

# Public Benefit Assessment of Reform Options for Gladstone Airport

*Gladstone Regional Council*

**Draft Report**  
**June, 2011**

*A leading Australian consulting group recognised through the success of our clients*



Economics, Planning & Development ■  
Business Strategy & Finance ■  
Community Research & Strategy ■  
Design, Marketing & Advertising ■  
Information & Knowledge Management ■

## Document Control

---

Job ID: 44188  
Job Name: Public Benefit Assessment Gladstone Airport  
Project Director: Gavin O'Donovan  
Project Manager: Michael Shave  
Company: Gladstone Regional Council  
Job Contact: Mark Holmes  
Document Name: Gladstone Airport PBA Draft  
Last Saved: 22/6/2011 10:53 AM

Version	Date	Reviewed PM	Approved PD
Draft Version 1.0	17/06/2011	MS	GO
Draft version 2.0	22/06/2011	MS	GO

Disclaimer:

Whilst all care and diligence have been exercised in the preparation of this report, AEC Group Limited does not warrant the accuracy of the information contained within and accepts no liability for any loss or damage that may be suffered as a result of reliance on this information, whether or not there has been any error, omission or negligence on the part of AEC Group Limited or their employees. Any forecasts or projections used in the analysis can be affected by a number of unforeseen variables, and as such no warranty is given that a particular set of results will in fact be achieved.



# Executive Summary

## Background to the Public Benefit Assessment

Gladstone Regional Council's Airport business activity has been identified as a new Type 2 significant business activity (SBA) under the relevant National Competition Policy (NCP) provisions of the Local Government Act and Regulation. As such, a Public Benefit Assessment (PBA) is required to be undertaken to review the appropriateness of adopting one of the following business models:

1. The business remains a Council service and applies Full Cost Pricing (FCP) reforms.
2. The business becomes a Commercialised Business Unit (CBU).
3. The business becomes a Council-Owned Corporatised Entity.

Model	Implications
Full Cost Pricing	<ul style="list-style-type: none"> <li>• The activities of the business are essentially operated as a departmental service delivery area within Council's organisational structure (with reduced autonomy than under the CBU or Corporate Entity model)</li> <li>• Prices are set in accordance with commercial cost recovery, including a commercial return on assets employed in the business</li> <li>• Some minor compliance costs would be incurred</li> </ul>
Commercialised Business Unit	<ul style="list-style-type: none"> <li>• A commercialised business unit (not a separate legal entity) is created by Council to manage the business, with a dedicated business unit manager employed</li> <li>• Business unit has increased managerial autonomy for day-to-day operations</li> <li>• Business may have a greater ability to source inputs from outside of Council, subject to the framework adopted</li> <li>• Business features its own business and operating plan</li> <li>• Business has more of a commercial orientation than under the full cost pricing reform option, and is subject to separate performance reporting (financial and non-financial)</li> <li>• Prices are set in accordance with commercial cost recovery, including a commercial return on assets employed in the business (as per FCP price setting)</li> <li>• Compliance costs will exceed those incurred under the FCP model</li> </ul>
Corporate entity	<ul style="list-style-type: none"> <li>• A separate corporate entity is created by Council to manage the business, with Council acting as sole shareholder</li> <li>• A Board of Directors is appointed, responsible for policy formulation and governance of the business</li> <li>• Council retains ownership and ultimate control of business via its shareholder role, and sets strategic direction for the business and performance expectations of the Board through a Statement of Corporate Intent</li> <li>• Corporatisation features a greater business focus than under the Full Cost Pricing and Commercialised Business Unit reform options</li> <li>• Prices are set in accordance with commercial cost recovery, including a commercial return on assets employed in the business (as per FCP price setting)</li> <li>• Compliance costs will exceed those incurred under the FCP and CBU model</li> </ul>

**IT IS IMPORTANT TO NOTE THAT THE NCP REFORM OPTIONS AVAILABLE FOR CONSIDERATION TO COUNCIL DO NOT INCLUDE THE PRIVATISATION OF THE BUSINESS AND COUNCIL RETAINS FULL BUSINESS OWNERSHIP IN ALL INSTANCES**

The objective of the PBA is to determine whether or not there will be a net benefit to the community from adopting the business models under consideration, and which model will lead to the greatest net benefit. There are four key stages in the assessment process:

**Stage 1** – *Definition of the existing structure and operation of Gladstone Airport, including management and reporting structures, annual income and expenditure and other financial arrangements;*

**Stage 2** – *Identification of, and consultation with, stakeholders in the community who might be affected by the outcome of the PBA, including customers, employees, contractors and others, as well as consideration of how the business models will affect each group;*

**Stage 3** – Assessment of the potential impact of the business models under consideration on the business activity and identified stakeholders; and

**Stage 4** – Based on stages 1-3, the provision of recommendations to Council regarding which of the business models is deemed most appropriate for Gladstone Airport, including detail on the costs and benefits of each model as well as a timetable for implementation of the recommended business model.

