

REGIONAL AIRPORTS

CONTRIBUTING TO AND CONNECTING
OUR COMMUNITIES



The Australian Airports Association (AAA), with support from the Australian Local Government Association (ALGA), the Regional Aviation Association of Australia (RAAA), and the Australian Logistics Council (ALC), are seeking direct Federal Government funding support for essential infrastructure at regional airports.

WHY ARE REGIONAL AIRPORTS IMPORTANT?

45% of
Australia's tourism

It is estimated that regional Australia accounts for **45 per cent of Australia's tourism industry**, with regional airports being a critical enabling gateway.



360,000+ flights

In 2016-17, domestic RPT aircraft movements were in **excess of 1.2 million**. Of this, over 360,000, or **nearly 25%**, were to or from an airport in **regional Australia**.



15m
passengers



Domestic passengers account for around 117 million trips per year. **Regional passengers** are estimated to make up 12 per cent of this total, or 15 million passengers per year.

500
aircraft



Across Australia, airports house more than 500 aircraft available to be deployed for **firefighting** duties.



4450 jobs

Regional airports directly employ **over 1700 full-time workers** and support an additional 2750 jobs.



over
6000

Over 6000 **emergency evacuations** are facilitated by regional airports a year.

WHAT HAPPENS TO REGIONAL AIRPORTS WITHOUT FUNDING?

Sub
optimal
safety



Many regional airports are operating runways and infrastructure that is **70+ years old**, with substantial upgrades needed to meet modern aviation safety standards.

Regional
isolation

Regional communities **risk being cut off** from health care, education, economic and travel opportunities.



Infrastructure
deficit

There is an estimated **\$170 million shortfall** in infrastructure funding over the next 10 years, with **costs to increase by 40 per cent** over the same period.



CASE STUDIES



SAFE AIRPORT INFRASTRUCTURE

Towards the end of 2017 CASA undertook a surveillance inspection at Moree Airport and issued a number of safety findings about the condition of all pavements at the airport, relating to:

1. Pavement irregularities and settlement deformation
2. Loss of frictional characteristics of the pavement
3. Poor ride quality

Because Moree sits on highly reactive black soil, the pavement surface quickly develops minor depressions and deformations. Steps to correct identified minor pavement deficiencies in the past have only resulted in relocating the problem from one area to another. Reconstructing the entire pavement areas (97,000m² of sealed pavement) is well outside of the owner/operator Moree Plains Shire Council's budget, and adhoc efforts have not provided the expected level of endurance. A reconstruction would still not guarantee the absence of some minor 'bird baths' in the finished pavement. Previously any pavement improvements were staggered to take into consideration the availability of funding, as well as the ability to realistically complete all works in one year. The repairs expected by CASA would impact on current and future maintenance programs to a devastating level, as they would need to be completed all at once.

The importance of maintaining Moree Airport to service the regional area as well as itinerant air travellers from around Australia is pivotal to the economy of the Moree Shire, as well as assisting with airport maintenance costs.

In an endeavor to satisfy the requirements CASA's requirements, Council released a request for quotations to provide recommendations on how to proceed with remedial pavement works.

The ability to have access to ongoing government funding to complete pavement works for Moree Plains Shire Council mean that a safer and more reliable infrastructure would be available at Moree Airport for all users.



DRIVING REGIONAL TOURISM

The Fraser Coast Council owned and operated Hervey Bay airport is a prime example of how local government can be encouraged to invest in its airport to support rapid aviation growth, and is then required to continue to upgrade and maintain the asset after a downturn in passenger throughput.

The mid 2000s saw an influx of low-cost airline services, with the likes of Virgin Blue, and Jetstar beginning to deploy aircraft to regional airports from city centres, to target leisure, cost conscious traveller. One of the beneficiaries of this expansion was Hervey Bay. In 2004 the small Queensland tourism centre saw 34,000 passengers pass through its airport. However, the attraction of jet aircraft services from Virgin and Jetstar, led Council to take the bold step to extend the runway to facilitate larger aircraft. In 2005, an investment of \$15 million saw the airport jet aircraft ready and within three years passenger numbers had lifted to 217,000. However, in 2009 the bubble burst with Jetstar withdrawing its services amid the global financial downturn and subsequent downturn in tourism. Passenger numbers fell below 150,000 in 2011 and have slowly recovered in recent years but not to the levels of 2008. However, the cost of maintaining and upgrading the runway and its associated apron and taxiways remains.

While the runway was extended in 2005 by over 500m, it was identified at the time that this area would require further work in future years. When recently investigating the condition of the older part of the runway, it was recommended that Council should overlay the whole of the air strip, the airfield lighting system was also non-compliant because of its age. Due to seasonal weather, the opportunity to complete these projects individually is limited, therefore Council has to consider completing the works at the one time. The combined cost to Council for these projects is likely to be in excess of \$10 million.

Having a safe and compliant airport is essential for a region that relies heavily on tourism for its local economy, and large capital costs such as this take many years to recoup with limited airlines to contribute towards the upkeep.

FINANCIAL CHALLENGES

AERONAUTICAL INFRASTRUCTURE DEFICIT



* This is the funding required for essential repairs and upgrades of runways, taxiways, aprons and lighting systems. This figure is based on a 2016 ACIL Allen Report, using 2014-15 data.

NEW SECURITY INFRASTRUCTURE COSTS



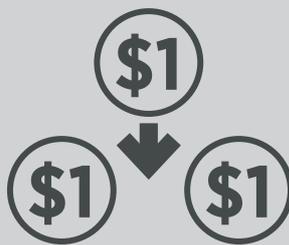
* These are the estimated infrastructure costs for regional airports to meet the Government's new security requirements.

HOW CAN GOVERNMENT HELP? CREATE THE REGIONAL AIRPORT INFRASTRUCTURE FUND (RAIF)

\$100m
for essential infrastructure



This new fund would deliver **\$25 million per year over four years**, to assist regional airports undertake essential aeronautical repairs and upgrades and adapt their infrastructure to meet the Government's security requirements.

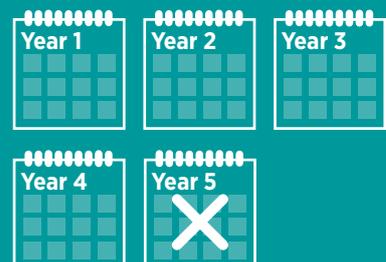


Co-contribution model

As with other Commonwealth funding initiatives, it is envisaged the RAIF would adopt a co-contribution model. This would see **50 per cent** of the funding provided by the Commonwealth, and the remaining **50 per cent** provided by state and local government.

Future-proofing regional Australia

Providing this essential funding assistance will not only ensure regional communities can continue to enjoy safe and efficient air transport, **it will also future proof regional Australia for generations** with infrastructure that drives economic growth.



ELIGIBLE REGIONAL AIRPORTS

*This is only an indicative list.

NSW	Narromine	Horsham	Home Hill	Port Pirie
Adaminaby	Orange	Kaniva	Ingham	Prominent Hill
Albury	Parkes	Kerang	Innisfail	Quorn
Armidale	Peak Hill	Latrobe	Kingaroy	Renmark
Ashford	Port Macquarie	Mangalore	Maryborough (QLD)	Robe
Balranald	Quirindi	Maryborough (VIC)	Miles	Streaky Bay
Barraba	Scone Memorial	Mildura	Millaroo	Tintinara
Bathurst	Tamworth	Mount Hotham	Millmerran	Tumby Bay
Bingara	Taree	Nhill	Monto	
Bombala	Temora	Orbost	Moranbah	TAS
Brobenah	Tenterfield	Patchewollock	Moura	Bruny Island
Broken Hill	Tocumwal	Porepunkah	Mundubbera	Burnie
Casino	Tooraweenah	Port Fairy	Nanango	Cape Barren Island
Cessnock	Trundle	Portland	Nebo	Devonport
Coffs Harbour	Tullamore	Pyramid Hill	Pittsworth	Flinders Island (TAS)
Coleambally	Tumbarumba	Robinvale	Proserpine-Whitsunday	George Town
Condobolin	Tumut	Sea Lake	Coast	King Island
Coolah	Tyagarah	Shepparton	Redcliffe	Queenstown
Coonabraban	Wagga Wagga	St Arnaud	Roma	Smithton
Cootamundra	Warren	Stawell	Southport	St Helens
Corowa	Wellington (NSW)	Swan Hill	Stanthorpe	Strahan
Cowra	West Wyalong	Warracknabeal	Tara	
Crookwell	Wyong	Warrnambool	Thangool (Biloela)	WA
Deniliquin	Young	West Sale	Theodore	Albany
Dubbo		Wycheproof	Toowoomba	Argyle
Evans Head	NT	Yarram-Parkside	Tully	Balgo Hill
Gilgandra	Batchelor	Yarrowonga	Warwick	Beverley
Glen Innes	Eva Valley		Windorah	Boolgeeda
Goolgowi		QLD		Boyup Brook
Goulburn	VIC	Atherton	SA	Bunbury
Grafton	Apollo Bay (Marengo)	Ayr	Bordertown	Busselton
Griffith	Ararat	Biggenden	Coonawarra	Cervantes
Gunnedah	Bacchus Marsh	Boonah	Kadina	Collie
Harden	Bairnsdale	Bowen	Kangaroo Island	Cranbrook
Hay	Ballarat	Bundaberg	Keith	Cunderdin
Illawarra	Benalla	Caloundra Aerodrome	Kingston SE	Denmark
Inverell	Bendigo	Charters Towers	Lucindale	Dongara
Jindabyne	Birchip	Chinchilla	Maitland	Dowerin
Kempsey	Boort	Clare	Millicent	Fortescue Dave Forrest
Lake Cargelligo	Cobden	Dalbeg	Minnipa	Jurien Bay
Lismore	Cohuna	Dalby	Moomba	Kellerberrin
Merimbula	Colac	Dulacca	Mount Gambier	Kojonup
Moree	Corryong	Eidsvold	Naracoorte	Leonora
Moruya	Donald	Emerald	Padthaway	Mingenew
Mudgee	Echuca	Gayndah	Peterborough	Narrogin
Narrabri	Edenhope	Herberton	Port Augusta	Quairading
Narrandera	Hamilton	Hervey Bay	Port Lincoln	Wongan Hills

SUPPORTERS



REPORT TO
AUSTRALIAN AIRPORTS ASSOCIATION
SEPTEMBER 2016

REGIONAL AIRPORT INFRASTRUCTURE STUDY



ECONOMIC CONTRIBUTION AND
CHALLENGES OF REGIONAL AIRPORTS
IN AUSTRALIA



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EXECUTIVE SUMMARY

ACIL Allen Consulting (ACIL Allen) was commissioned by the Australian Airports Association (AAA) to conduct a study on the economic contribution of regional airports and the economic challenges they face in operating and maintaining these airports, and in ensuring that future developments will enable them to continue meeting the needs of the communities they serve.



Key findings from this report

- Regional airports **play vital social and economic roles** in local communities across Australia.
- Regional airports across Australia **invested \$185 million in 2014-15** to maintain and improve operations.
- These airports **induced another \$83.4 million in spending** in the rest of the Australian economy.
- Regional airports across Australia **employed 1,720 FTEs** in 2014-15.
- These airports **induced the employment of another 2,750 FTEs** in the rest of the Australian economy.
- Many regional airports owners face **financial stress from the costs of maintaining and operating** the airport.
- Regional airports also **face great challenges in upgrading facilities** to meet future aviation needs.
- On average regional airports **had a 6 per cent funding gap** in 2014-15 between the expenditure required to operate the airport and subsequent revenue collected from its operations.
- The **funding gap** was 3.4 per cent for Regular Public Transport (RPT) airports and 45.6 per cent for non-RPT airports.
- **61 per cent** of regional airports **had budget deficits** in 2014-15.
- **Expenditures** at regional airports are **expected to rise by 38 per cent** over the next decade.
- **Nearly 40 per cent** of regional airports **expect persistent budget deficits** over the next 10 years.
- Across Australia's regional airport network, it is expected that **the annual budget deficit will be \$17 million per year**, equating to a **\$170 million shortfall** in essential infrastructure and maintenance funding at regional airports over the next 10 years.

The purpose of this report is to provide an indication (based on quantitative analysis and actual data) of the financial challenges facing many of Australia's regional airports, while recognising both their economic and social contributions to regional Australia.

Economic and social contributions of regional airports

Importance of regional airports

The network of airports across major urban centres and regional areas constitute an integral part of Australia's economic infrastructure and are critical to connecting communities and enhancing broader economic performance.

Regional airports play vital roles in sustaining regional economies and communities, enabling access to specialist health, education, commercial and recreational facilities, and facilitating social connections. Regional airports are also a key facilitator of tourism, which is a significant economic driver for many regional communities.

RPT and charter flights operating from regional airports facilitate efficient development of Australia's natural resources, weekly bringing many thousands of FIFO workers to distant mines and development sites from both capital cities and other regional centres.

Regional airports save lives by facilitating medical evacuations, collection and delivery of organ donations and search and rescue. They also protect Australia's physical assets by enabling firefighting in areas where road transport is impossible or would be too late.

Regional airports also generate catalytic economic impacts by facilitating increased competition because of readier access to alternative suppliers, enhancing innovation through access to a wider range of skills and human resources, enabling a more flexible labour market and facilitating more efficient interaction between different levels of government.

