expand onsite should the Commonwealth Government continue with its current primary health care strategy (rural centres of excellence etc.) which would see the RFDS facilitate a greater number of patients to Port Augusta.

- Council is ambivalent regarding future ownership and management of the Airport but it does face some high cost infrastructure investments that it
would be unable to fund from existing Airport revenues. Council does recognize the important community role played by the Airport and does have some concern about any sale to private interests and the potential for loss of community benefits.

### 5.4 Renmark

Renmark Airport has no scheduled RPT airservices but is used extensively by RFDS with 379 landings in 2010/11. Another regular user is Flight Training Adelaide (based at Parafield Airport) which appears to use Renmark Airport as a landing area during training exercises. The Airport is also used as a transport base for businesses such as Angoves and Lott Aviation along with the local Flying Club and Gliding Club.

The Airport has a small terminal approximately 15 years old that could cater for small passenger services, possibly up to 20 passengers. The main runway is sealed but unrated. O’Connor Airlines was the last airline to operate a regular passenger service to and from Renmark airport in 2001. This was a 12 seat aircraft of less than 5,000 tonnes but it is understood that this service lasted only 1 month before it was terminated.

The Airport operates at a loss with 60% of income coming from RFDS landing charges ($6.25 per tonne). The operating losses recorded in recent years were:

- **30th June 2011** – $52,000
- **30th June 2010** - $40,900
- **30th June 2009** - $43,500
- **30th June 2008** - $38,700

The following section estimates the level of GSP and employment generated due to the operations of the Renmark Airport. The assessment is based on the survey of operators (including airport and ancillary operations), and economic modelling to determine an indicative measure of total activity.

The survey of operators revealed that there are 0.3 FTE’s of employment on site.

Salary information provided indicates an average salary the order of $58,300 per FTE.

The following assumption has been used in order to estimate the level of economic activity associated with the airport’s operations:

- The ratio of value added to employment from the Input-Output tables has been used for this sector. Additionally the induced multipliers for the sector⁸

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⁸ The Input-output table for the Murray Mallee has been used for regional impacts and the state table for South Australian impact in this assessment.
are used to calculate the indirect impacts.

Based on these assumptions, the following table summarises the level of economic activity associated with the operations of Renmark Airport:

<table>
<thead>
<tr>
<th>Estimated Economic Activity</th>
<th>Renmark</th>
<th>South Australia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Employment (FTE's)</td>
<td>0.3</td>
<td>0.3</td>
</tr>
<tr>
<td>Direct Wage and Salary Income ($'000)</td>
<td>17</td>
<td>17</td>
</tr>
<tr>
<td>Direct Value Added ($'000)</td>
<td>25</td>
<td>52</td>
</tr>
<tr>
<td>Total Employment (FTE's)</td>
<td>0.5</td>
<td>0.8</td>
</tr>
<tr>
<td>Total Wage and Salary Income ($'000)</td>
<td>24</td>
<td>48</td>
</tr>
<tr>
<td>Total Value Added ($'000)</td>
<td>45</td>
<td>102</td>
</tr>
</tbody>
</table>

In summary the Renmark Airport supports 0.5 jobs (FTE’s) in the Renmark region, and generates Gross Regional Product (value added) of $45,000 annually ($24,000 in wages and salaries and $21,000 in Gross Operating Surplus), while at the State level it supports 0.8 FTE jobs and Gross State Product (value added) of $102,000 per annum.

Based on these results it is evident that the Airport is largely underutilised and principally serves the RFDS, Flight Training Adelaide and recreational flying and gliding. Discussions with the Renmark Flying Group and the Renmark Gliding Club indicated that some flight training is undertaken at the Airport (mainly gliding training) but this is undertaken by one instructor on a voluntary basis and has not been included in the above socio economic results.

Key issues relevant to the future of the Renmark Airport include:

- Proximity to Adelaide within the 4 hour drive/no fly zone is a deterrent to RPT services. However, there may be a case for RPT services particularly with the upcoming mining developments around South Australia and the need for labour.

- Discussions with RPT service providers indicate that there are no plans for future services to Renmark.