## Business Profile Summary

Issue	Business Profile Outcome
Business Structure and Governance	<ul style="list-style-type: none"> <li>• Prior to amalgamation, the Gladstone Airport was operated under a joint local government structure (the Gladstone-Calliope Aerodrome Board)</li> <li>• Following amalgamation, the Airport was identified by Council as a 'Type 3' business activity and the Code of Competitive Conduct was adopted as the relevant level of NCP reform</li> <li>• The business resides within the Corporate Services Directorate of Council, with the Airport Manager reporting to the Director Corporate Services</li> <li>• The Airport has now grown to a size that requires (and warrants) a further review of the appropriate business model to apply moving forward</li> </ul>
Personnel	<ul style="list-style-type: none"> <li>• The Airport currently employs 28 staff</li> <li>• The Airport utilises Council's internal support services in areas such as financial support, corporate administration (receipting, customer services), procurement and stores, human resources and information technology</li> </ul>
Functions	<ul style="list-style-type: none"> <li>• The Airport receives nearly 200,000 passengers on an annual basis, with strong growth expectations predicted to increase the number of passengers per annum to over 600,000 by 2031</li> <li>• The airport is currently serviced by two major domestic airlines, Qantas and Strategic Airlines</li> </ul>
Responsibilities	<ul style="list-style-type: none"> <li>• In addition to its service provision responsibilities, the business has a large number of regulatory responsibilities regarding price-setting practices, business planning, asset management and customer service standards</li> </ul>
Pricing	<ul style="list-style-type: none"> <li>• The business is responsible for recommending appropriate revenue targets, price structures and price paths to Council to ensure the ongoing viability of the business, with Council having final approval on pricing levels</li> <li>• Passenger service charges account for over 84% of revenue received</li> <li>• The business also charges landing fees, aircraft parking, vehicle parking for longer than 2 hours, as well as lease fees for small commercial operators (flying schools, helicopter services, etc)</li> </ul>
Financial Performance	<ul style="list-style-type: none"> <li>• Budgeted operating revenue for the Airport in 2010/11 is \$5.7 million, with passenger charges and landing fees (\$5.2 million) and parking and lease fees (\$0.4 million) accounting for the majority of revenue received</li> <li>• Total operating expenditure for the Airport in 2010/11 is \$3.3 million, with significant cost items including employee costs (\$1.2 million), materials and services (\$1.6 million), depreciation (\$0.2 million) and internal charges from Council (\$0.2 million)</li> <li>• The Airport receives modest Community Service Obligations by returning landing fee equivalents to the Royal Flying Doctor, Angel Flight and Capricorn Helicopter Rescue Services</li> <li>• An operating surplus was realised in 2009/10, with surpluses also forecast for 2010/11, 2011/12 and 2012/13</li> <li>• Operating profitability has been mixed since 2007, due to asset write downs and the impact of the global financial crisis</li> <li>• The operating surpluses achieved by the Airport remain well below its full targeted return on capital</li> </ul>
Non-Financial Performance	<ul style="list-style-type: none"> <li>• Non financial performance measures for the Airport are included in Council's annual operational plan</li> <li>• The Airport has completed 15% of its targets for the period July – December 2010</li> </ul>
Assets	<ul style="list-style-type: none"> <li>• The written down value of assets utilised by the business at 30<sup>th</sup> June 2010 was \$38.7 million, with a replacement cost of \$39.1 million</li> <li>• The Airport has almost completed \$81 million of capital works to upgrade the runway and terminal facilities to cater for future regional growth requirements, which will significantly increase the value of the assets utilised by the business</li> <li>• Capital expenditures are anticipated in future years to accommodate further growth in passenger numbers and the development of Airport commercial precincts</li> </ul>
Industry Trends	<ul style="list-style-type: none"> <li>• Federal and State Governments have progressively divested ownership in Airports over the last 30 years</li> <li>• Industry trends suggest an ongoing focus by other levels of government on monitoring of pricing and service levels of airports</li> </ul>

