

Subject 4.1 Regular Passenger Transport Business Case (10821982)

To the General Manager

Directorate: Shellharbour Enterprises
Department: Illawarra Regional Airport

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Reason for Confidentiality

This item is classified CONFIDENTIAL under the provisions of Section 10A(2)(c) of the *Local Government Act 1993*, which permits the meeting to be closed to the public for business relating to the following:

- (c) information that would, if disclosed, confer a commercial advantage on a person with whom the council is conducting (or proposes to conduct) business

The information provided in this report outlines strategies and negotiation positions that are of confidential nature and would compromise Council’s commercial position when negotiating with potential airline companies should Council chose to commit to introducing RPT services to the Illawarra Regional Airport.

Summary

The purpose of this report is to provide Council with the outcome of the Study outlining the business case for Regular Passenger Transport (RPT) Services at the Illawarra Regional Airport (refer to **Attachment 1** - Regular Passenger Transport Services Business Case for further detail).

This report seeks Councils endorsement of re-introducing RPT Services at the Illawarra Regional Airport with an allocation of \$770k to fund basic infrastructure costs needed to accommodate initial RPT services (referred throughout this report as Option 1a) servicing [REDACTED] passengers per year.

[REDACTED]

[REDACTED] That is, that security will need upgrading, the temporary terminal building [REDACTED] will need upgrading to accommodate additional [REDACTED]

The report also seeks endorsement to approach airlines to commence negotiations to secure a regional airline operator able to establish RPT services at the Illawarra Regional Airport

within the next 8-months (September 2017) in order for Council to maximise its return on capital investment on RPT infrastructure costs.

Background

The Council endorsed Illawarra Regional Airport Strategic and Business Plan included Strategy 5.4 (1). This strategy is to “Conduct a Market Demand Study and if warranted, develop a Marketing Plan that proactively promotes/attracts RPT and/or air-freight business to the Illawarra Regional Airport”.

Ailevon Pacific Aviation Consulting was appointed to undertake a Market Demand Study and due to the positive results contained within that report, a follow-on business case was commissioned outlining the cost and benefits of introducing these services (refer to **Attachment 1**).

Implications/Considerations

As stated above, Ailevon Pacific Aviation Consulting was appointed to produce a report containing a business case outlining the cost and benefits of introducing RPT services.