- The Department of Planning, Transport and Infrastructure (DPTI) considers the pavement is currently only suitable for aircraft with a MTOW of 5,700 kgs or less. Heavier aircraft like the SAAB 340 and Fokker F50 would most likely require pavement reconstruction and strengthening.

- The airport lighting system may require a major overhaul, possibly total replacement.

- The airport operates at a loss and revenue is insufficient to fund day to day maintenance. This is reinforced by the fact that the airport is currently in very
poor condition.

- Council has recently commissioned a study (Fulton Hogan) to investigate the cost of upgrading of the runway and other airside infrastructure to accommodate aircraft of up to 18,000 tonnes.
- Council is open to consideration of an alternative ownership and/or management structure.

Despite the above, the Renmark Airport is a vital piece of social infrastructure, provides access to emergency services and is a part of the mindset that having an airport is important for attraction and people and investment to the region. While discussions with RPT service providers indicate that it is unlikely that RPT services will resume in the near future, there is some potential for the Airport to be revitalised. Mining developments in South Australia are seeing an increase in demand for skilled and unskilled labour which is resulting in increased Fly In/Fly Out (FIFO) labour supply between the regions. Renmark is well placed to work with mining companies on the supply of labour to projects utilising charter or regular passenger services. While this is a long term opportunity, the timing is right to commence planning.

The Riverland and Renmark in particular have a strong climate competitive advantage that could be attractive to aviation training providers. It has already been noted that Flight Training Adelaide utilises the Airport on a regular basis so there may be potential to establish Renmark and its Airport as a base for national and international flight training (subject to suitable airside infrastructure). This opportunity could be pursued with existing training providers in Adelaide to determine its potential and infrastructure requirements.

5.5 **Ceduna**

In addition to the above, the 2011 Ceduna Airport Socio Economic Impact Assessment undertaken by Adelaide Airport Limited has been released by AAL for inclusion in this project for comparison purposes.

Ceduna Airport is owned and operated by the District Council of Ceduna and supports regular passenger transport, charter and private aircraft services on a 24 hour basis. Airport infrastructure supports aircraft up to Fokker Friendship (F27) size with the largest regular aircraft using the airport being Rex Airlines’ SAAB 340 Turbo Prop (34 seats).

The terminal is constrained by its location and struggles to cope with the existing passenger volumes. DPTI advises that the terminal will require relocation if it is to be expanded.

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9 It is noted here that demand from Asian countries for flight training is increasing as they are unable to meet their own internal requirements in terms of volume and quality of training.
Council’s Airport Masterplan takes the terminal issues into consideration and council has prepared concepts for the airport upgrade (including taxiways and aircraft parking areas). According to the DPTI advice, the main runway has a rating sufficient to accommodate the larger Fokker F50 and Dash 8-300 aircraft.

However, it is understood that Airport revenues and Council reserves are insufficient to fund the necessary upgrades. Also, should REX move to larger aircraft as is predicted, then terminal and airside infrastructure upgrading will be essential, as would security screening if the larger aircraft has a Maximum Take Off Weight (MTOW) of over 20 tonne.

Based on the above, the immediate issue for Ceduna is relocation/upgrading of its terminal. Longer term, it will need to address its taxiway/parking infrastructure when REX and other airlines move to larger aircraft.

The following table summarises the results from AAL’s 2011 Socio Economic study:

<table>
<thead>
<tr>
<th>Estimated Economic Activity</th>
<th>Ceduna</th>
<th>South Australia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Employment (FTE's)</td>
<td>20.6</td>
<td>25.8</td>
</tr>
<tr>
<td>Direct Wage and Salary Income ($'000)</td>
<td>1,014</td>
<td>1,267</td>
</tr>
<tr>
<td>Direct Value Added ($'000)</td>
<td>2,978</td>
<td>4,464</td>
</tr>
<tr>
<td>Total Employment (FTE's)</td>
<td>40.1</td>
<td>68.6</td>
</tr>
<tr>
<td>Total Wage and Salary Income ($'000)</td>
<td>2,560</td>
<td>4,109</td>
</tr>
<tr>
<td>Total Value Added ($'000)</td>
<td>4,817</td>
<td>8,753</td>
</tr>
</tbody>
</table>

In summary the Ceduna Airport supports 40 jobs (FTE’s) in the Ceduna region, and generates Gross Regional Product (value added) of $4.8 million annually ($3.0 million in wages and salaries and $1.8 million in Gross Operating Surplus), while at the State level it supports 69 FTE jobs and Gross State Product (value added) of $8.7 million per annum.