## Consultation Process

The stakeholder consultation process undertaken as part of the PBA included:

- Public announcement of the PBA in the 'Gladstone Observer' on Saturday 23<sup>rd</sup> April 2011 and on Council's internet site on 22<sup>nd</sup> April 2011, inviting submissions on the implications of the business models under consideration;
- The preparation of a Stakeholder Information Paper which was made available to the general community via Council's internet site and on request, as well as being provided directly to identified key stakeholders;
- External consultation with current aviation precinct lessees regarding the public benefit assessment process as well as the impact and outcomes of each business model under consideration; and
- Internal consultation with Council senior management and Gladstone Airport Manager regarding the business models under consideration and potential impacts/outcomes from each model.

## Consultation Outcomes

The following table provides a summary of the responses received from stakeholders.

Stakeholder	Response Received
<b>EXTERNAL STAKEHOLDERS</b>	
Unions	One submission was received by the Queensland Services Union. The response expressed that the union was opposed to a Corporate Entity structure given a risk exists that airport employees may lose their current conditions of employment. In addition, the Union feels that the expected commercial objectives prescribed for a significant business activity can still be achieved if the airport remains part of Council's corporate structure rather than to corporatise.
Regional Business Representatives	No responses were received by the closing date
Business Customers and Airport Lessees	An information session was held with interested Airport customers on 2nd June 2011 at the Airport regarding the PBA process. A number of current lessees at the Airport expressed concerns regarding the impact of any change in structure on existing licences and agreements, along with concerns regarding the likely cost impacts associated with a move to a Corporate Entity structure.
General Community	No responses were received by the closing date.
Environment	No responses were received by the closing date.
Regulators	Responses were received from the Department of Environment and Resource Management (who advised that the scope of the PBA was outside their role as environmental regulator and as such they were unable to comment) as well as the Civil Aviation Safety Authority who advised that regardless of the business structure the Airport must comply with its safety responsibilities.
<b>INTERNAL STAKEHOLDERS</b>	
Councillors	No responses were received by the closing date, with Councillors awaiting the opportunity to comment following the release of the draft report.
Airport Employees	Seven responses were received from Airport employees. All employee responses indicated that a Corporate Entity business model was preferred due to increased potential for a more commercial focus. However, a number of concerns were raised regarding maintaining job and pay security under a Corporate Entity structure.
Council Senior Management and Airport Management	There was a general consensus that the most appropriate business model for the Airport moving forward would involve the business having the ability to take advantage of commercial opportunities in a timely fashion to ensure that the Airport operates in a manner that maximises the significant recent investment made by the community into the Airport.