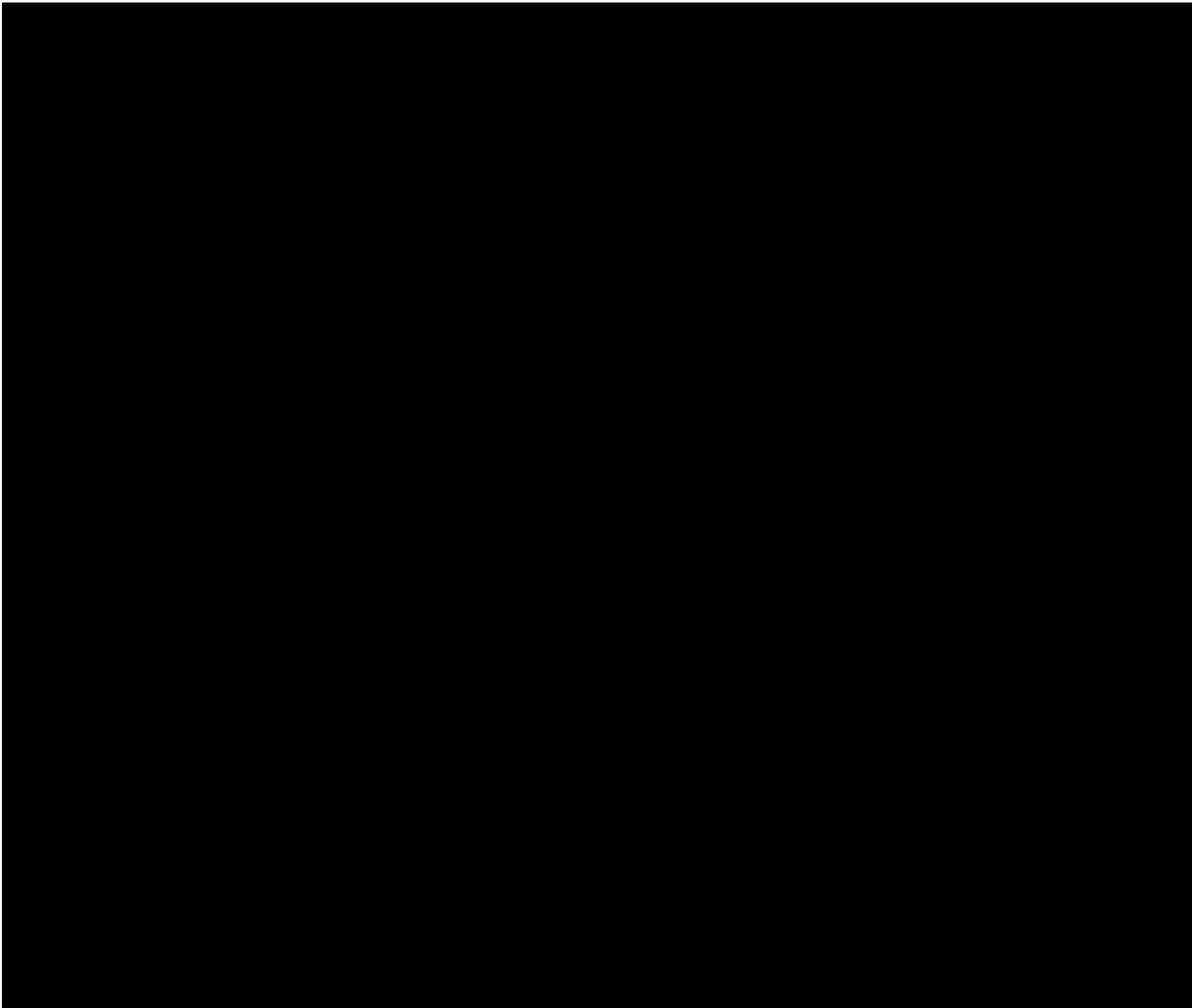
The report reviews a number of Options as follows:

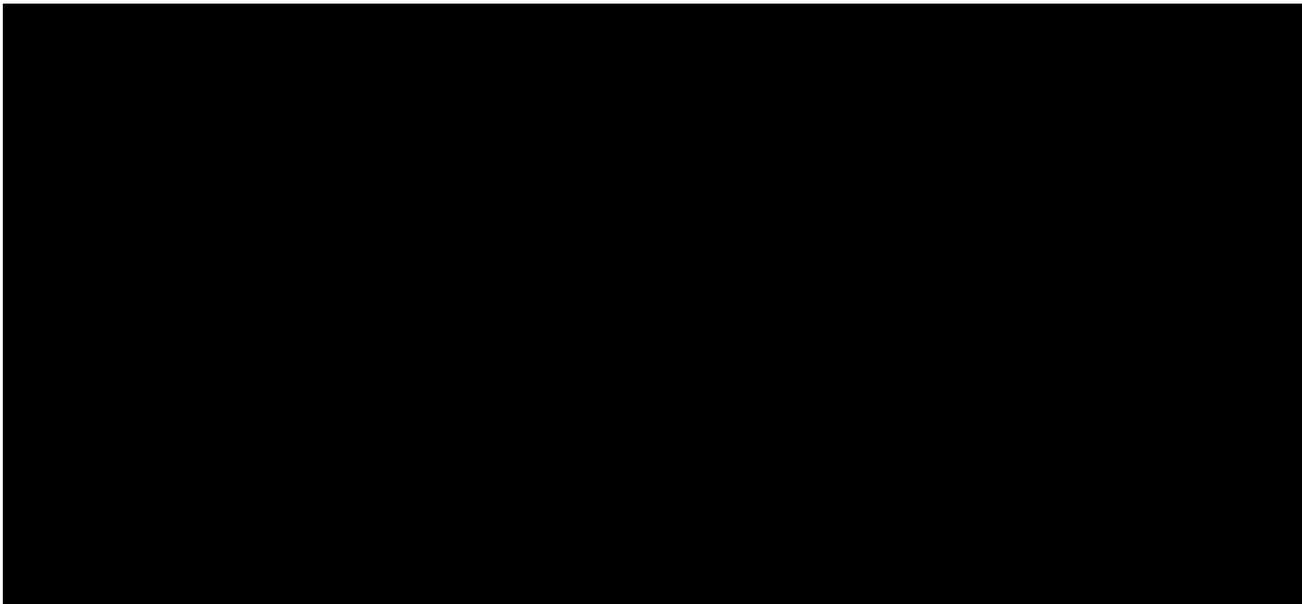
- Option 1a: [REDACTED] – start up now
- Option 1b: [REDACTED] – start up once trigger point is hit.
- Option 1c: [REDACTED] – start up now
- Option 2: [REDACTED]
- Option 3: [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]