The second perspective of the Ceduna study was related to the role of Ceduna Airport as a facilitator and generator of economic and business activity through its transport role. The airport has facilitated an average of 24,430 passenger movement a year over the last 4 years. As shown in the following tables, based on the Ceduna-Adelaide Air Passenger Survey report:

- 60% of travel is business related; and
- Approximately 50% of travel is visitors to the region, and approximately 50% is residents of the region travelling elsewhere.
The survey identified that passengers used the air service due to the time savings involved. Therefore it can be reasonably expected that there is value created in this context. The full cost of travelling by air is estimated using the following assumptions:

- The full length of a one-way trip is assumed to be 3.5 hours (travel to and from airport, wait time, and time on plane).
- The full opportunity cost of business travel time is based on ABS average weekly earnings (February 2011) – with an assumed 40 hour working week, and estimated at $32.852 per hour.
- There is assumed an average cost of getting to and from the airport (taxi, or drop-off) of $20.
- The average flight costs is estimated at approximately $500 return (based on on-line price from Rex Airlines – prices vary and this is at the cheaper end).

The full cost of a return trip Adelaide - Ceduna is therefore estimated to be $769.90 taking into consideration travel time and associated costs.

The full cost of travel by road is estimated based on the following assumptions:

- The full length of a one-way trip is 8.9 hours (800 km, average speed of 90km per hour).
- The full opportunity cost of business travel time is based on average weekly earnings, and estimated at $32.85 per hour.
• There is an average travel cost of $394.67 (800 kilometres by a full cost of 74c per kilometre, as per Australian Tax Office deduction allowance, and an average of 1.5 occupants per vehicle).

• Given an 8.9 hour round trip – it is assumed there would be 1 overnight stay as part of the travel. An average (across all passengers) cost of additional stay is conservatively estimated at $50 per return trip.

The full cost of a return trip is therefore estimated to be $1,423.30. The full cost saving in travelling by air is therefore estimated to be $653.40 per return trip. Applying this saving to the number of trips, and assuming that non-business use is discounted to 2/3 of this amount (time not as ‘valuable’ and more flexibility), the estimated value created by travelling by air rather than by road is:

<table>
<thead>
<tr>
<th>Value of Cost Savings - Maximum (’000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business</td>
</tr>
<tr>
<td>Other</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

However, it is noted that a road trip is not the only alternative to air travel, and people might choose not to travel (e.g. conference calls, phone links, etc). Other options have some quality costs, however the benefit/value of air travel should be discounted to take into consideration these other options. If an indicative discount of 30% is applied, the estimated benefit/value attributable to having an airport with Adelaide- Ceduna services is as follows:

<table>
<thead>
<tr>
<th>Value of Cost Savings – Indicative (’000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business</td>
</tr>
<tr>
<td>Other</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

5.6 Airport Comparisons – Economic and Financial Impacts

For those airports that participated in this project, the following table summarises the socio economic impacts at the State level by regional airport:

<table>
<thead>
<tr>
<th>Airport</th>
<th>Employment Impact (FTEs)</th>
<th>Gross State Product Impact ($)</th>
<th>Value of the Air Transport Option</th>
<th>Operating Surplus/(Loss)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mount Gambier</td>
<td>233</td>
<td>$29.7 million</td>
<td>$5.6 million</td>
<td>$590,000</td>
</tr>
<tr>
<td>Naracoorte</td>
<td>35</td>
<td>$4.5 million</td>
<td>No RPT Service</td>
<td>($37,000)</td>
</tr>
<tr>
<td>Port Augusta</td>
<td>179</td>
<td>$23.0 million</td>
<td>$928,000</td>
<td>($135,000)</td>
</tr>
<tr>
<td>Renmark</td>
<td>0.8</td>
<td>$102,000</td>
<td>No RPT Service</td>
<td>($52,000)</td>
</tr>
<tr>
<td>Ceduna</td>
<td>69</td>
<td>$8.7 million</td>
<td>$4.8 million</td>
<td>N/A</td>
</tr>
</tbody>
</table>
These airport comparisons reveal the decision making complexities faced by regional Councils.