Expenditure by regional airports

Regional airports make significant economic contributions to local and regional economies, both through their direct expenditures as well as through the flow-on effects of these expenditures.

Of the airports that responded to ACIL Allen's regional airports survey, 36 airports (with representation across each jurisdiction) provided information on their expenditures in 2014-15. On average, the operators of the RPT airports spent \$2.37 million in 2014-15, while the operators of the non-RPT airports spent \$182,000. This expenditure is purely for the day-to-day operation and maintenance of the airport and does not take into account capital works and infrastructure upgrades.

On average, the survey found that non-wage maintenance costs made up 25 per cent of the total expenditure of the regional airports with RPT services. The share of non-wage maintenance costs is even higher at non-RPT regional airports, with an average share of total expenditure of 49 per cent. That is, the most significant cost to an airport is routine maintenance, which demonstrates the difficulties regional airports (especially small regional airports with no RPT services) face in just maintaining an operational aerodrome.

ACIL Allen estimates that the total expenditure by the operators of all regional airports with fewer than 500,000 passenger movements per annum was approximately **\$185.4 million** in 2014-15. This represents a significant injection into regional economies and communities across Australia.

According to previous work undertaken by ACIL Allen on regional airports using Computable General Equilibrium (CGE) and input-output analysis, it is estimated that the expenditure of regional airport operators with fewer than 500,000 passenger movements per annum induced an **additional \$83.4 million** in spending in the rest of the Australian economy.

At the individual airport level, ACIL Allen estimates that a typical regional airport with RPT services induces approximately \$830,000 in spending in the rest of the Australian economy per annum, while a non-RPT regional airport induces approximately \$64,000 in spending in the rest of the Australian economy per annum.

Regional airports play vital social and economic roles in local communities across Australia

Regional airports across Australia spent \$185 million in 2014-15

These airports induced another \$83.4 million in spending in the rest of the Australian economy

Employment by regional airports

Regional airports across Australia employed 1,720 FTEs in 2014-15

Regional airports also provide significant employment in local and regional economies. Based on the information collected for this report, ACIL Allen estimates that the total employment at all regional airports in Australia with fewer than 500,000 passenger movements per annum was approximately 1,720 FTEs in 2014-15.

These airports induced the employment of another 2,750 FTEs in the rest of the Australian economy

According to previous work undertaken by ACIL Allen on regional airports using CGE and input-output analysis, it is estimated that the employment at regional airports with fewer than 500,000 passenger movements per annum induced the employment of an additional 2,750 FTEs in the rest of the Australian economy.

Key challenges faced by regional airports

Australia's regional airports face significant challenges in maintaining the service they provide to their local communities. Many regional airports in Australia are operating at a loss each year, and are heavily dependent upon cross-subsidisation by their local government owners who face multiple and competing demands on their limited financial resources.

Many regional airport owners face financial stress from the costs of maintaining and operating them

Far from being passive assets, airports must be actively managed and competently operated. Maintaining and operating airports in accordance with regulatory requirements can impose significant financial impacts on the airport operator. Runways and taxiways must be maintained to high standards and might need to be enlarged, strengthened or replaced when traffic grows and heavier aircraft seek to use the airport. Airport lighting and navigation aids also need to be maintained to ensure safe air navigation. The costs of maintaining a regional airport are therefore considerable (and increase with distance from major urban centres), particularly when viewed in the context of a local government budget.

Regional airports also face great challenges in upgrading facilities to meet future needs

Upgrading regional airports to meet future needs is also highly challenging. Infrastructure requirements for both terminal facilities and runway maintenance have increased over time as a result of the trend towards larger and heavier aircraft on regional routes. Predicting future use at regional airports is inherently difficult and uncertain, because aviation is strongly influenced by general economic conditions and unforeseen events such as the discovery of nearby mineral resources. Yet the long lead-in times mean that airports are required to identify periodic expansion investments well in advance of forecasted shortfalls in order to facilitate broader economic development from tourism, resources development or other industries.

Facing competitive pressures themselves, airlines seldom commit to particular activity levels and might withdraw from a route due to lower than anticipated demand, well before the cost of upgrading a regional airport could be recovered, leaving the local government with an expensive stranded asset.

Current revenue shortfalls

The funding gap was 3.4% for RPT airports and 45.6% for non-RPT airports

Of the airports that responded to ACIL Allen's regional airports survey, on average the RPT regional airports had \$2.28 million in revenues in 2014-15 (compared with an average expenditure of \$2.36 million), which equates to a **3.4 per cent funding gap**. While the operators of non-RPT regional airports had \$99,000 in revenues in 2014-15 (compared with an average expenditure of \$182,000), which equates to a **massive 45.6 per cent gap**.

Most of the revenues collected by regional airport operators are aeronautical-related (such as landing fees and passenger head taxes). Other revenue tended to be receipts from the lease of land to airport tenants, car parking, as well as advertising revenue. According to the survey, the proportion of aeronautical revenue to total revenues is greater at RPT regional airports (74.3 per cent on average) than non-RPT regional airports (51.8 per cent on average).

61% of regional airports had budget deficits in 2014-15

Of the regional airports that provided 2014-15 financial data in their responses to the survey, **61 per cent** experienced deficits in 2014-15, which ranged from \$10,300 to \$3.26 million.

Projected annual expenditure to 2024-25

Expenditures at regional airports are expected to rise by 38% over the next decade

As part of this report, participating regional airports provided projections of annual expenditures over the next 10 years to 2024-25. From the information received, the average expenditure is expected to

increase considerably over time, from \$1.35 million in 2015-16 to \$1.86 million in 2024-25, a rise of **37.8 per cent** over the decade.

Projected funding gaps to 2024-25

According to the survey, **nearly 40 per cent** of regional airports expect to experience persistent budget deficits in the next 10 years.

As there are some 400 regional airports in Australia, ACIL Allen's survey results suggests that approximately 160 of these airports are likely to experience a persistent budget deficit in the next decade.

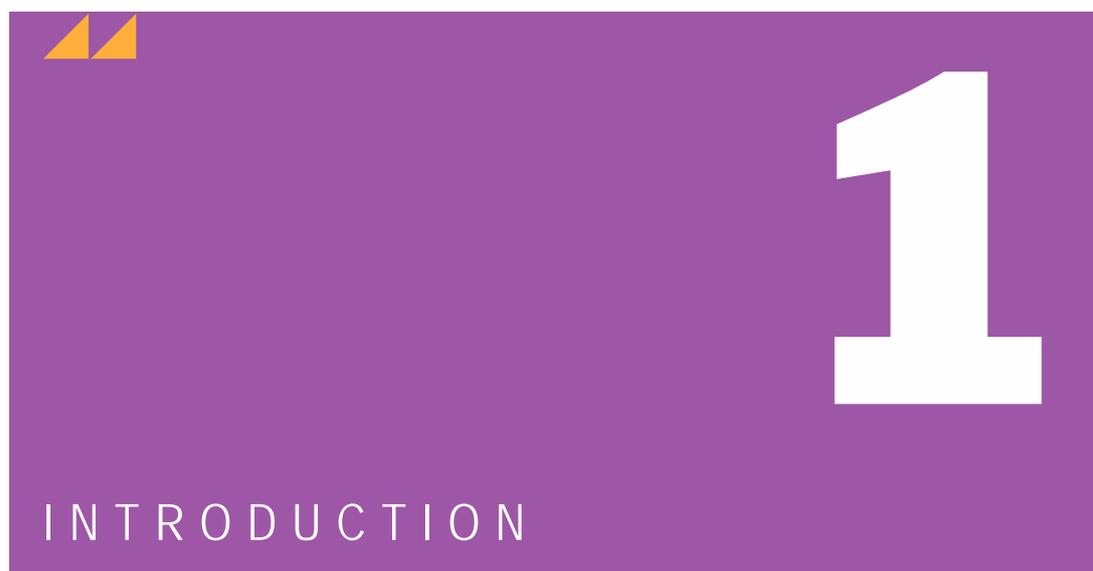
For the airports in the survey that project a budget deficit in the next decade, the average funding gap per year is approximately \$109,000 per year. If this figure is extrapolated to all regional airports in Australia, those that are likely to experience a budget deficit in the next 10 years will have a combined **funding gap of approximately \$17 million per year**. This equates to a **\$170 million shortfall in essential infrastructure and maintenance funding** at regional airports across Australia over the next 10 years.

Consequences of persistent funding gaps

Some of the regional airports experiencing persistent funding gaps will find themselves under increasing financial pressure that might ultimately result in their closure and cessation of operations and service provision.

For many regional communities the local airport is their gateway to rest of the country. Apart from facilitating inbound and outbound tourism, it is also essential for the provision of essential services such as aeromedical transport, aerial firefighting and freight. The consequences to a regional community of an airport no longer being able to facilitate these types of services would be disastrous from both an economic and social perspective.

Nearly 40% of regional airports expect persistent budget deficits in the next 10 years



ACIL Allen Consulting (ACIL Allen) was commissioned by the Australian Airports Association (AAA) to conduct a study on the economic contribution of regional airports and the economic challenges they face in operating and maintaining these airports, and in ensuring that future developments will enable them to continue meeting the needs of the communities they serve.

1.1 Background and context

The network of airports across major urban centres and regional areas constitute an integral part of Australia's economic infrastructure and are critical to connecting communities and enhancing broader economic performance.

Airports are a key facilitator of tourism, which is a significant economic driver for many regional communities. Airports also provide vital services to their communities, including the facilitation of mail and time-sensitive freight deliveries, the Royal Flying Doctor Service, CareFlight, bush taxis, and the transfer of workers to employment centres and job sites. They also facilitate nationally significant air services, such as defence flights and aerial firefighting flights.

However, as noted in the AAA's 2012 report *Australia's Regional Airports: Facts, Myths & Challenges*, despite their importance, Australia's regional airports face significant challenges in maintaining the service they provide to their local communities. Previous studies show that as many as half of regional airports in Australia operate at a loss each year.

The vast majority of regional airports and aerodromes are owned and operated by local government. While councils make every effort to ensure funding is made available for their aerodrome, the reality is that airports must compete with other community infrastructure projects and services for an often very limited pool of funding, particularly capital funding. Unfortunately, this inevitably results in a number of regional aerodromes not having access to the funding they require to maintain and improve infrastructure. In the worst cases this might mean an inability to maintain safe operations and, ultimately, some may be forced to close.

This study, via a number of case studies, investigates the economic contribution of regional airports across the country, assesses their future infrastructure maintenance/upgrade funding requirements against the availability of funding, and demonstrates the costs and benefits of regional aerodrome projects proceeding or not. It builds on previous work that the AAA has commissioned which examined the overall economic and social contribution of Australia's airports (Deloitte Access Economics report, 2012) and the myths, facts and challenges facing regional airports (2012).

The overall purpose of the study is to demonstrate the critical importance of regional aviation to Australia's economy, and to identify the funding shortfall for regional aerodromes to maintain ongoing operations as well as to demonstrate the economic impact this will have on a region.

1.2 Study approach

1.2.1 Survey of regional airports

ACIL Allen undertook a country-wide survey of regional airports that are members of the AAA. A total of 141 airports with fewer than 500,000 passenger movements per year were invited by the AAA to participate in the survey.

The airports were requested to provide information such as:

- Primary role of the airport
- Aircraft and passenger movements in 2014-15
- Passenger mix/composition (business, leisure and VFR)
- Key routes
- Aircraft makes and models handled by the airport
- List of airport tenants and the nature of their business activities
- Revenues (aeronautical and non-aeronautical)
- Expenditures (wages and salaries, administrative costs, utilities/cleaning/security costs, maintenance costs, other costs)
- Expected future revenues and expenditures
- Employment by airport operator
- Key planned future airport projects
- The likely impact of the airport's closure on the community.

The goal of the survey was to elicit information and data that would enable ACIL Allen to estimate the economic contribution of the airport to the local economy through its expenditures and employment.

Of the survey sample of 141 regional airports, 54 responded to the survey (a response rate of 38 per cent). Of these, approximately two-thirds provided detailed financial information to ACIL Allen.

The indirect, flow-on impacts of the surveyed airports were estimated based on the input-output multipliers ACIL Allen had calculated in its previous economic impact studies of airports.

The data collected from the airports participating in the survey were then extrapolated to provide an overall economic assessment of the contribution to the national economy by all regional airports.

1.2.2 Telephone interviews and case study development

ACIL Allen also undertook telephone interviews with a number of regional airports in the course of developing six case studies that highlight particular funding issues relating to the maintenance and future development of these airports.

The purpose of the interviews was to better understand the airport's current and expected future financial situation as well as the nature of key planned projects and the implications of their failure to proceed.

1.3 Report structure

This report is organised as follows:

- Chapter 2 provides an overview of regional airports in Australia, the important roles that they play in the communities they serve, and the key challenges that they face.
- Chapter 3 assesses the economic and social contribution of regional airports in terms of expenditure and employment, and considers the catalytic impacts of regional airports.
- Chapter 4 analyses the current and future funding gaps faced by some regional airports and the likely consequences of regional airport closures, particularly on local communities.



2.1 Regional airports and their diversity

In Australia, there are around 250 airports which receive Regular Public Transport (RPT) services, and some 2,000 much smaller airfields and landing strips scattered across the country.