[Redacted text block]

[Redacted text block]

Current Situation

Following a review of the business case and discussions with the consultants, Council staff concluded that the business case supports a decision for business development at the airport under a self-funding model. Thus Option 1a is the preferred Option. It is financially beneficial to implement this option as soon as possible as it is not reliant on major infrastructure upgrades. [Redacted]

[Redacted text block]

It is recommended that once Option 1a hits a trigger point [Redacted] passengers on an annualised basis, Option 1b should be proceeded with subject to the infrastructure requirements being funded and in place. [Redacted]

[Redacted text block]

Funding for Option 1b

Council officers arranged for a special meeting of the Business Unit Advisory Board (BUAB) that was held on Monday 29 November 2016 with the Member for Kiama and Parliamentary Secretary for the Illawarra, Gareth Ward MP in attendance. [Redacted]

[Redacted text block]

Another funding possibility involves making a grant application to the Federal Government's Building Better Regions program. This program provides Council with an opportunity to apply for dollar for dollar grant funding.

A third option is for Council to make an allocation to fund these improvements through its annual budget process or apply for an external loan supported by the positive NPV forecast. Should funds not be available from the asset improvement program or other internal sources, a loan could be taken out over a 10-year period and repaid from profits made from the operation.

It is also noted that in order to increase Council's ability to have grant funding requests accepted by Government, it needs to invest up front in getting Option 1b shovel ready with completed designs and DA approval for the required upgrades.

RPT Operators

Council staff has had unsolicited contact with a number of airlines expressing interest in starting RPT services at the Airport. [REDACTED]

Based on our observations and experience with regional airports it is normal for more than one airline to operate out of an airport. Table 2 below lists a sample of regional airports with RPT services and the airlines operating from the airport.

Table 2: RPT Operators at Regional NSW Airports.

Armidale	Fly Corporate / Qantas / REX
Wagga	Qantas / REX / Jetgo
Albury	Qantas / REX / Virgin/ Jetgo
Dubbo	Fly Pelican / Jetgo / Qantas / REX
Tamworth	Fly Corporate / Jetgo / Qantas / Virgin
Port Macquarie	Qantas / Jetgo / Virgin

Council staff will continue discussions with the larger and more infrastructure demanding airlines to determine their interest in operating from our airport. [REDACTED]

[REDACTED] The business case data Council has commissioned combined with some certainty regarding its infrastructure renewal program should enhance their interest so Council will make contact again to discuss the findings.

Timelines

The following Table 3 sets out the key actions needed to occur to enable Option 1a, RPT services to commence. Proposed completion dates are noted.

Table 3: Key Actions and Completion Dates to Implement Option 1a.