**Mount Gambier**, already making a significant contribution to State employment and Gross State Product, is on the verge of improving this contribution and its financial performance through the expansion of RPT services linked to infrastructure upgrades.

**Port Augusta**, operating at a loss and the facility is currently unable to generate reserve funds for necessary infrastructure upgrades, is at the cross-roads of protecting the socio-economic benefits generated by the airport against the commercial reality of investing in infrastructure upgrades to maintain and increase services, especially to the expanding mining industry demands.

**Naracoorte**, which has done well to develop private sector business from its non-RPT airport which supports community benefits of access, emergency services and recreation, needs to demonstrate a community benefit to justify any future airside upgrades as they will put ongoing pressure on Council funds through maintenance and capital replacement provisions.

**Renmark**, which has no RPT business and supports little local industry activity, has a challenge to develop its real estate to accommodate local industry (e.g. agribusiness), attract charter operations associated with the State’s mining industry development and develop other revenue generating services such as flight training. The potential that the Airport has to contribute to the local economy and socio-economic benefits is reflected in the Naracoorte socio-economic results – i.e. without RPT services, Naracoorte Airport contributes 35 jobs and $4.5 million to Gross State Product (Incomes, profits, etc) which is considered a minimum target that could be adopted for the Renmark Airport.

### 6.0 Ownership, Governance and Management Options

Ownership, governance and management of regional airports by Local Government are historically based on the transfer of ownership from the Commonwealth Government to Local Government during the 1990s. These responsibilities appear to have been enthusiastically embraced by local communities in recognition of the social and economic importance of airports to the community. Councils agreed to operate and maintain the airports without ongoing funding support from the Commonwealth. Aerodromes were transferred under freehold title.

To assist the transfer of airports to local government, the Commonwealth Government provided one-off grants to assist operations and infrastructure funding. Since then, the Commonwealth Government has not had a direct role in funding ongoing maintenance and capital upgrades at regional airports other than the
Remote Aerodrome Safety Program funding previously mentioned.

The following considerations and questions are noted:

- Adelaide Airport Limited has publically declared its interest in engaging with regional airports at various levels of ownership, governance and management.

- There are options for improved collaboration between regional airports. For example, skill sharing, compliance, management, operating systems and safety management could be managed across airports. The SA Division of the AAA could be the best vehicle for this collaboration but it was noted in the Regional Airports Forum that most non-RPT airports are not participating in AAA forums (there are some exceptions such as the Flinders Ranges Council). It is noted here that the LGA through its Mutual Liability Scheme does coordinate some airport inspections and reporting officer training.

- Other options for consideration include:
  - Privatisation of ownership and/or management of regional airports (or varieties of this). However, councils would need to consider the loss of some control over social and economic outcomes for the community.
  - One Local Government body to own and manage all airports. May not be favoured by the larger airports as they do have critical mass, but could be effective for the smaller regional airports. The cross-subsidies implicit in such a proposal might be resisted by the larger airports as their already insufficient revenue streams would be used to subsidise smaller airports. This may also add an unnecessary layer of cost. Councils already apply internal cross subsidies and achieve some efficiency by using Council plant and staff on airport functions and works. For example, Council accounting staff process payments and invoices for Council airports, and Council road gangs can be used for airport maintenance.
  - Scale back all airports to minimum requirements then invest in regional hubs. However, regional airport hubs distributing passengers by air to onward destinations may not work in SA because of the small passenger volumes involved and the need to use small aircraft and their poor seat km economies. To some extent a surface/air hub and spoke system is already in place where people travel to the hub by car and then plane from the hub to Adelaide. For example Port Lincoln attracts passengers from other towns such as Cummins, Cleve and Wudinna.
• Although from a socio economic impact affect it is important for local
government to own airports, is it financially sustainable for them to continue
to do so? More information on social impacts could increase the case for
State government funding.