The Australian Airports Association generally defines regional airports as all airports in Australia other than the principal airports of the State and Territory capitals. Under this broad definition, rural and remote airports are sub-categories of regional airports. For the purpose of this study, which focuses on smaller regional airports, *a regional airport is defined as one with fewer than 500,000 passenger movements in 2014-15.*

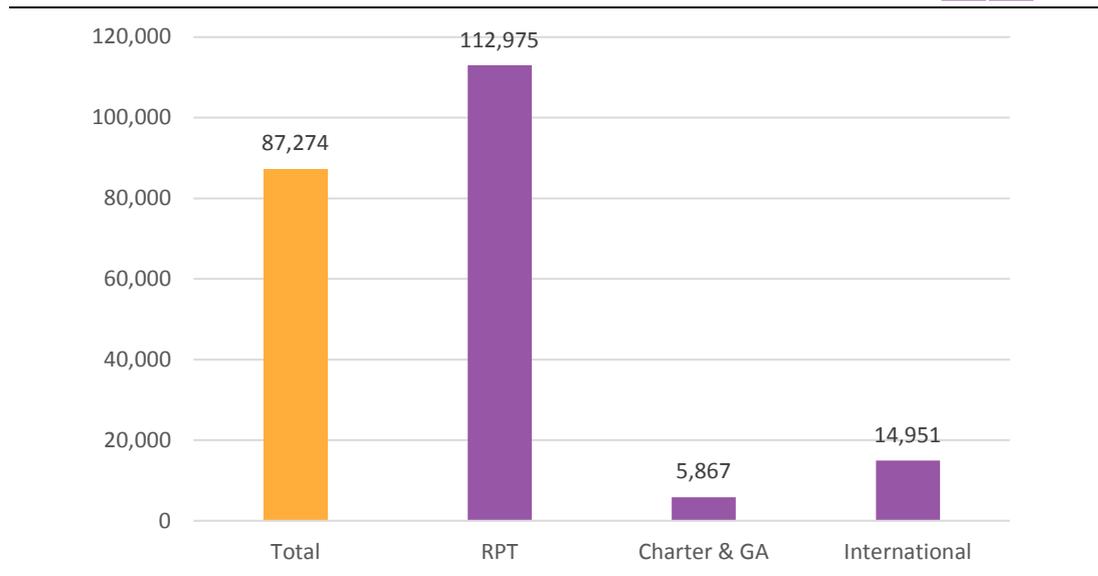
While Australia's largest airports such as Sydney Airport and Perth Airport are leased to and operated by the private sector (albeit owned by the Commonwealth Government), the overwhelming majority of all other Australian airports are owned and operated by the local government authority for the community they serve.

Of those airports that are not government owned, the majority are owned by, and operated for the purposes of, resource extraction corporations. While some airports owned by a local government authority may be operated by the private sector on the authority's behalf, only a handful of Australia's regional airports are both owned and operated by the private sector for general public use.

Among regional airports, there are extreme differences between RPT traffic volumes between airports – from just a few thousand a year to the millions. This can be seen in **Figure 2.1**, which shows average passenger movements in 2014-15 by service type (domestic RPT, charter or General Aviation (GA), and international RPT) of the regional airports that responded to the survey.

Figure 2.1 shows that the average number of passenger movements in the regional airports that responded to the survey was 87,274 in 2014-15. The average is lower for 'total' passenger movements than for 'RPT' passenger movements. This is because some of the smaller airports do not have RPT services (there are 38 respondents to this question in the survey, of which 28 have RPT services).

FIGURE 2.1 PASSENGER MOVEMENTS BY SERVICE TYPE

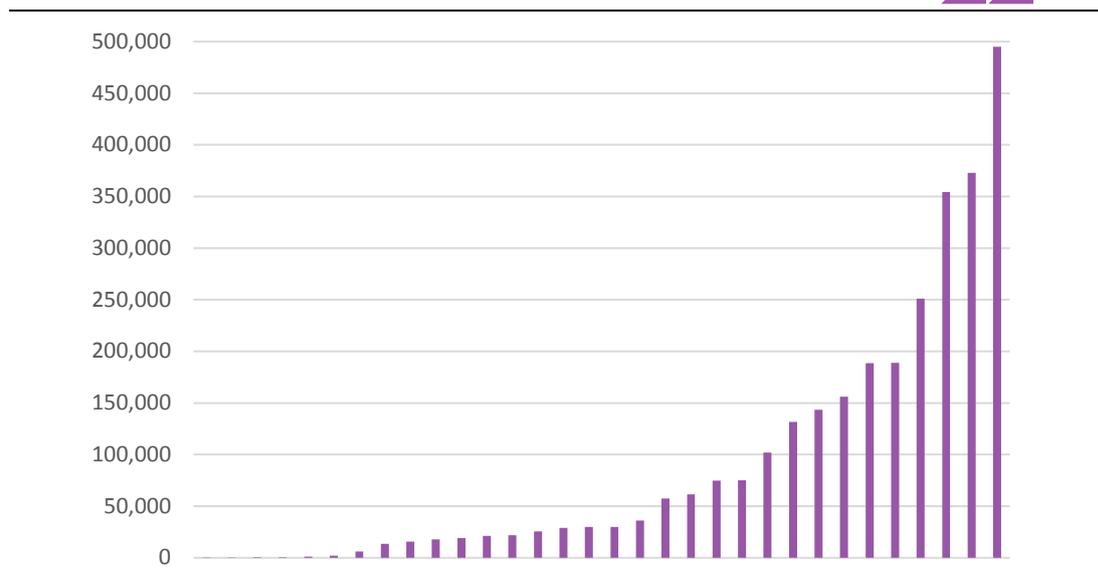


SOURCE: ACIL ALLEN CONSULTING REGIONAL AIRPORT SURVEY

The regional airports that responded to the survey ranged in scale from Bourke Airport in New South Wales (with 100 passenger movements in 2014-15) to Hamilton Island Airport (with 495,000 passenger movements in 2014-15). Half the airports (those between the 25th and 75th percentile) had passenger movements of between approximately 10,000 and 120,000 in 2014-15.

The diversity of regional airports responding to the survey can be seen in **Figure 2.2**, which shows the total passenger movements in 2014-15 for each of these airports, with the fewest passenger movements represented by the leftmost bar in the chart.

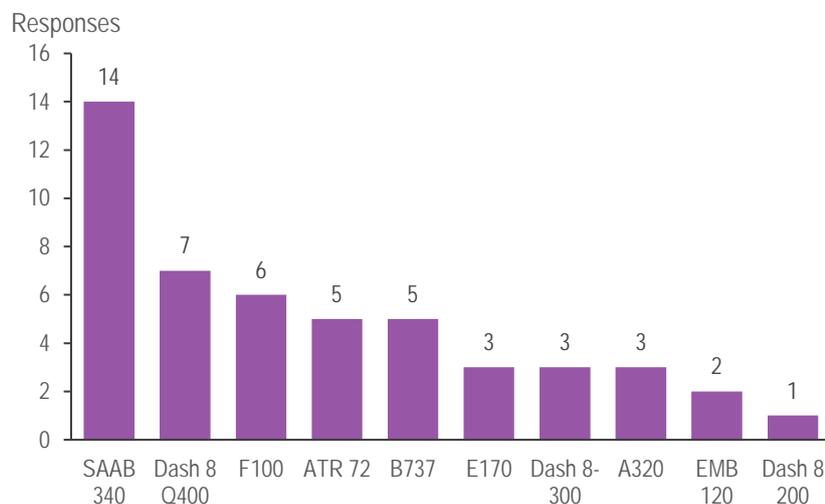
FIGURE 2.2 TOTAL PASSENGER MOVEMENTS IN 2014-15 OF AIRPORTS RESPONDING TO ACIL ALLEN'S REGIONAL AIRPORT SURVEY



SOURCE: ACIL ALLEN CONSULTING REGIONAL AIRPORT SURVEY

The majority of regional and remote airports (approximately 70 per cent) are served by a single airline. As might be expected, the survey indicated that turboprop planes (particularly Saab 340s) are the most common plane type found in regional airports. This can be seen in **Figure 2.3**, which shows the number of airports in the survey that handle each aircraft model.

FIGURE 2.3 POPULAR PASSENGER AIRCRAFT AT REGIONAL AIRPORTS



SOURCE: ACIL ALLEN CONSULTING

While traffic volumes have increased greatly in some regional airports over the last decade (particularly at airports serving the resource sector, although they have been contracting in the last two years with the end of the mining boom), a significant number of regional airports have shown a negative change in that time.

Annual growth in passenger movements is expected to average 3.3 per cent for regional airports out to 2025. Aircraft movements are expected to grow by 1.7 per cent at regional airports over this timeframe.

2.2 Activities facilitated by regional airports

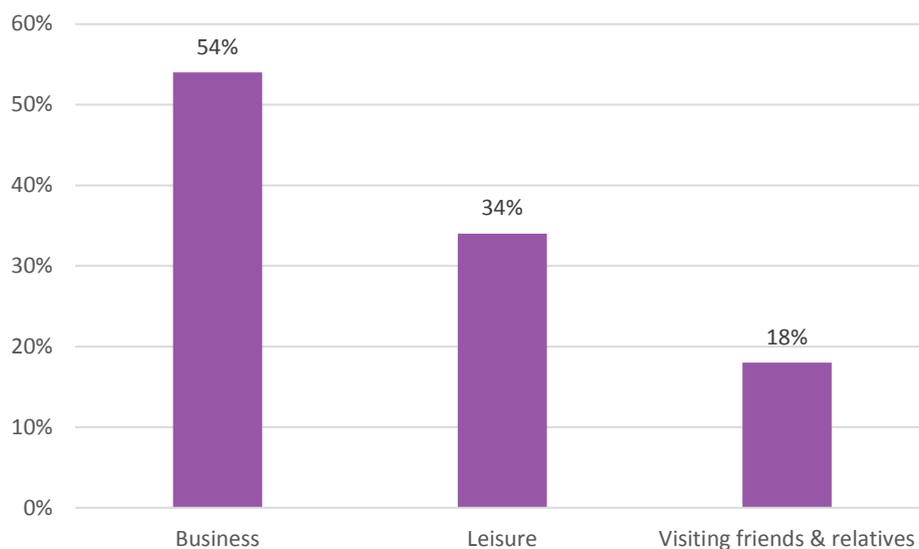
While the 11 largest airports in Australia (all capital city airports, plus Gold Coast, Cairns and Alice Springs airports) account for about 87 per cent of overall passenger traffic and make the greatest economic contribution in terms of direct and indirect employment, the remaining airports (including regional airports as defined previously) play a fundamental role in serving both their local communities and the Australian economy more broadly.

2.2.1 Sustaining regional economies and communities

RPT, charter and private flights from Australia's regional, rural and remote airports allow those who work and live outside the major cities to access the specialist health, education, commercial and recreational facilities that are not economically available where they normally reside; allow travel by health professionals to the regional community; and enable regional residents to maintain and enjoy the pleasure of their relationships with distant families and friends. Regional air services support the attraction of staff to, and their retention in, regional and remote communities by minimising the isolation that can be involved in working away from family and friends.

The importance of business travellers to many regional airports can be seen in **Figure 2.4**, which shows the average proportion of 2014-15 passenger movements related to business, leisure and Visiting Friends and Relatives (VFR) travel across the regional airports that responded to the survey. These proportions varied considerably by airport – for example, the share of business travel ranged from approximately 30 per cent to 80 per cent for the middle half (that is, 25th to 75th percentile) of the survey sample.

FIGURE 2.4 SHARE OF TOTAL PASSENGER MOVEMENTS BY TRIP TYPE



SOURCE: ACIL ALLEN CONSULTING

Regional airports also play a vital role in sustaining remote communities in Australia's northern regions. This important social element has long been recognised by both state/territory and Commonwealth Governments. For example, the Commonwealth House of Representatives' Standing Committee on Transport and Regional Services released a report in 2003 entitled *Regional Aviation and Island Transport Services: Making Ends Meet*, which asserted that:

The Northern Territory, due to its vast expanse and scattered population, arguably depends on air transport to a greater degree than other jurisdictions. Many remote communities are cut off for extended periods due to harsh weather conditions, with their air services providing the only link to the outside world... In many cases regional air services are actually an essential service.

In this regard, the maintenance and development of regional airports play a critical social role for many people in the Territory (and in the more remote parts of Queensland and Western Australia). An important part of that role is its contribution to economic development in remote areas and regional centres. This is especially relevant for Indigenous employment and wealth building, which is fundamental to reducing disadvantage and to making sustainable improvements to social and economic conditions. To drive that Indigenous economic development, engagement in the economic mainstream is essential and regional airports are key facilities that service and support remote economic activities.

An example of a regional airport in a remote location that facilitates critical services for regional communities is Gove Airport in the Northern Territory (see **Box 2.1**). Despite being a critical airport for services in the NT, Gove Airport runs a continual deficit that is managed by additional funding from Rio Tinto. The continuation of critical service provision for local communities is thus contingent on the ongoing viability of Rio Tinto's mining operations in the region, which depend partly on global factors beyond the company's control.

BOX 2.1 GOVE AIRPORT

Located on the Gove Peninsula in the Northern Territory, Gove Airport is a privately owned and operated airport that primarily services the local community as well as the Rio Tinto mining operations in Nhulunbuy. It currently caters for around 2,000 RPT flights per annum, carrying around 63,000 passengers to locations such as Darwin, Cairns and Groote Eylandt. It also services nearly 14,000 charter and GA flights. It is expected that this year there will be around 17,000 charter and GA flights due to the establishment of two new operators and four new planes.