	Commence	Completed
DA Temporary Terminal	Pre - lodgement January 17	Prior to June 2017
Transport Security Program	90% completed –submit for approval Jan-Feb 17	Approval April 17

Security Equipment	Tender / order May 17	One month prior RPT services
Security Staff	Tender April 17	Staff in place week prior RPT
Fencing	April 17	April 17
Emergency Generator	May 17	May 17
CCTV	May 17	May 17
Pavement Marking Layout	May 17	May 17

Note: All key actions would be finalised prior to 30 June 2017.

The following Table 4 sets out the key actions needed to occur to enable Option 1b, [REDACTED] services, to commence and proposed completion dates are noted.

Table 4: Key Actions and Completion Dates to Implement Option 1b.

	Commence	Completed
Terminal design / engineering design and tender specifications	February 2017	June 2017
Car Park design and tender specifications	February 2017	March 2017
Apron and taxiway design and tender specifications	February 2017	March 2017
DA new terminal	June 2017	December 2017
TRIGGER POINT – See note below.		
Apron and taxiway tender	2 month task	
Apron and taxiway construction	4 month task	
Tender for terminal construction	2 month task	
Terminal construction	12 month task	
Car Park tender	2 month task	
Car Park construction completion	3 month task	
Security Equipment	3 month task	

Note: All key actions would be finalised 12 months after the trigger is reached.

Trigger: No further work would take place until trigger points associated with [REDACTED] were in place. [REDACTED] Once this trigger point has been reached, and assuming no grant funding has been received, a report would be submitted to Council for the consideration of funding to commence Option 1b infrastructure upgrades.

Given the preceding comments, the recommended immediate strategy moving forward is as follows:

1. Council introduce as soon as practical basic RPT Services (Option 1a) [REDACTED] in a temporary terminal building. This business performance is expected to provide evidence to Government that RPT services are worth investing in and would have a better chance of obtaining support for any future funding applications for airport infrastructure upgrades

to accommodate up to 200,000 passengers/year to lessen road and rail network congestion to Sydney Airport from the Illawarra region.

- 2. Option 1a RPT Services would be funded via utilising \$770k from the Terminal Building reserve to upgrade infrastructure items indicated in Table 1 above.

█ [REDACTED]

- 4. Allocate funding of \$200,000 to enable up front work to occur in relation to moving Option 1b to a shovel ready state. The funds are required to commission consultants to undertake design development and provide documentation through to DA and construction certificates for new terminal and other infrastructure improvements. This will also fund engineering advice, quality surveyors and geo technical work. [REDACTED]

[REDACTED]

Financial / Resources Implications

The following additional income and expenditure impacts are estimated to occur.

- 1. Short Term: Adoption of Option 1a [REDACTED] - within 6 to 9 months.

[REDACTED]

[REDACTED]

Additional Infrastructure Expenditure: Recommended Option 1a [REDACTED] The cost of introduction is estimated at \$770k as per Infrastructure Upgrade Table 1 in this report. The recommended funding source is a transfer of funds from the existing Council reserve holding insurance proceeds associated with the old terminal building.

As previously reported, Council currently holds in reserve approximately \$1.3m for the rebuilding of the airport terminal building. Subject to Council agreement, these funds may be redirected to other infrastructure upgrades that are airport related.

1. Long Term: Adoption of Option 1b [REDACTED] being achieved and commitment from Airline company with future growth commitment.

[REDACTED]

[REDACTED]

Additional Infrastructure Expenditure: Recommended Option 1b provides for long term infrastructure sufficient to cater for up to 200,000 passengers. The cost of this is estimated [REDACTED] Infrastructure Table 2 in this report, although \$0.7m will have been already incurred via starting up Option 1a. Potential funding sources are as follows:

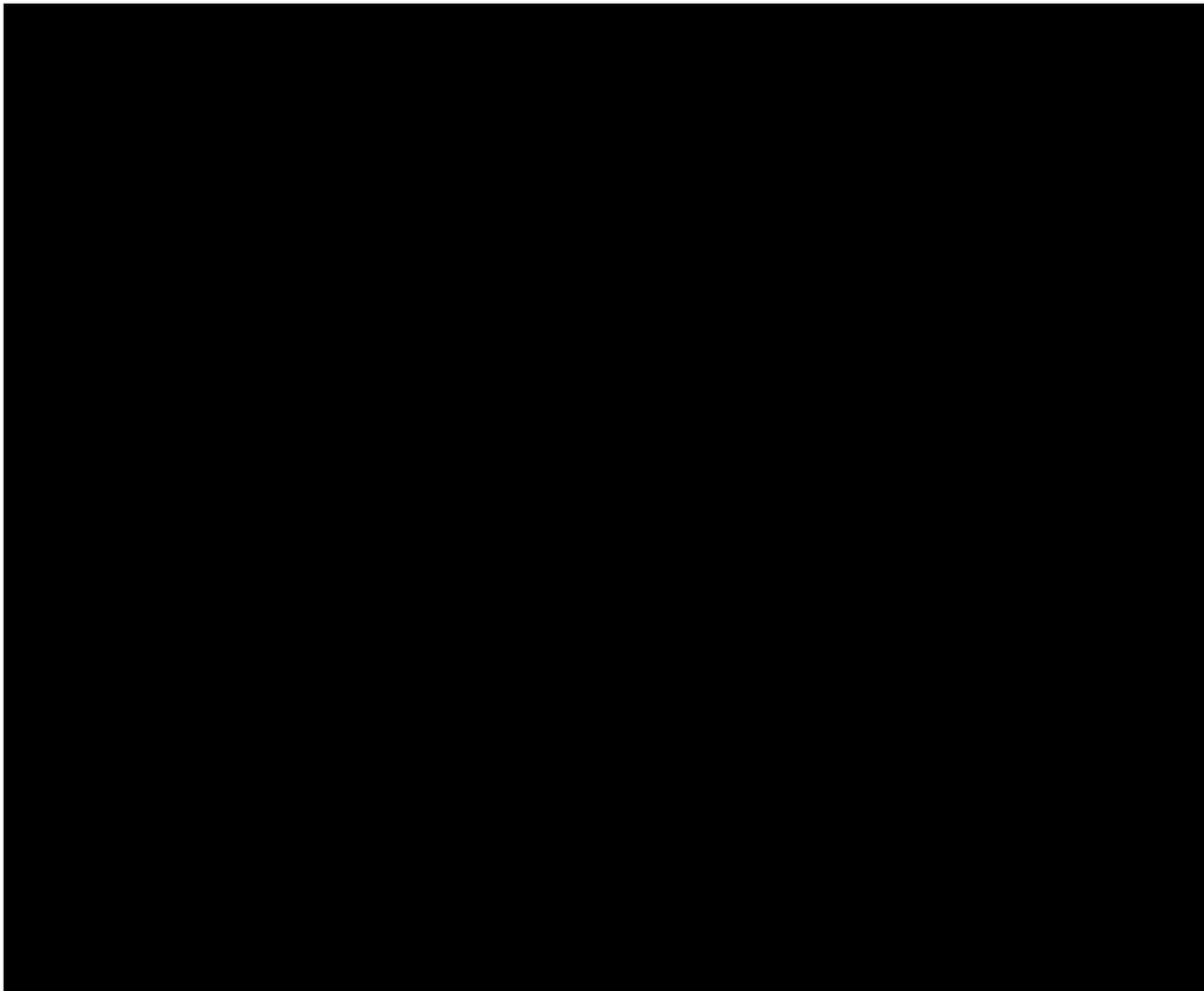
- a. Successful grant application via NSW Government 'Poles and Wires' funds. It is assumed that Council would need to contribute some funding for this grant to be secured, however no formal discussions on this subject have been held.
- b. Successful grant application via Federal Governments Building Better Cities program. Note: This is the renamed National Stronger Regions program. This funding if secured would be based on dollar for dollar commitment by Council.
- c. Allocation via Council's Long Term Financial Plan. [REDACTED]

From a Fit for the Future (FFF) Operating Performance Ratio basis, Options 1a, 1b and 1c have additional annual operating costs totalling \$492k as outlined in Table 5 below. However assuming the projected income cash flows, as outlined in the business case can be achieved, it will more than cover these annual costs thus having an overall positive impact on Council's annual Operating Performance Ratio.