## Impact Summary

Impact Area	Net Benefit Assessment Outcome
Financial Position of the Airport	<p><b>Net Benefit Under CBU Model</b> – A low net financial benefit relative to the FCP model is potentially realisable under the CBU model. Whilst compliance costs are higher than under a FCP model, a clearer business definition would ensure that operational efficiencies and commercial opportunities are maximised to ensure efficient and sustainable outcomes for the business.</p> <p><b>Net Benefit Under Corporate Entity Model</b> – A low to moderate net financial benefit relative to the FCP model is potentially realisable under the Corporate Entity model. Whilst compliance costs are higher than under a FCP or CBU model, an increased commercial focus driven by a skills based Board of Directors would ensure that operational efficiencies and commercial opportunities are maximised to ensure efficient and sustainable outcomes for the business. Current Airport management and employees indicated during the consultation process that such benefits would more than offset any additional costs incurred.</p>
Gladstone Regional Council Budget	<p><b>Net Benefit Under CBU Model</b> – A low net financial benefit relative to the FCP model is potentially realisable under the CBU model provided internal service productivity improvements are achieved.</p> <p><b>Net Benefit Under Corporate Entity Model</b> – A low to moderate net financial benefit is likely to be realised under the Corporate Entity model provided efficiency gains and commercial opportunities available to be maximised are realised, and additional establishment and ongoing business compliance costs are minimised.</p>
Market	<p><b>Negligible Difference Between FCP, CBU &amp; Corporate Entity Models</b> – There will be negligible impact on the market from the adoption of either of the business models, given that all reform options require full cost pricing principles to be applied to the business.</p>
Staff	<p><b>Net Benefit Under CBU Model</b> – An overall low net benefit will be realised under the CBU model given the ability to multi skill staff to address current inefficiencies and enhance the skills base within the business.</p> <p><b>Net Benefit Under Corporate Entity Model</b> – An overall low net benefit will be realised under the Corporate Entity model, given the ability to attract and retain staff with appropriate qualifications in a competitive Airport employee market, and allowing staff to operate with a greater commercial orientation.</p>
Customers	<p><b>Negligible Difference between FCP, CBU and Corporate Entity Models</b> – Similar price setting practices are required to ensure that full cost pricing requirements are being met in accordance with legislative requirements. It is expected that any additional costs under the CBU and Corporate Entity models will be more than offset by the benefits associated with increased operational efficiencies and a greater ability to take advantage of commercial opportunities.</p>
Regional Development and Economic Stability	<p><b>Net Benefit Under CBU Model</b> – An overall net benefit for regional development and economic sustainability would be most likely under a CBU model as a result of the net benefits incurred through greater ability for the business to control ongoing planning and performance.</p> <p><b>Net Benefit Under Corporate Entity Model</b> – An overall net benefit for regional development and economic sustainability would be most likely under a Corporate Entity model as a result of the net benefits incurred through greater ability for an expert Board to control ongoing planning and investment in capital infrastructure to maximise commercial objectives.</p>
Social Welfare and Equity	<p><b>Negligible Difference between FCP, CBU and Corporate Entity Models</b> – Similar price setting practices are required to ensure that full cost pricing requirements are being met in accordance with legislative requirements. Higher prices may occur under both CBU and Corporate Entity models should any net costs eventuate, although this is mitigated somewhat by a reduction in the risk of unsustainable capital investment in the Airport arising from competing Council objectives and priorities.</p>
Environment	<p><b>Negligible Difference Between FCP, CBU and Corporate Entity Models</b> – There are negligible differences on the environment from the adoption of either FCP, CBU or Corporate Entity business models given the regulated nature of Airport service provision does not change for each business model.</p>

## Recommendation on Preferred Business Structure

The PBA shows that when comparing the net community benefit of the available reform options, the adoption of the **Corporate Entity business model** appears to provide the greatest net community benefit when compared to the Full Cost Pricing (FCP) and Commercialised Business Unit (CBU) models.

**It is therefore recommended that Gladstone Regional Council adopt the Corporate Entity business model for Gladstone Airport moving forward.**

For the Airport, the Corporate Entity business model appears to be the most appropriate reform option as:

- It is believed that the Corporate entity model will allow greater autonomy in commercial decision making by management, ensuring the business operates under clear commercial drivers whilst removing current unavoidable bureaucratic impediments;
- A skills based board of directors will add specific value in terms of business decision making efficiency and timely responses to commercial opportunities as well as business and customer issues;
- Ongoing infrastructure investment will be made based on a business case basis and without the need to compete against other Council capital priorities;
- Allows Council to assume a more strategic oversight role of the business (and frees up time for Councillors and Council management to focus efforts on other core community projects and service provision),
- Council has the ability to ensure financial outcomes are maximised from the business under clear commercial drivers by establishing and enforcing appropriate performance indicators in the Statement of Corporate Intent;
- Allows greater operational flexibility for the business without the need to be commercially disadvantaged by current procurement and other legislative based constraints; and
- Allows the business greater flexibility in attracting and retaining appropriately skilled employee resources (with greater ability to negotiate remuneration and employment conditions not available under the FCP and CBU models).

## Reform Implementation Timetable

If Council were to adopt the Corporate Entity reform option immediately, then the reforms must be applied to the Airport by the beginning of the financial year commencing 1 July 2012.

## Other Strategic Recommendations

### Airport Sustainability

- Consideration be given by Council towards a contribution to the Airport (via a CSO payment) to assist in the financing of the recent significant infrastructure upgrade on the basis that the upgrade produces broader economic benefits for the region (with Council reaching an agreement with the new entity regarding the extent of that payment and the period to which it would apply).

### Airport Capital Structure

- After consideration of the above recommendation, Council considers the capital structure implications associated with the significant debt holdings currently held by the Airport, including potential ability to fully transfer the existing debt balance to the Corporate Entity as well as potential implications for Council's balance sheet and future borrowing capacity should Council be required to retain some of the Airport debt on its books (whilst assets transfer in full to the new Corporate Entity).