Most air traffic is associated with the location of crucial regional services in the town. Gove is a regional hub for the surrounding Aboriginal communities including Yirrkala who visit the town for medical and education purposes, to stock up on supplies and to visit family and friends. A large amount of air traffic is therefore associated with the transfer of people to and from communities, including visiting government workers and other related workers from around Australia. Rio Tinto, which employs around 500 staff as well as visiting contractors, is also a major user of the airport.

The Airport caters for international flights in the case of emergencies, as well as Defence Force flights.

While the financial information for the Airport is considered commercial-in-confidence, the Airport has advised that it runs at a deficit with the shortfall provided by Rio Tinto. Revenue is received from aeronautical sources as well as from approximately 16 tenants located at the Airport. These tenants include RPT operators, a large number of general aviation operators, car hire companies and several food and drink outlets.

The Airport identified two main projects that were undertaken recently or will be undertaken in the near future. The more significant of these was recently completed and involved the resealing of the pavement on movement areas. The works cost around \$2.5 million and were funded through airport revenue. The other is expected to be undertaken in 2017 and will improve drainage to avoid flooding of aprons during high rainfall events.

SOURCE: GOVE AIRPORT

2.2.2 Natural resources and agriculture

RPT and charter flights facilitate efficient development of Australia's natural resources, weekly bringing many thousands of "fly-in, fly-out" (FIFO) workers to distant mines and development sites from both capital cities and other regional centres. In 2011, approximately half of the 90,000 people employed in the Western Australian mining industry participated in FIFO arrangements, where they live in a city and fly in to a remote workplace during their work roster.

Regional airports also benefit the agricultural sector. Australia's vegetable and animal produce is significantly enhanced by aerial agriculture services like crop dusting, aerial baiting and mustering, which are operated from regional airports.

An example of an airport that has significant FIFO services is Ceduna Airport in South Australia (see **Box 2.2**). This makes the airport's funding stability partially reliant on the resource sector, whose fortune is particularly susceptible to change. While Ceduna Airport has managed to maintain steady operations, it would benefit from the ability to access additional funding opportunities to ensure that it can continue delivering benefits for the local region, particularly in the event that the resource sector declines.

BOX 2.2 CEDUNA AIRPORT

Located on the west coast of the Eyre Peninsula in South Australia, Ceduna Airport is an isolated airport owned and operated by the Ceduna District Council. It hosts around 12 RPT flights per week to Adelaide, carrying nearly 22,000 passengers per annum. There are also over 2,000 charter and GA flights per annum. These flights involve the transfer of mine employees as well as tourism related flights. The Airport also caters for a number of crucial air services including for the Defence Force, the RFDS and aerial firefighting planes. The nearby Jacinth Ambrosia mine has recently announced job cuts which will impact the number of charter flights through the Airport.

There is a BP fuel tank located at the Airport, which is operated by the Council. This fuel facility is used by charter companies and visiting planes including RFDS and aerial firefighting planes.

The Airport currently covers all costs mainly through head charges from RPT flights. Significant amounts of revenue are also received from landing charges and hangar and parking income, as well as smaller amounts from the lease of land and through advertising. Tenants include air charter, car hire and fuel companies. The Airport forecasts that revenue and costs will remain roughly constant in the future.

The Airport is about to commence works on the rejuvenation of its runway as it has begun to deteriorate. This project is being funded through cash reserves and will extend the life of the runway by around five years. All other identified projects are more long-term in nature and relate to the redevelopment of the Airport to include a new terminal, a realignment of the taxiway and the construction of a new runway. These developments are required for the Airport to be able to cater for larger aircraft and to meet compliance regulations. It is expected that the redevelopment could be part funded through the sale of land as part of the redevelopment, as well as through cash reserves, loans and grants.

SOURCE: CEDUNA AIRPORT

2.2.3 Medical emergencies, firefighting and law enforcement

Particularly in regional Australia, airports play an essential role in saving lives by facilitating medical evacuations, collection and delivery of organ donations, and search and rescue. For example, the Royal Flying Doctor Service (RFDS) (with over 60 aircraft operating out of 23 bases across the country) is a not-for-profit organisation which offers healthcare to those people who are unable to access a hospital or basic general practice due to their extreme geographic isolation.

Regional airports also play a vital role in protecting Australia's physical assets – enabling firefighting in areas where road transport is impossible or would be too late.

Law enforcement bodies, such as the Western Australia Police Air Support, and border protection agencies operate out of Australia's regional airports, particularly in Northern and Western Australia.

In addition, aerial survey and aerial photography activity often requires access to regional airports.

2.2.4 Flight training and recreational flying

Australia's regional airports offer pilot training facilities both for those who wish to fly privately and for those who wish to earn their living flying commercially in Australia or overseas.

Australian airports generally, and not just those owned or operated by aero clubs, allow many thousands of Australians to enjoy the pleasures of sport and recreational flying.

In addition, some regional airports also provide aircraft maintenance services. For example, Horsham Aerodrome receives pilots flying from all over Australia to visit local aircraft maintenance providers such as Aeropaint Australia and Horsham Aviation Services.

2.3 Key challenges faced by regional airports

Despite their importance, Australia's regional airports face significant challenges in maintaining the service they provide to their local communities. As noted previously, many regional airports in Australia are operating at a loss each year, and are heavily dependent upon cross-subsidisation by their local government owners who face multiple and competing demands on their limited financial resources.

While total RPT passenger movements at Australia's regional airports grew at a faster rate than at airports in the major cities between 2005 and 2015 when measured on a national average basis, such figures disguise the volatility and unevenness that is apparent when airport-by-airport figures are examined – while some regional airports (and particularly those serving mining sites) did experience very high growth, a very significant number experienced low, no or negative growth over the same period.

The regularity, predictability and convenience of RPT services are a major asset to regional communities. However, there has been a declining trend in the number of regional airports with RPT services over the last two decades. Between 2005 and 2012, RPT services ceased at 45 regional airports, while only 25 airports gained new RPT services.

2.3.1 Operating and maintaining regional airports

Far from being passive assets, airports must be actively managed and competently operated. Runways and taxiways must be maintained to high standards and might need to be enlarged, strengthened or replaced when traffic grows and heavier aircraft seek to use the airport. Airport lighting and navigation aids also need to be operated and maintained to ensure safe air navigation.

Other aeronautical-related facilities and support services that are required include the following:

- Wildlife incursions into aircraft operational areas need to be managed in an environmentally sensitive manner.
- Facilities for refuelling aircraft may be required, particularly at remote airports which cater for emergency flights.
- Airport security, such as passenger and checked bag screening, may be required by law, or simply demanded by aircraft operators concerned about the protection of their aircraft on the ground.
- Passenger facilities for check-in, awaiting departure and baggage collection on arrival must be provided for RPT services.
- Car-parking areas need to be provided and maintained and there is a need for secure parking areas particularly for those commuters that require long-stay parking.

The costs of operating and maintaining a regional airport are therefore considerable (and increase with distance from major urban centres, with the cost at some remote locations being three times that of major population centres), particularly when viewed in the context of a local government budget.

Simply staffing a basic GA airport with no RPT services and with no pressing maintenance issues (like periodic tarmac overlays) can readily run to \$250,000 per annum (and even that may not be a full accrual cost that takes account of all the synergies and interdependencies that can occur in an organisational environment where the airport may receive some services from other council departments).

The cost of complying with regulations is also proportionately greater in the overall budget of regional airports than for capital city airports – often by a factor of three (12 per cent versus 4 per cent, on average). For most major airports, there are dedicated staff employed to ensure the airport is meeting all of its operational, safety and security regulatory compliance requirements. This is a complex task that requires a substantial amount of time and effort to ensure it is appropriately managed. At the regional airport level, much of this responsibility for regulatory compliance rests with the single airport manager. This makes regulatory compliance a significant issue for many regional airports. As a result, the industry is constantly looking for opportunities to work with Government to ease the regulatory burden and streamline compliance obligations.

An example of an airport which has to undertake expensive critical repair works on its runway in the near future is Devonport Airport in Tasmania (see **Box 2.3**). The repair works will ensure the safety of passengers and crew, and enable larger aircraft to use the airport.

BOX 2.3 DEVONPORT AIRPORT



Devonport Airport is a regional airport serving the North West of Tasmania and is owned and operated by Tasports, which is a registered, private company owned by the Tasmanian Government. The Airport services around 1,400 RPT flights per annum, carrying over 143,000 passengers per annum to Melbourne. There are also around 1,000 charter and GA flights each year which mainly carry freight or are private charter or government flights. Around 30 per cent of passengers travel for business purposes to Melbourne while the remainder are tourists or passengers visiting family and friends.

The Airport derives around 80 per cent of revenue from aeronautical charges and the remainder from leases, advertising and parking fees. There are around 20 tenants located at the Airport, all of which are small businesses such as car hire companies.

There are three key projects planned at the Airport in the next two years. The first is a \$3.2 million overlay of the current runway which is around 20 to 30 years old and is in relatively poor condition. The runway upgrade will result in an expanded pavement depth which will make it compliant to a standard required by larger planes. The second project is the installation of a new lighting system to bring the system up to industry standard and to assist in reducing maintenance costs as the existing system is no longer manufactured. The final project involves the expansion of the car park to match growth forecasts and to be ready for expanded routes in the event that they proceed. The Airport would like to attract new flights, including additional flights or new routes. These projects will all assist in attracting larger planes to the Airport and potential new operators.

SOURCE: DEVONPORT AIRPORT

2.3.2 Upgrading or expanding regional airports

Upgrading regional airports to meet future needs is also highly challenging. Infrastructure requirements for both terminal facilities and runway maintenance have increased over time as a result of the trend towards larger and heavier aircraft on regional routes. Predicting future services at regional airports is inherently difficult and uncertain, because aviation is strongly influenced by general economic conditions and unforeseen events such as the discovery of nearby mineral resources. Yet the long lead-in times mean that airports are required to identify periodic expansion investments well in advance of forecasted shortfalls.

Unlike many other infrastructure sectors, final demand from airlines is not underpinned by long-term contractual commitments and, accordingly, airports must bear substantial demand risk. This can impede forward investment decisions, such as on infrastructure and terminal facilities. While this problem besets all airports, it is particularly an issue at regional airports.

Facing competitive pressures themselves, airlines seldom commit to particular activity levels and might withdraw from a route due to lower than anticipated demand well before the cost of upgrading a regional airport (undertaken to facilitate the new service) could be recovered¹, leaving the local government with an expensive stranded asset. The difficulty in financing development to meet growth demands is compounded by the local airport operator having other competing demands on their borrowing capacity in order to provide other municipal services to its community.

On the other hand, if the airport operator had not been prepared to take the inherent risks involved, the local community might be deprived of the introduction or expansion of RPT services needed to facilitate broader economic development from tourism, resources development or other industries.

The use of smaller aircraft on regional routes (less than 18 seats and 18-29 seats) has trended downward heavily, with many airline operators looking at utilising larger aircraft with a higher maximum take-off weight (MTOW).

The overall trend towards using heavier, larger capacity aircraft on regional routes will have significant implications for regional airport capital expenditure on airside pavements, terminals and security equipment. The lack of consistency in the ongoing use of such aircraft at any one location can render sunk costs irrecoverable.

¹ Airlines generally insist that airport fees recover these costs only through the full economic life of the new asset – up to 50 years in some cases.

A regional airport which has taken the risk of undertaking a major expansion project in order to attract larger planes and greater visitor numbers is Orange Airport in New South Wales (see **Box 2.4**). This is an example of how susceptible regional airports can be to the commercial decisions of airlines. Despite significant investments, the success of the airport is ultimately dependant on its ability to secure airline services, which are not guaranteed. Additional funding opportunities would help ensure additional airline business can be attracted and secured, which would provide a significant boost to the local economy.

BOX 2.4 ORANGE AIRPORT

Located approximately 250 km west of Sydney in the Central Tablelands region of New South Wales, Orange Airport is a major transport hub and a facilitator of a number of key services for the region. The Airport, which is owned and operated by Orange City Council, is primarily used by business travellers such as those involved in the mining, agriculture, health and education sectors. The Airport services a large number of passengers associated with the Orange Health Service, the key hospital for the western NSW region, and the campuses of TAFE and Charles Sturt University.

The Airport is set to be the base for the 24-hour medical rescue helicopter and is also a medical interchange for patients. The Rural Fire Service has an aerial firefighting base located at the Airport. Around 1,200 RPT services land at the Airport each year, carrying just under 50,000 passengers to Sydney. In addition, the Airport caters for around 8,500 charter and GA flights each year.

The Airport runs at a small deficit which is expected to be maintained into the future. Around 88 per cent of revenue is received from aeronautical operations and around 11 per cent from the lease of land to the approximately 20 tenants located at the Airport. There are a number of charter companies located at the Airport as well as flight training schools, engineering businesses and private owners of hangar space.

The Airport is actively seeking the commencement of larger planes by undertaking significant capital works. A \$19 million upgrade project, including a new \$3 million terminal, was undertaken at the Airport in 2015 in order to cater for the growing number of passengers and to be able to provide screening services once larger aircraft begin operations at the Airport. The Airport has identified 10 projects with a capital cost of around \$5 million that are required to bring the airside and terminal facilities up to a standard necessary to attract larger planes. The priority is the need to reseal the runway as a result of deterioration.