[REDACTED]

[REDACTED]

[REDACTED]



Legal and Policy implications

Nil

Public / Social Impact

The reintroduction of RPT is a component of the endorsed Illawarra Strategic and Business plan, which was completed with community input. Once in place this service will provide a public benefit by the reduction of road bottlenecks through Albion Park and south Sydney for passengers currently driving to Sydney Airport from the Illawarra and southern regions.

Council Decision Making During Merger Proposal Periods – Section 23A of the Local Government Act 1993.

The Office of Local Government's document *Council Decision Making During Merger Proposal Periods* states:

- "Council's the subject of merger proposals should not enter into a contract or undertaking involving the expenditure or receipt by the council of an amount equal to or greater than \$250,000 or 1% of the Council's revenue from rates in the preceding financial year (whichever is the larger), unless:

- The contract or undertaking is entered into as a result of a decision made or procurement process commenced prior to the start of the merger proposal period; or
- entry into the contract or undertaking is reasonably necessary for the purposes of:
 - meeting the council's ongoing service delivery commitments to its community; or
 - to implement an action previously approved under a council's Delivery Program or the Operational Plan for the relevant year.

In this instance, the funding of the airport is not in breach of the above guidelines because the Illawarra Regional Airport Strategic and Business Plan's implementation was approved in June 2015 and has been continuously implemented over the past two years.

In addition, Council Officers are seeking legal advice in respect of these options and the implications of the Section 23A guidelines issued by the NSW State Government.

Link to Community Strategic Plan

This report supports the following objectives and strategies of the Community Strategic Plan:

Objective: 2.3 A liveable City that is connected through places and spaces

Strategy: 2.3.6 Deliver sustainable management of the community's assets for current and future generations

Consultations

Internal

Airport Manager
Acting Chief Financial Officer

External

Ailevon Pacific Aviation Consulting
Business Unit Advisory Board

Political Donations Disclosure

Not Applicable

Recommendation

That Council:

- 1. Confirm its consideration of the guidelines issued by the NSW Government in accordance with Section S23A of the Local Government Act, 1993, in resolving on this matter.**
- 2. Endorse the introduction of Regular Passenger Transport Service to the Illawarra Regional Airport as per Option 1a of the Business Case for Regular Passenger**

Transportation Services at Illawarra Regional Airport at a budget start –up cost of \$770k borrowed from Terminal Building Insurance reserve funds.

3. **Endorse Council officers entering into negotiations with an appropriate Regional Airline Operator/s to secure RPT services under Option 1a of the Business Case for Regular Passenger Transportation Services at Illawarra Regional Airport.**
4. **Endorse Council officers to proceed with a grant application to the NSW Government outlining the full Regular Passenger Transport business case including infrastructure requirements as per Option 1b in the Business Case for Regular Passenger Transportation Services at Illawarra Regional Airport, which provides for complete infrastructure renewal including new Terminal building.**
5. **Endorse Council officers to proceed with a grant application to the Federal Government Better Building Fund as per Option 1b in the Business Case for Regular Passenger Transportation Services at Illawarra Regional Airport, which provides for complete infrastructure renewal including new Terminal building.**
6. **Endorse Council officers to proceed with design and DA approval work associated with implementing Option 1b with a capital project budget of \$200,000 for this purpose. Funding to be sourced from the reserve created from the proceeds from sale of Lot 5 Hargraves Ave, Albion Park.**
7. **A further report to Council be prepared once the trigger point identified in this report is reached for the consideration of funding of Option 1b.**

Approved for Council's consideration:



Date of Meeting: 7 February 2017

Attachments

1. A Business Case for Regular Passenger Transportation Services at Illawarra Regional Airport.