• Should airports be owned and funded by all councils in the respective
regions?

• Is there an opportunity for centralised negotiations between regional airports
and airlines?

• Is there an opportunity to develop common local government fees and
charges for all regional airports? Consultation with DPTI, however, indicates
there is little opportunity to negotiate route networks and that WA's attempt
to regulate and tender route networks has been extremely
counterproductive. DPTI believes that common fees and charges for all
regional airports would also involve undesirable and inefficient cross-
subsidies.

7.0 Skills for Airport Management and Operations

Airport staff should be trained in accordance with CASA and Aviation Transport
Security requirements. Training should be refreshed on bi-annual basis.

The demand for skilled labour/staff has been cyclical in recent years with high
demand around 2007 being followed by a decrease in demand for aviation services
associated with the Global Financial Crisis. As the economy improves and the regions
become stronger through mining and other industry developments, the demand for
airport staff with appropriate skills will increase.

Skill and technical demands will also change and increase as a result of airlines
moving to larger aircraft. More airports are going to require skilled staff in areas such
as:

• Airport management
• Compliance
• Airport Operations
• Safety management
• Security Training

One of the current constraints to staff sharing between airports is the many roles
that Airport managers may take on across Council functions making it difficult to
have extended periods elsewhere for career development.

*The following considerations and questions are noted:*
• Employment at regional airports is not seen as a career environment. There are few opportunities for young people to work at regional airports and to have a career path.

• Roles and responsibilities at regional airports are changing.

• Councils are vulnerable to airport staff suddenly leaving.

• Is there an opportunity for an LGA airport staffing strategy which addresses skills development, succession planning, staff rotations, leave scheduling, etc?

• Does each airport need its own compliance officer, inspector, asset manager etc?

• Could some airport staffing needs be outsourced at the regional or State level?

• Is there an opportunity for a professional development program for airport staff?

8.0 Future Funding Challenges, Options and Opportunities

Although regional airports are facing many funding challenges principally surrounding infrastructure maintenance and upgrading, they substantially control their own destinies as current owners and managers.

Since the transfer of regional airports to councils, Commonwealth Government funding has been reduced to programs for remote aerodromes and air services. The Government does however provide funding to local councils (e.g. community infrastructure funding), which can be used for airports, and councils can apply for local community infrastructure funding for airport related projects.

The following information on State Government funding of regional airports throughout Australia has been sourced from the National Aviation Policy Green Paper10.

• In Western Australia, the Regional Airports Development Scheme is designed to assist the development of airport infrastructure. Through this Scheme, the State works in partnership with airport owners to develop regional airport infrastructure that meets access needs and contributes to regional economic growth.

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10 Aviation Policy Green Paper, p.174
• The Queensland Government operates a Regional Airport Development Scheme to assist local government in the upgrade of regional and remote airport infrastructure. Funding is offered on a matching grant basis with airport owners for projects that are necessary to maintain basic access or that promote regional development.

• The Northern Territory Government provides funding for 72 strategic aerodromes throughout the Territory. This funding ensures that communities have access to government services and is provided for ongoing repair and maintenance and periodic upgrade of these aerodromes.

• The Victorian Government has introduced a Regional Aviation Fund of $5 million per annum over 4 years to be applied to ‘public use’ airports. Funding is also available through the Regional Infrastructure Development Fund and Small Towns Development Fund. Through these funds, the Victorian Government’s contributions tend to be based on wider economic benefits delivered by particular projects, but occasionally may be on the basis of safety or social equity. In most cases, they are made in partnership with other funding sources at the local government level or with business partners of the airport or aerodrome.

• New South Wales has no program dedicated to airport funding although country grant programs have in the past funded minor works at some regional airports.

• Tasmania has no program dedicated to airport funding and, while the Tasmanian Government has in the past contributed to the cost of airport infrastructure, it has not done so for a number of years.