There is no commitment from airline operators to commence landing larger planes. However, without the capital works the Airport will be unable to cater for these planes.

SOURCE: ORANGE AIRPORT

2.3.3 Government recognition of regional airport challenges

The difficulties faced by regional airport operators in securing sufficient funding for aerodrome maintenance and infrastructure upgrades have been recognised (at least to some degree) by the Commonwealth and state governments. Recent assistance programs include:

- The WA Government's Regional Airports Development Scheme (RADS) provides grants for regional airport projects to help improve regional air services and safety. There is \$3.88 million in grants funding available for the 2017-19 period.
- The Commonwealth Government's National Stronger Regions Fund (NSRF) is providing \$1 billion over five years, commencing in 2015-16, to fund priority infrastructure (including aviation infrastructure) in local communities in order to increase economic activity and productivity in regions across Australia, particularly disadvantaged regions.
- The NSW Government's \$110 million Regional Tourism Infrastructure Fund (RTIF) seeks to support the development and growth of regional tourism by investing in critical visitor economy infrastructure such as rail trails, airports and cruise terminals, in order to assist the Government in meeting the *NSW 2021* target of doubling overnight visitor stays and expenditure and boosting the visitor economy and regional tourism.

However, regional airports will have to compete hard with many types of infrastructure for the Commonwealth and NSW Government pools of funds. Moreover, the funds are for infrastructure upgrades only and will not assist regional airports in their financial sustainability in relation to maintenance costs.

The Commonwealth Government also provides targeted support for aerodrome infrastructure and air services to remote areas where they are not commercially viable. This funding is provided through the Regional Aviation Access Programme (RAAP). The Remote Airstrip Upgrade (RAU) Program is part of the RAAP and provides funding for upgrades to remote airstrips in isolated communities. On 10 December 2015, the Deputy Prime Minister announced \$11.6 million in Commonwealth funding for access and safety upgrades to 52 aerodromes across Australia in Round 3 of the RAU.

However, there is not enough funding available in the RAU and RAAP to address all the work needed at Australian regional airports, nor are all regional airports eligible to apply.

In addition, there are airports such as Scone Regional Airport that do not qualify for government funding because they cater for large corporate jets rather than for RPT or tourism-oriented services (see **Box 2.5**). This points to the need for funding opportunities to be made available to a broader range of regional airports, to more appropriately reflect the diversity of regional airport operations across Australia.

BOX 2.5 SCONE REGIONAL AIRPORT

Located approximately 270 km north of Sydney in the Hunter region of New South Wales, Scone Regional Airport is owned and operated by the Upper Hunter Shire Council. It currently services charter and GA flights only, most of which are related to large corporate jets involved in the local thoroughbred industry. It is also a base for aerial firefighting services and hosts around eight of these planes. The Airport is used by the RFDS, angel care flights, Westpac helicopter and vet services to the region. The nearest RPT airports are at Tamworth, Dubbo and Newcastle with Scone located approximately central to all three.

Over the next three to four years, the Airport anticipates it will require around eight capital works projects to upgrade airside and terminal facilities. This includes improving the apron and taxiways to make them compliant with legislation, ensuring that the Airport can continue to service the local charter industry. Other works include replacing the terminal, installing parking and security fencing. The works will have the added benefit of bringing the Airport to a standard at which larger planes can land, if required. While the Upper Hunter Shire Council will rely on grants to cover some of the costs of these projects, it will likely need to part-fund some of the works.

An issue with the current grant process is that many grants cater for RPT and tourism-related airports, which excludes some airports from applying. Scone Airport services large corporate jets which require airport compliance to be able to land. Without capital works, these jets will be unable to land, and without grant funding the works will not be able to proceed.

The Airport currently operates at a significant deficit which is borne by Council. There are limited opportunities to increase revenue, with all revenue currently received from aeronautical activities. If the identified capital works were to proceed, it is expected that this deficit could be reduced by as much as 15 per cent with savings realised from reduced maintenance costs.

SOURCE: SCONE REGIONAL AIRPORT



3

ECONOMIC AND SOCIAL VALUE OF REGIONAL AIRPORTS



Key findings

- ACIL Allen estimates that the total expenditure by the operators of all regional airports with fewer than 500,000 passenger movements per annum was approximately **\$185.4 million** in 2014-15.
- The expenditure of regional airport operators with fewer than 500,000 passenger movements per annum is likely to have induced an **additional \$83.4 million** in spending in the rest of the Australian economy.
- ACIL Allen estimates that a typical regional airport with RPT services induces approximately \$830,000 in spending in the rest of the Australian economy per annum while a non-RPT regional airport induces approximately \$64,000 in spending in the rest of the Australian economy per annum.
- ACIL Allen estimates that the total employment at all regional airports in Australia with fewer than 500,000 passenger movements per annum was approximately **1,720 FTEs** in 2014-15.
- According to previous work undertaken by ACIL Allen on regional airports using CGE and input-output analysis, 1 FTE employed at a regional airport results in additional 1.1 FTEs in induced employment in the state/territory in which the airport is located and an additional 0.5 FTE in induced employment in the rest of Australia.
- Using the above figures, ACIL Allen estimates that the employment at regional airports with fewer than 500,000 passenger movements per annum induced the employment of an **additional 2,750 FTEs** in the rest of the Australian economy.
- Regional airports also generate catalytic impacts on regional economies by facilitating increased competition because of readier access to alternative suppliers, enhancing innovation through access to a wider range of skills and human resources, enabling a more flexible labour market, and facilitating more efficient interaction between different levels of government.

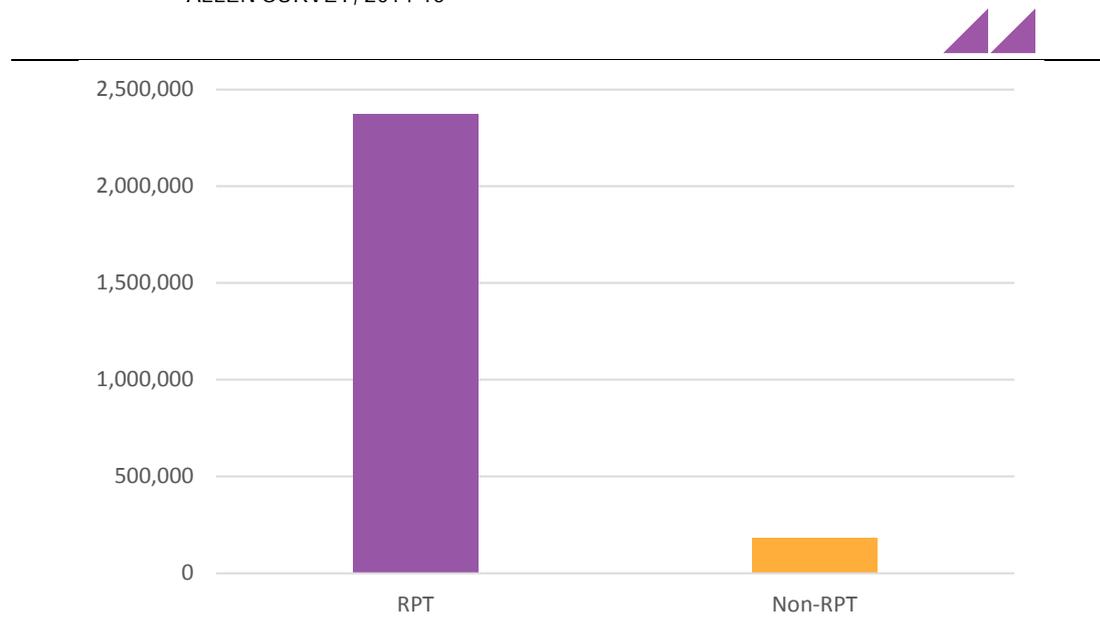
3.1 Expenditure by regional airports

3.1.1 Expenditure statistics from ACIL Allen regional airport survey

Of the airports that responded to ACIL Allen's regional airports survey, 36 provided information on their expenditures in 2014-15. Collectively, the operators of these 36 regional airports spent \$54.8 million to operate and maintain them in 2014-15. Of the 36 airports, 22 had RPT services while 14 were non-RPT airports. The RPT airports collectively spent \$52.2 million, while the non-RPT airports collectively spent \$2.5 million.

On average, the operators of the RPT airports spent \$2.37 million in 2014-15, while the operators of the non-RPT airports spent \$182,000 (see **Figure 3.1**).

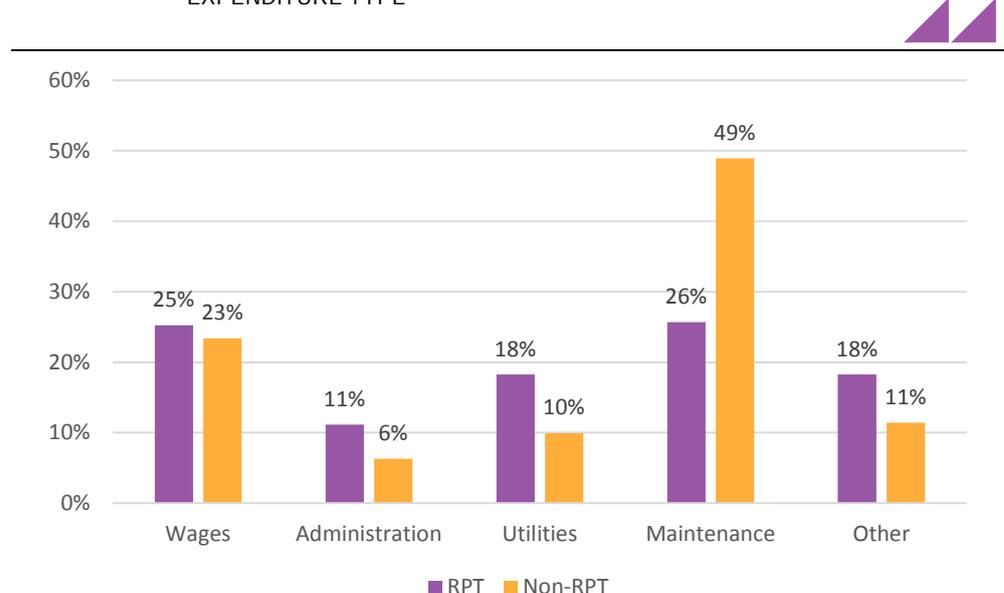
FIGURE 3.1 AVERAGE EXPENDITURE OF REGIONAL AIRPORTS THAT RESPONDED TO ACIL ALLEN SURVEY, 2014-15



SOURCE: ACIL ALLEN CONSULTING

The proportion of airport operators' total expenditures by expenditure type is shown in **Figure 3.2**. On average, non-wage maintenance costs made up 25 per cent of the total expenditure of the regional airports with RPT services that responded to the survey. The share of non-wage maintenance costs is even higher at non-RPT regional airports, with an average share of total expenditure of 49 per cent. That is, the most significant cost to an airport is routine maintenance, which demonstrates the difficulties regional airports (especially small regional airports with no RPT services) face in just maintaining an operational aerodrome.

FIGURE 3.2 PROPORTION OF AIRPORT OPERATOR'S TOTAL EXPENDITURES BY EXPENDITURE TYPE



SOURCE: ACIL ALLEN CONSULTING

3.1.2 Estimate of aggregate expenditure by Australian regional airports in 2014-15

In order to estimate the expenditures of regional airports that did not respond to the survey, the relationship between airport operator expenditure and passenger movements was analysed (see **Figure 3.3**). The analysis showed that 72 per cent of the variation in airport operator expenditure across regional airports can be explained by differences in annual passenger movements alone.

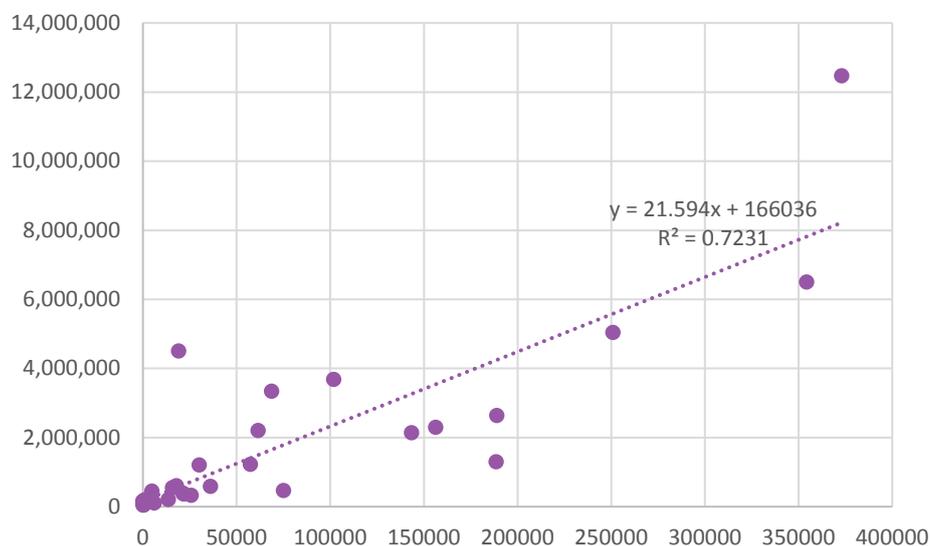
According to the Bureau of Infrastructure, Transport and Regional Economics (BITRE), there were 98 airports in Australia with recorded RPT passenger movements in 2014-15. The total passenger movements across these 98 airports was 146,719,420. Of the subset of airports with fewer than 500,000 passenger movements in 2014-15, the total was 8,577,906.

Using the equation of the fitted line in **Figure 3.3**, ACIL Allen estimates that the total expenditure by the operators of all regional airports with fewer than 500,000 passenger movements per annum was approximately $21.594 * 8,577,906 + 166,036 = \text{\$185.4 million}$ in 2014-15. This represents a significant injection into regional economies and communities across Australia.

According to previous work undertaken by ACIL Allen on regional airports using Computable General Equilibrium (CGE) and input-output analysis, \$1 of airport expenditure results in an additional \$0.32 in induced spending in the state/territory in which the airport is located and an additional \$0.13 in induced spending in the rest of Australia. Using these figures, ACIL Allen estimates that the expenditure of regional airport operators with fewer than 500,000 passenger movements per annum induced an additional **\\$83.4 million** in spending in the rest of the Australian economy.

At the individual airport level, ACIL Allen estimates that a typical regional airport with RPT services induces approximately \$830,000 in spending in the rest of the Australian economy per annum, while a non-RPT regional airport induces approximately \$64,000 in spending in the rest of the Australian economy per annum.

FIGURE 3.3 RELATIONSHIP BETWEEN AIRPORT OPERATOR EXPENDITURE (VERTICAL AXIS) AND TOTAL PASSENGER MOVEMENTS (HORIZONTAL AXIS), 2014-15



SOURCE: ACIL ALLEN CONSULTING

3.2 Employment by regional airports

Of the airports that responded to ACIL Allen's regional airports survey, 38 airport operators provided information on their employment in 2014-15. Collectively, the operators of these 38 regional airports employed 133 Full-Time Equivalents (FTEs) to operate and maintain them in 2014-15.

Reflecting the diversity of regional airports, the number employed by airport operators ranged from 1 to 10 FTEs, with an average of 4 FTEs and a median of less than 2 FTEs.

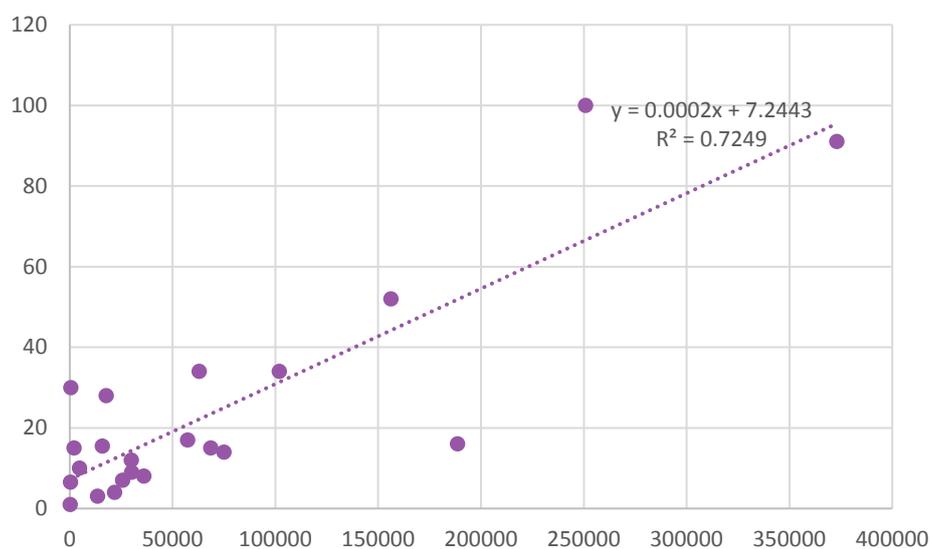
Collectively, the 22 regional airports in the survey that provided tenant employment data had tenants which employed a total of some 450 FTEs in 2014-15. The tenant employment estimates at these 22 airports ranged from 2 to 87.

To estimate the employment of regional airports that did not respond to the survey, the relationship between total airport employment (by airport operators and tenants) and passenger movements was analysed (see **Figure 3.4**). The analysis showed that 72 per cent of the variation in employment across regional airports can be explained by differences in annual passenger movements alone.

Using the equation of the fitted line shown in **Figure 3.4**, ACIL Allen estimates that the total employment at all regional airports with fewer than 500,000 passenger movements per annum was approximately $0.0002 * 8,577,906 + 7.2443 = 1,720$ FTEs in 2014-15.

According to previous work undertaken by ACIL Allen on regional airports using CGE and input-output analysis, 1 FTE employed at a regional airport results in additional 1.1 FTEs in induced employment in the state/territory in which the airport is located and an additional 0.5 FTE in induced employment in the rest of Australia. Using these figures, ACIL Allen estimates that the employment at regional airports with fewer than 500,000 passenger movements per annum induced the employment of an additional 2,750 FTEs in the rest of the Australian economy.

FIGURE 3.4 RELATIONSHIP BETWEEN TOTAL AIRPORT EMPLOYMENT (VERTICAL AXIS) AND TOTAL PASSENGER MOVEMENTS (HORIZONTAL AXIS), 2014-15



- lower costs of doing business because of the ease of travel over distances that would be onerous by road;
- greater competition because of readier access to alternative suppliers;
- greater innovation because of access to a wider range of human skills and interaction between them;
- improved ability to bring in, or send out, specialised personnel;
- a more flexible labour market;
- improved ability to deal with temporary shortages of personnel (e.g. ICT) or of goods (e.g. spare parts);
- economies of scale and specialisation;
- increased investment because it is easier to become familiar with the potential place of investment, potential clients and collaborators; and
- more efficient interaction between different levels of government.

These benefits (shown in **Figure 3.5**), for which aviation is the catalyst, improve productivity in the economy – that is, with a given level of resources it becomes possible to produce more value. Aviation is a driver of economic growth as well as a beneficiary of it.

Over time there is a dynamic impact on the economy. The initial effects on productivity lead to expansion of the more productive sectors relative to the rest, and to higher economic growth.

Personal benefits

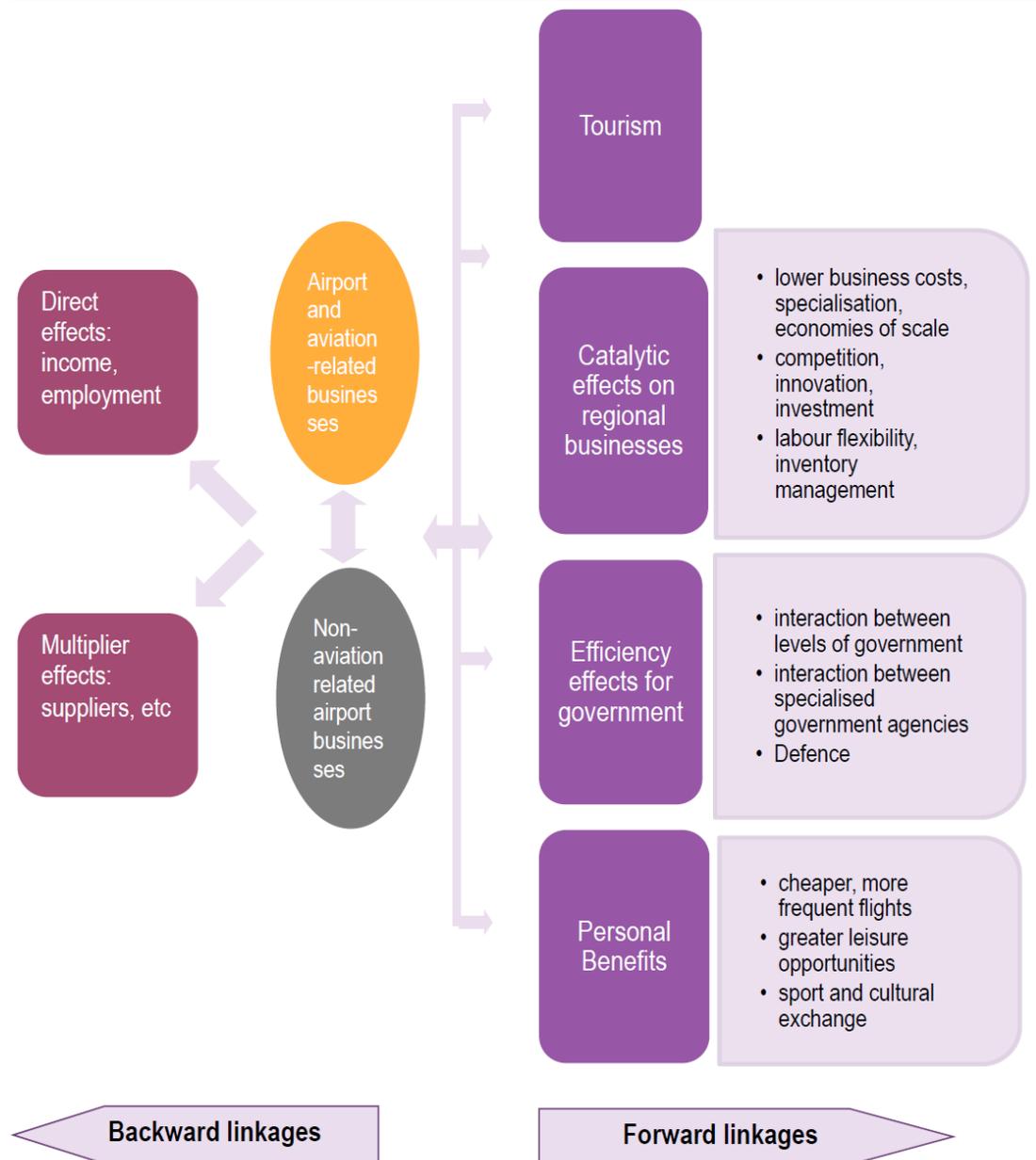
Aviation is also the catalyst for personal benefits. Without aviation, personal travel beyond about 300 km would become more difficult. People would travel less, and part of the time away would be wasted on long periods in cars, buses or trains.

This would reduce the personal "connectivity" with friends and relatives, the ability to attend important personal events such as reunions, weddings and funerals, and reduce the opportunity for holidays and cultural and sports trips.

Competition

If airports could not expand to cope with growth in demand, airlines would raise fares as their flights filled up and new airlines (e.g. low cost carriers) would not be able to obtain landing slots, particularly during peak periods. Competition opens up the benefits of aviation to more people. Low fares have led to mass travel that previously was denied to those on lower incomes and to mid-income people with families.

FIGURE 3.5 BENEFITS OF AIRPORTS AND AVIATION – FORWARD AND BACKWARD LINKAGES



SOURCE: ACIL ALLEN CONSULTING



4

FUNDING GAPS FACED BY REGIONAL AIRPORTS

Key findings

- Of the airports that responded to ACIL Allen's regional airports survey, 36 provided information on their revenues in 2014-15. Collectively, the operators of these 36 regional airports had revenues of \$51.6 million in 2014-15 (compared with collective expenditures of \$54.8 million, a **6 per cent gap**).
- On average, the operators of the RPT regional airports had \$2.28 million in revenues in 2014-15 (compared with an average expenditure of \$2.36 million, a **3.4 per cent gap**), while the operators of non-RPT regional airports had \$99,000 in revenues in 2014-15 (compared with an average expenditure of \$182,000, a **massive 45.6 per cent gap**).
- Of the 36 regional airports that provided 2014-15 financial data in their responses to the survey, 22 (that is, **61 per cent**) experienced deficits in 2014-15. Excluding two airports which incurred very large deficits because of capital works undertaken in 2014-15, the deficit ranged from \$10,300 to \$3.26 million.
- Of the 54 regional airports that responded to the survey, 32 airports provided projections of annual expenditures over the next 10 years to 2024-25. The average expenditure of these airports is expected to increase considerably over time, from \$1.35 million in 2015-16 to \$1.86 million in 2024-25, a rise of **37.8 per cent** over the decade.
- According to the survey, nearly 40 per cent of regional airports expect to experience persistent budget deficits in the next 10 years. As there are some 400 regional airports in Australia, the survey results suggest that approximately 160 of these airports are likely to experience a persistent budget deficit in the next decade.
- For the airports in the survey that project a budget deficit in the next decade, the average funding gap per year is approximately **\$109,000 per year**. If this figure is extrapolated to all regional airports in Australia, those that are likely to experience a budget deficit in the next 10 years will have a combined funding gap of approximately **\$17 million per year**.