• Although the South Australian Government has no dedicated airport infrastructure program (other than the RASP which is based on safety and social equity) it does contribute to various airport projects from a variety of agencies. The State Government contributed $500,000 to the District Council of Grant under the Regional Development Infrastructure Fund for the Mount Gambier Regional Airport. Contributions tend to be on the basis of wider economic benefits delivered by particular projects and occasionally may be on the basis of safety or social equity. In most cases they are made in partnership with other funding bodies.

**The following considerations and questions are noted:**

• Airports are sometimes not seen as core business by Councils and some are calling into question their ongoing ownership and management.

• The sustainability of regional airports implies sustainable in all respects including having a financial capacity to meet current and future operating and capital replacement requirements.
• Airport assets require long term maintenance and replacement funding. Some Councils are concerned that they do not have the financial capacity to ensure sustainable financial management and/or question the benefit/cost to the community of such funding commitments.

• In addition to council capital works funding, or the use of retained funds by airports, there are other State and Commonwealth Government funding sources that can be applied to for capital works at airports. However, these are diminishing with increasing pressure on Councils to fund infrastructure and airport improvements.

• The key issue is that only airports with scheduled RPT air services can fund existing operational requirements but all will have difficulty funding future infrastructure upgrades to cope with larger aircraft and growth in services.

• From a whole of community perspective one option may be an opportunity for a single ownership and management framework across all airports.

• Should there be a long term Local Government funding strategy for regional airports?

• As one or several other council regions may be beneficiaries of regional airports, should they contribute to airport operational and capital funding – e.g. City of Mount Gambier contributing to the District Council of Grant or Port Lincoln to the Lower Eyre District Council. A regional approach to airport funding appears warranted in such circumstances. It is also important to consider the consequences of airports in close proximity competing with each other (e.g. Whyalla and Port Augusta).

• All regional airports and councils could adopt a common approach and advocacy to the State government for long term funding assistance.

9.0 Conclusions and Recommendations

The long term sustainability of regional airports is being challenged by changing industry and economic factors beyond the control of airport managers. Industry trends and changes, not anticipated by regional Councils when they took over the airports, will have large infrastructure funding consequences beyond the airport revenue raising means of regional Councils. The integrity of the regional airports network, and the support it provides for the State’s economy, industry and the community, is under threat from the move to larger RPT and charter aircraft, compounded by the introduction of new security screening requirements in 2012.

The funding required by most regional airports over the next 5 years is not available in most Council airport reserves (where they exist) and the prospect of corporate
support is very low based on recent attempts by northern airports to get support from the mining industry for their infrastructure upgrades.

The options for regional Councils unable to fund the necessary infrastructure upgrades are:

- Do nothing, which will see negative economic, industry and community consequences as measured in this report.
- Borrow and increase airport fees and charges to cover interest and principal repayments.
- Seek Commonwealth and State Government Capital support for infrastructure funding.
- Commercialise operations either by sale of airports or private sector partnerships for management and funding of ongoing operations.

The research and consultation undertaken for this project has produced evidence that:

- The inevitable shift to larger aircraft (e.g. from SAAB 34 seaters to Fokker 50 seaters) and the application of new security legislation from 2012 will necessitate airside infrastructure and security upgrades at all affected airports. The size of this task is unknown at present and was not a requirement of this project. However, it is a priority for affected Councils and Local Government to understand the financial and other consequences of these trends and it is recommended that this be done on a state-wide basis, possibly by the LGA in collaboration with the Australian Airports Association (SA).

- Larger aircraft will shift route economics and there will be different implications for each airport/route. Airports ‘on the margin’ may not be able to justify infrastructure investment while more profitable routes may actually see the market grow through the introduction of new aircraft and new airlines.

- Most concerning in the context of this project, the current model of airport ownership and management appears to be failing as it generally does not provide for sustainable investment in airport infrastructure – maintenance and replacement of existing infrastructure or new infrastructure to meet changing aviation needs. Pricing structures are generally inadequate to provide for sinking funds/depreciation for future infrastructure funding.