4.1 Current funding gaps

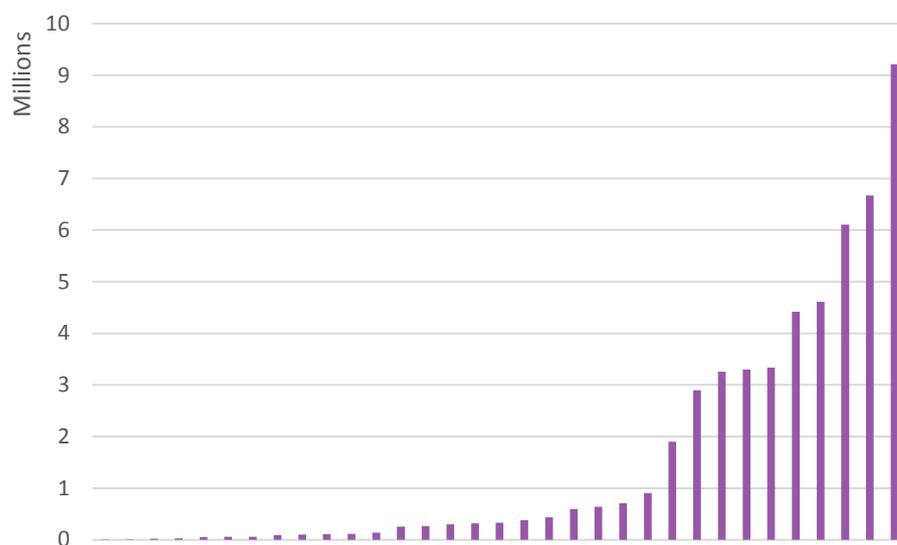
4.1.1 Revenue

Of the airports that responded to ACIL Allen's regional airports survey, 36 provided information on their revenues in 2014-15. Collectively, the operators of these 36 regional airports had revenues of \$51.6 million in 2014-15 (compared with collective expenditures of \$54.8 million, a 6 per cent gap). Of

the 36 airports, the 22 RPT airports had collective revenues of \$50.2 million in 2014-15, while the non-RPT airports had collective revenues of \$1.4 million.

The wide variation in the revenues of the regional airports that responded to the survey can be seen in **Figure 4.1**, which shows the revenue in 2014-15 for each of these airports, with the airport with the lowest revenue represented by the leftmost bar in the chart. Half of the airports (those between the 25th and the 75th percentile) had revenues of between \$100,000 and \$2.9 million.

FIGURE 4.1 REVENUE OF REGIONAL AIRPORTS THAT RESPONDED TO ACIL ALLEN SURVEY, 2014-15

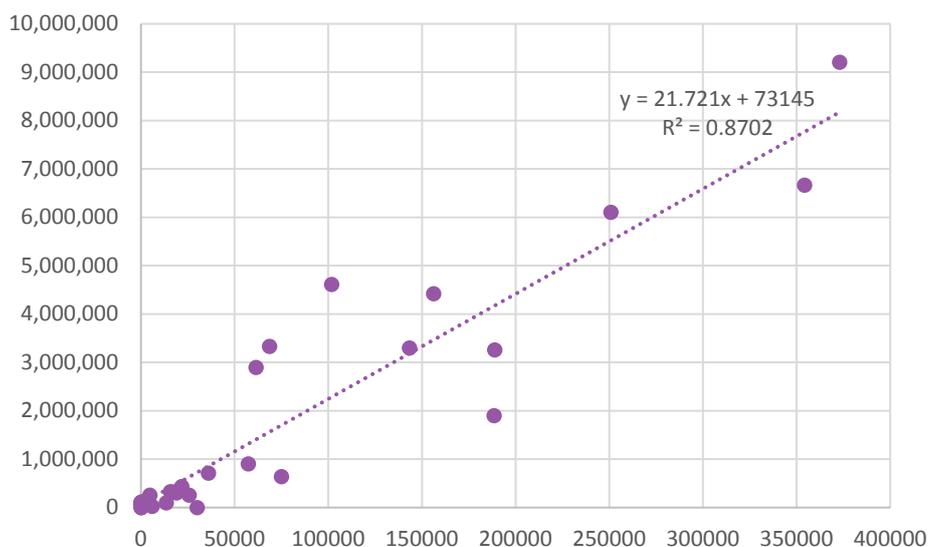


SOURCE: ACIL ALLEN CONSULTING

On average, the operators of the RPT regional airports had \$2.28 million in revenues in 2014-15 (compared with an average expenditure of \$2.36 million, a 3.4 per cent gap), while the operators of non-RPT regional airports had \$99,000 in revenues in 2014-15 (compared with an average expenditure of \$182,000, a massive 45.6 per cent gap).

The relationship between airport operator revenue and total passenger movements at the airport are shown in **Figure 4.2**. The analysis indicates that there is a strong correlation between airport revenue and passenger traffic – 87 per cent of variations in airport operator revenue can be explained by differences in annual passenger movements between airports alone.

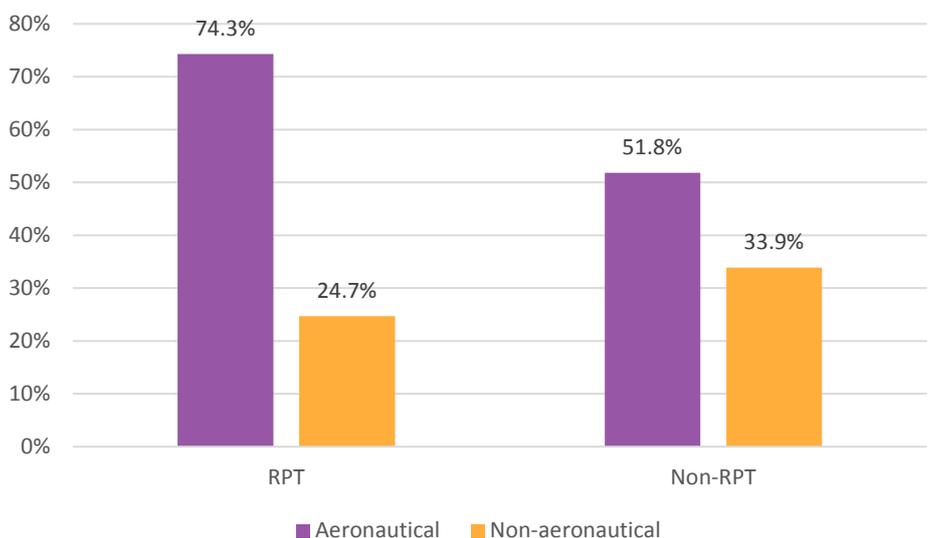
FIGURE 4.2 RELATIONSHIP BETWEEN AIRPORT OPERATOR REVENUE (VERTICAL AXIS) AND TOTAL PASSENGER MOVEMENTS (HORIZONTAL AXIS), 2014-15



SOURCE: ACIL ALLEN CONSULTING

As can be seen in Figure 4.3, most of the revenues collected by regional airport operators are aeronautical-related (such as landing fees and passenger head taxes). Other revenue tended to be receipts from the lease of land to airport tenants as well as advertising revenue. According to the survey, the proportion of aeronautical revenue to total revenues is greater at RPT regional airports (74.3 per cent on average) than non-RPT regional airports (51.8 per cent on average).

FIGURE 4.3 REVENUE SPLIT OF REGIONAL AIRPORTS THAT RESPONDED TO ACIL ALLEN SURVEY, 2014-15



SOURCE: ACIL ALLEN CONSULTING

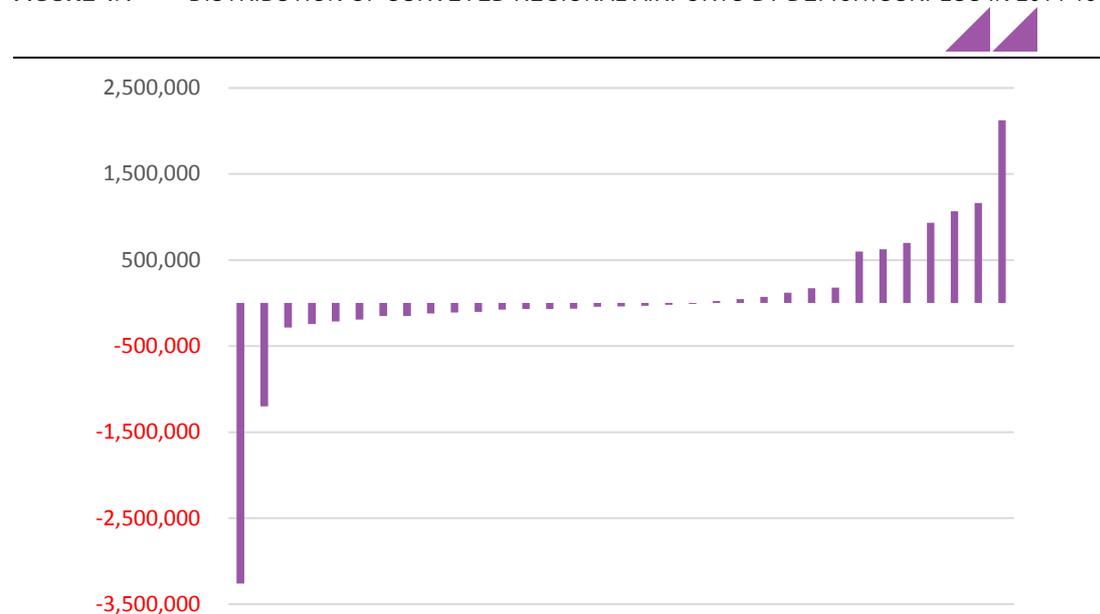
4.1.2 Operating deficits

Of the 36 regional airports that provided 2014-15 financial data in their responses to the survey, 22 (that is, 61 per cent) experienced deficits in 2014-15. Excluding two airports which incurred very large

deficits because of capital works undertaken in 2014-15, the deficit ranged from \$10,300 to \$3.26 million.

This can be seen in **Figure 4.4**, which shows the distribution of deficit/surplus in 2014-15 across the regional airports that provided financial data to ACIL Allen, excluding the two airports that undertook expensive capital works in that year. (Each vertical bar represents the deficit/surplus of a regional airport.) Capital works can have a positive impact on operating costs by reducing the need to undertake costly maintenance works.

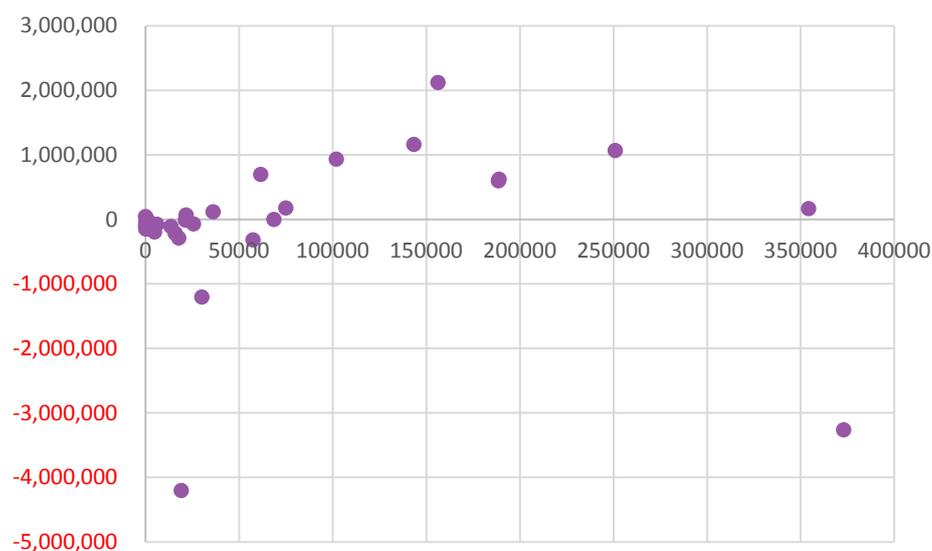
FIGURE 4.4 DISTRIBUTION OF SURVEYED REGIONAL AIRPORTS BY DEFICIT/SURPLUS IN 2014-15



SOURCE: ACIL ALLEN CONSULTING

Excluding the two airports that undertook expensive capital works in 2014-15, the relationship between airport operator surplus/deficit and total passenger movements is shown in **Figure 4.5**. The relationship appears to be relatively weak, indicating that larger regional airports are not immune to the considerable financial pressure arising from the budgetary demands of operating and maintaining an airport.

FIGURE 4.5 RELATIONSHIP BETWEEN AIRPORT OPERATOR SURPLUS/DEFICIT (VERTICAL AXIS) AND TOTAL PASSENGER MOVEMENTS (HORIZONTAL AXIS), 2014-15



SOURCE: ACIL ALLEN CONSULTING

An example of a regional airport that currently runs a deficit that is expected to persist into the future is Parkes Regional Airport in NSW. With limited revenues from the small number of flights it services, the airport has to rely on uncertain government grants and borrowings to finance capital works.

BOX 4.1 PARKES REGIONAL AIRPORT

Located approximately 350 km west of Sydney, Parkes Regional Airport is a regional airport that is owned and operated by the Parkes Shire Council. The Airport services a number of nearby communities including those located in the Forbes, Lachlan, Weddin and Cabonne shires. It caters for around 900 RPT flights to Sydney each year, carrying over 25,000 passengers. Around half of all passengers travel for business purposes including to nearby mines, regional government offices and for medical reasons. There are also around 2,000 charter flights per annum at the Airport which include freight services.

The Airport runs at a fairly significant deficit which is expected to be maintained at current levels into the future. This is a result of the small amount of revenue generated. Around 90 per cent of revenue is sourced from RPT charges and there is some revenue received from the lease of land including adjacent farming land. Revenue is expected to remain constant in the future. The shortage of revenue means that the Airport must rely on grants and borrowings in order to finance capital works.

An upgrade and expansion of the terminal is currently being undertaken to allow for the possibility of introducing screening of passengers and bags if required. This project has been funded through borrowings and a grant from the Commonwealth government. This year there will also be an upgrade to the taxiway and apron to better handle RPT services and to allow larger planes to land. This upgrade will be funded through a grant from the NSW Government. An upgrade to the road network servicing the Airport will be undertaken next financial year, subject to a successful grant application which will need to be matched by borrowings.

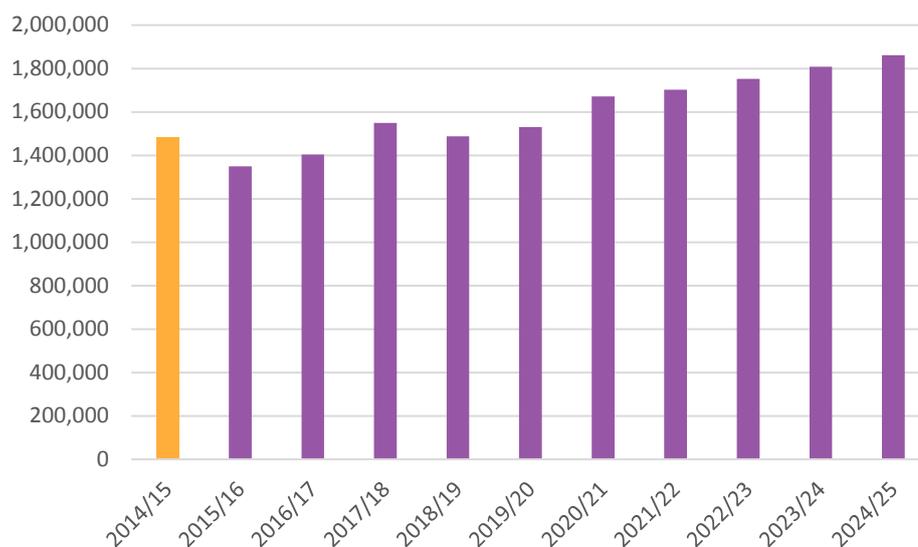
SOURCE: PARKES REGIONAL AIRPORT

4.2 Expected future funding gaps

4.2.1 Projected annual expenditure to 2024-25

Of the 54 regional airports that responded to the survey, 32 airports provided projections of annual expenditures over the next 10 years to 2024-25. As can be seen in **Figure 4.6**, the average expenditure is expected to increase considerably over time, from \$1.35 million in 2015-16 to \$1.86 million in 2024-25, a rise of **37.8 per cent over the decade**. These 32 airports had actual expenditures in 2014-15 that averaged \$1.48 million.

FIGURE 4.6 PROJECTED EXPENDITURES OF AIRPORTS IN ACIL ALLEN SURVEY, 2015-16 TO 2024-25

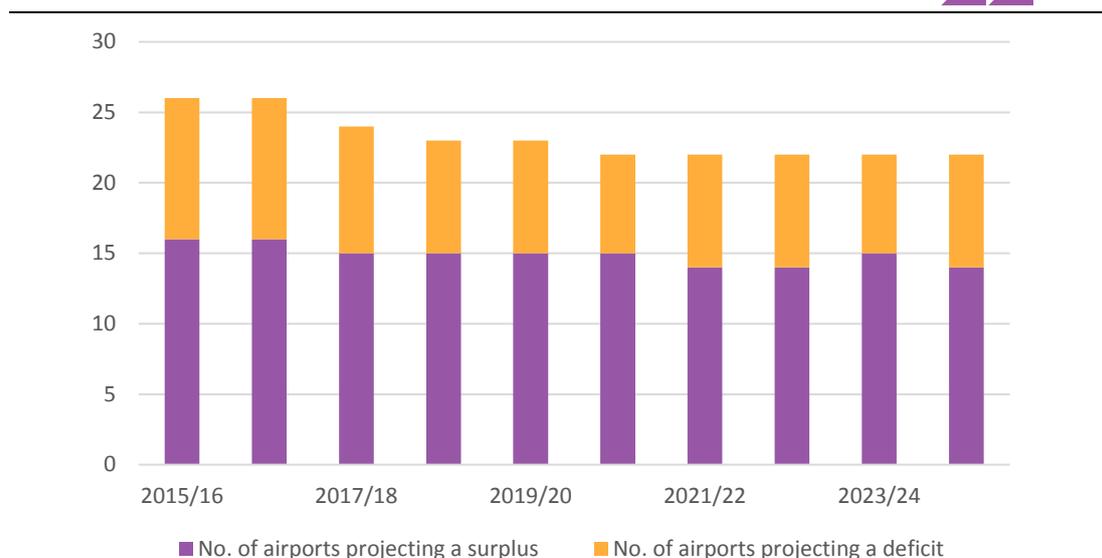


SOURCE: ACIL ALLEN CONSULTING

4.2.2 Projected funding gaps to 2024-25

According to the survey, **nearly 40 per cent of regional airports expect to experience persistent budget deficits in the next 10 years**. This can be seen in **Figure 4.7**, which shows the number of surveyed airports projecting a budget surplus or deficit in each financial year to 2024-25. The surplus / deficit was calculated by combining the data on projected expenditures with the data that the surveyed airports provided on the expected annual revenues from up to five key funding sources.

FIGURE 4.7 NUMBER OF SURVEYED REGIONAL AIRPORTS PROJECTING A SURPLUS OR DEFICIT, 2015-16 TO 2024-25

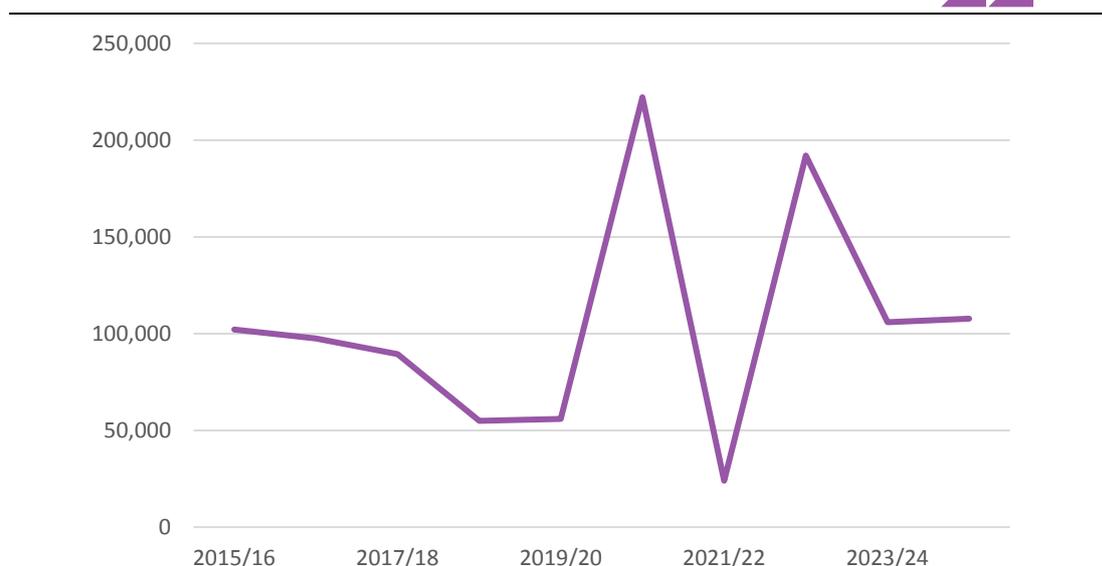


SOURCE: ACIL ALLEN CONSULTING

As there are some 400 regional airports in Australia, the survey results suggest that approximately 160 of these airports are likely to experience a persistent budget deficit in the next decade.

Among the regional airports in the survey that project a budget deficit, some will experience considerable fluctuations in the size of the deficit from year to year due to planned capital spending on airport enhancement projects. This can be seen in Figure 4.8, which shows the average funding gap by fiscal year for the airports that project a deficit in the next decade.

FIGURE 4.8 AVERAGE FUNDING GAP FOR REGIONAL AIRPORTS PROJECTING FUTURE DEFICITS



SOURCE: ACIL ALLEN CONSULTING

For the airports in the survey that project a budget deficit in the next decade, the average funding gap per year is approximately \$109,000 per year. If this figure is extrapolated to all regional airports in Australia, those that are likely to experience a budget deficit in the next 10 years will have a combined funding gap of approximately \$17 million per year. This equates to a \$170 million shortfall in essential infrastructure and maintenance funding at regional airports across Australia over the next decade.

4.3 Impact of airport closures

Some of the regional airports experiencing persistent funding gaps will find themselves under increasing financial pressure that might ultimately result in their closure and cessation of operations and service provision.

In ACIL Allen's survey, regional airports were asked to describe the likely consequences and local impacts should they be forced to close due to insurmountable financial challenges. Below is a sample of responses received from airports:

Scone Regional Airport

"The airport currently supports 3 air related businesses which support the local community, employing over 50 FTE which would also have a non-direct employment impact if they were no longer in the community. The airport supports our internationally recognised thoroughbred breeding industry and race club. The airport is a base for the RFS air firefighting with approximately 8 aircraft for this service. The airport is used by Royal Flying Doctor Service, angel care flights, Westpac helicopter and vet services to the region."

Streaky Bay Airport

"The RFDS averages 74 flights per year to airlift patients out to the nearest capital city, being Adelaide, by car this is a 750km (8 hour) drive, the resultant loss of life from the cessation of an airport would be catastrophic. The local bank (ANZ) has a plane that flies in twice a day and includes freight and banking services. Given the location and proximity to local services, there would be delay in service provision should this service cease. Whilst recreational use is low, the potential is there, and there could be ongoing economic benefits if facilities were improved to encourage a higher use of the aerodrome."

Horsham Aerodrome

"The operation of Horsham Aerodrome is imperative for the provision of vital services to the community. If the aerodrome were to cease operation, the effects on Horsham and surrounding communities would be devastating. Some of the vital services supported by Horsham Aerodrome are Royal Flying Doctors and emergency patient transfer services, firefighting operations by CFA and the Victorian Department of Environment, Land, Water and Planning (DELWP), as well as the postal service.

With regard to the firefighting operations, DELWP is currently looking to expand their operations at Horsham Aerodrome, utilising Horsham as a regional airbase for firefighting operations in the coming years. In addition to the aforementioned services, the aerodrome is also a hub for tourism such as charter flights, and the National Gliding Week which has been running for 50 years and attracts over 50 aircraft annually.

Lastly, Horsham Aerodrome provides an opportunity for many local jobs, with pilots flying from all over Australia to visit local aircraft maintenance providers such as Aeropaint Australia and Horsham Aviation Services."

St Arnaud Aerodrome

"Significant loss (from airport closure), mainly to fixed wing air ambulance not being able to land, would mean the next nearest airport is 100km away. Loss of availability for firefighting aircraft to operate out of area. Loss of hangar tenants for local aircraft owners. Loss of availability for police and emergency services during missing person searches, road crashes and other emergency incidents. Loss of availability for politicians/Government Ministers and business owners when visiting or on official business.

Small airports like this one are typical of hundreds of smaller communities around Australia and in remote areas. Councils are forced to have them and their ongoing operating and compliance costs are significant, including an allowance for asset renewal over time. Yes, Councils would save considerable money by closing or not having them, but the community expect and demand they be provided for those emergency incidents, just like they provide a swimming pool or library."

Albury Airport

"The Airport provides a critical transport link to enable the local community to access the world, via direct flights to Sydney, Melbourne and Brisbane which are then used to connect through to all other domestic and international locations. The potential closing of the airport would be catastrophic to the local community and economy, given our research shows that 66 per cent of the Albury Community use the Albury Airport. The impact would be especially felt by the business community, which comprise 53 per cent of our passenger demographic, a large proportion of which travel more than 5 times per annum."

The alternative to flying in and out of Albury would be for people to commute to and from Melbourne by car (3 hours) or Sydney (6 hours), which would be a substantial inconvenience. There would also be a significant direct employment impact on numerous businesses both directly and indirectly involved in airport operations."

Learmonth Airport

"Loss of tourism (which is our towns' primary business) and oil and gas business. Community could be stranded during cyclone period if roads affected by rain (only one road into town). Downturn in population and loss of critical community services. If helicopter operations cease or are relocated to another port, then the long-term sustainability of current airline services and ultimately the airport itself [are] in serious jeopardy. Downturn in RPT services (influenced by oil and gas business) would have a massive impact on the community and greatly affect tourism businesses."

Stawell Airport

"Fairly catastrophic, not only for the businesses that operate out of there, but for the air ambulance, police and emergency service operations."

The biggest impact would be in regard to the State Government-Wimmera Mallee fire base operations which are based at Stawell, being the most central regional airport for the Grampians National Park and a host of other public reserves, plus all of the rural land located between the SA border, Mildura, Hamilton and Beaufort. This vast area is only serviced from this airport with the best equipped fire base in the State, and the main contract operator is based at the airport and has forward contracts with the CFA and DELWP for the next five years."

Other impacts would be a loss of access for locals and businesses with aircraft based in hangars at Stawell, the loss of up to 20 full-time jobs, the Bureau of Meteorology has their automatic weather station site for Stawell based there, visiting politicians, business people and Government officials would have to travel by car from further afield, etc."

FIFO has operated out of the airport also, and while not running at the moment, this is likely to resume with the proposed new Dark Matter world class physics laboratory to be constructed in Stawell in 2016. There are also several other significant developments in the planning phases which would be jeopardised by the airport closure. The potential for increased charter flights to the Grampians National Park would be curtailed."

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