Continuing with the current model will lead to an escalation of Councils calling on the State Government to assist fund future infrastructure upgrades. Councils unable to secure that support and unable to fund upgrades from their own reserves or debt
will run the real risk of losing RPT and charter services, or the ability to attract them in the future. In this project, Port Augusta is an example of a regional airport that will require airside, terminal and security upgrades to accommodate larger aircraft and new security requirements associated with existing services. It is however, a central node in the provision of FIFO labour to the mining industry.

Confirmation of the research and consultation evidence, and associated project observations, is what is happening interstate. The decisions by the Queensland, Western Australian, Victorian and Northern Territory Governments to establish State Government funds for regional airport infrastructure confirm that external funding is required in order to maintain the additional socio-economic benefits that accrue to communities through having regional airports, and they are now well ahead of South Australia in ensuring the integrity and security of their regional airport networks.

These socio-economic benefits are benefits over and above the commercial benefits associated with aviation and commercial revenue as measured and noted in this report. Such benefits include:

- More timely and cost efficient access.
- Emergency access.
- Support for community education and health.
- Support for tourism.
- Support for regional business, employment, incomes and Gross Regional Product.
- Physical and social capital for people and investment attraction.

While these benefits are important to the regional communities themselves, they also have much broader State-wide benefits as a network of regional airports which, in the case of the above mentioned States, has justified State Government investment funds. The multiplier effect of regional activity ripples throughout the State. Businesses in one region purchase goods and services from Adelaide and other regions, workers travel between regions for employment (e.g. FIFO) and travelers (business and tourism) have access to emergency services.

Perhaps the most significant example of a broader community benefit is the benefits that will accrue to all passengers (regional, State, interstate and international) from the required security upgrades in 2012. It could be argued that Commonwealth Government funding support is warranted given the overall national security impacts and it is recommended that the Local Government Association and the State Government establish the state-wide funding implications of these regulations and approach the Commonwealth Government for grants to support the implementation of security screening at regional airports.

As in other States, there is a case for the funding of some regional airport infrastructure by the State (and possibly Commonwealth) on the basis of the socio-economic benefits that accrue to the regions and the State. This would apply to both ‘profitable’ and non-profitable airports where aviation and commercial surpluses are
insufficient to cover the infrastructure funding gap.

It could be argued, however, that all regional airports should move to full cost recovery including depreciation/sinking fund recovery for future infrastructure requirements. Such commercial recovery strategies could have negative consequences in that:

- Airport landing fees and passenger charges make RPT and charter services unviable, thereby resulting in the loss of socio-economic benefits associated with the provision of these services.

- Loss of the ability for Councils to use lower fees as subsidies to achieve socio-economic benefits.

It is therefore concluded that when making decisions on airport charges, ongoing maintenance expenditure and infrastructure investment, regional airport owners balance the needs of airlines and a price sensitive travelling public against airport funding needs and broader community socio-economic outcomes. 

**So the critical issue for this project and for Local Government is the funding of necessary airport upgrades that are being triggered by regulatory change, the shift to larger aircraft and consistent growth in passenger numbers that, in most cases, cannot be funded from airport revenues. As Councils have limited capacity (and in some cases limited motivation) to fund airport upgrades, a new strategy is required to ensure sustainability of the State’s regional airport network.**

Options are limited as at least one regional airport, if not more, is likely to resist moves to establish a single local government operating entity or to privatise the network of airports. This is due to the potential for cross-subsidies implicit in such proposals whereby the larger airports may see their already insufficient revenue streams used to subsidise smaller airports. Some Councils/airports are also extremely protective of the influence they can exert over socio-economic outcomes for their communities through the airports (passenger fees and landing charges).

The convenient solution interstate has been State Government funding strategies. While this has been unsuccessfully proposed previously in South Australia (2000 DTEI Regional Airports Strategy for SA), the regional and State-wide socio-economic benefits demonstrated in this report will substantiate a fresh approach to the State Government to fund the ‘community good’ component of regional airport infrastructure investment. **This coordinated advocacy role is recommended as a minimum position for adoption by the Local Government Association and will require the preparation of a strategy and business case including:**

- Identification and costing of existing infrastructure upgrade requirements.

- The costed implications and timing of regulatory and security requirements for each airport.
• Aggregation at the State level of the socio economic benefits (community good) of regional airports. This would require an assessment, on an airport by airport basis, of the community benefits that accrue to regions from the existence of the regional airport network which would be an extrapolation of the current project.

• Identification of the ‘do nothing’ scenario and its implications.

• Preparation of a benefit/cost business case for State Government funding of the community good component of regional airports.

• Demonstration of the ability of Local Government and regional Councils to fund the gap between infrastructure funding requirements and the community good component proposed for State Government funding.

• Recommendation of a strategy and priorities for the upgrading of regional airports.

Should the State Government be prepared to consider such an approach, and should this approach be successful, Councils that are still unable to fund essential infrastructure upgrades with State Government assistance must look to other options. These would include:

• Airport closure.

• Sale of the airport to private interests (as already noted, Adelaide Airport Limited has publically expressed its interest in several regional airports). Airports that have communities of interest could package their airports for sale.

• Outsourcing of management and operations. Again, airports that have communities of interest could package their airports for outsourcing.

• Do nothing and await the consequences.

Notwithstanding the above, Council asset and financial management plans required under the Local Government Act should clearly demonstrate the position of Council airport assets, and it is recommended that this be a requirement of future Council asset and financial management plans.

Another option to achieve a collaborative State-wide approach would be to collaborate with the State Government on infrastructure funding (subject to the above) on the basis that only those airports committing to a collaborative approach getting access to the State-wide strategy and funding. On this basis, it would be possible for the LGA to coordinate and negotiate a move to a single local government entity to own and operate all regional airports wishing to participate in the infrastructure funding program and/or the privatisation of the regional airport
The benefits of having one single entity, or a resource sharing model, were widely acknowledged in the consultation and were seen to also include:

- Access to a pool of qualified staff capable of dealing with specific aviation matters across all airports (e.g. security) plus associated cost savings from not needing to employ staff at every location.
- Central and consistent points of contact between airports, regulators, airlines, etc.
- Broader career path opportunities for staff engaged on airport activities with opportunities to progress, for example, from small (RFDS only) to medium (Kingscote) to large (Port Lincoln) airports.
- Centralised and lower cost access to aviation specific technical and engineering knowledge such as runway design, terminal design, security and terminal operations/maintenance.
- Ability to spread managerial overheads across airports/Councils.
- Common aviation specific risk and incident systems and procedures.

Such a centralised management system could also lead to unexpected revenue opportunities as having highly skilled aviation staff would enable the offer of consultancy services to regional airports across Australia. It is noted however, that there would still need to be a small local management role for the management of day to day operations.

*It is therefore recommended that the LGA consider the establishment of a single local government regional airport management entity, subject to achieving State Government support for a state-wide funding strategy.*

Should the State Government reject this approach, regional Councils that own airports will need to consider resource sharing opportunities and the other 3 options outlined at the commencement of this concluding section, i.e.

- Do nothing, which will see negative economic, industry and community consequences as measured in this report.
- Borrow and increase airport fees and charges to cover interest and principal repayments.
- Commercialise operations either by sale of airports or private sector partnerships for management and funding of ongoing operations.
The last option, the commercialisation of operations, should also be considered even if State and Commonwealth Government funding does materialise as, in the long run, there is no doubt that industry and economic trends will see new infrastructure requirements that will challenge the funding capacities and motivation of regional Councils. It is therefore recommended that regional Councils consider this approach in their own right, or in collaboration with Councils where there are some regional communities of interest.

Finally, and in the context of the above findings and recommendations, it is noted that the City of Whyalla is actively exploring options for the future ownership and management of Whyalla Airport. The airport has in the order of 70,000 passenger movements and an annual turnover of approximately $800,000 per annum. Future infrastructure requirements and funding are key issues for Council including an existing need for a terminal upgrade and longer term runway upgrade and security screening to accommodate larger aircraft (expected due to regional mining industry developments). As part of its due diligence process, the financial, economic and community implications of Council’s options are being investigated by Council to inform its decision making process.