### Establishment Costs

- In light of the governance and compliance costs attached to a Corporate Entity structure, that establishment costs and ongoing compliance costs be kept to a bare minimum.

### Resource Sharing

- That the current practice of resource sharing between the Airport and Council for administrative overheads be retained, unless it can be proven that there is a strong business case showing a regional benefit from the duplication of such support services (e.g. there would be a considerable improvement in service levels without an impact on community affordability).

- That the Airport ensures it is being provided with services that are considered value for money at commercially competitive rates, and formal service level agreements are established with clear performance indicators and costs.

#### **Strategic Focus and Performance Monitoring**

- That Council set the strategic focus and direction of the business via the Statement of Corporate Intent, possibly including performance indicators that link to the following areas (not exhaustive):
  - financial sustainability;
  - least-cost long-term capital works planning outcomes;
  - community affordability;
  - management/administration/overhead costs as % of operating expenditure;
  - environmental outcomes; and
  - desired customer service levels.

#### **Board Structure**

- Council appoints a maximum of five (5) directors in the new Corporate Entity to ensure compliance costs are minimised. Further, Council ensures minimal Councillor representation on the board to ensure true independence of the entity to maximise available commercial opportunities.

#### **Employee Conditions**

- Employees of the Airport be made aware of changes to terms and conditions of employment to ensure that the transition process is fully transparent and employees are fully informed of the implications of the change in business structure.
- That, where possible, existing conditions in place for Airport employees be guaranteed and carried over and adopted under the Corporate Entity structure as a minimum standard.
- Accrued employee entitlements (i.e. accrued leave, years of service) are transferred to the new entity in accordance with the provisions contained under section 69 of the *Local Government (Beneficial Enterprises and Business Activities) Regulation 2010*.
- That any union concerns subsequently raised be appropriately considered to achieve the benefits identified in this PBA.

#### **Pricing**

- That a long-term financial strategy be established based on achieving business/resource sustainability, with profits reinvested back into infrastructure provision where required.
- That decisions regarding pricing levels and structures continue to appropriately consider customer impacts, industry benchmarks and economic development implications.
- Council continue to keep abreast of developments in the airport industry regarding pricing and responsibilities, particularly in light of the recommendations by both the Productivity Commission and ACCC arising from their respective inquiries into Airport pricing issues.

# Table of Contents

<b>DOCUMENT CONTROL.....</b>	<b>I</b>
<b>EXECUTIVE SUMMARY.....</b>	<b>II</b>
<b>TABLE OF CONTENTS.....</b>	<b>VIII</b>
<b>1. PUBLIC BENEFIT ASSESSMENT BACKGROUND .....</b>	<b>1</b>
1.1 BACKGROUND TO THE NATIONAL COMPETITION POLICY.....	1
1.2 NEED FOR THE PUBLIC BENEFIT ASSESSMENT.....	1
1.3 COMPARISON OF BUSINESS MODELS UNDER ASSESSMENT .....	1
1.4 BUSINESS MODELS ADOPTED BY OTHER AIRPORTS .....	3
1.5 APPLICATION OF NCP REFORMS TO THE AIRPORT .....	4
1.6 THE PUBLIC BENEFIT ASSESSMENT PROCESS .....	4
<b>2. BUSINESS STRUCTURE AND OPERATIONS .....</b>	<b>5</b>
2.1 BACKGROUND .....	5
2.2 FUTURE PASSENGER GROWTH AND BUSINESS OPPORTUNITIES .....	5
2.3 BUSINESS STRUCTURE AND GOVERNANCE .....	7
2.4 BUSINESS PERSONNEL .....	7
2.5 SUPPORT SERVICES .....	8
2.6 BUSINESS ASSETS .....	8
2.7 REGULATORY RESPONSIBILITIES .....	9
2.8 PRICE SETTING PRACTICES.....	10
2.8.1 METHODOLOGY .....	10
2.8.2 AIRPORT FEES AND CHARGES.....	10
2.9 OPERATING REVENUE .....	11
2.10 OPERATING EXPENDITURE .....	12
2.11 CAPITAL EXPENDITURE .....	12
2.12 FINANCIAL PERFORMANCE .....	12
2.13 NON-FINANCIAL PERFORMANCE.....	13
2.14 INDUSTRY TRENDS .....	13
2.14.1 PRIVATISATION OF MAJOR AUSTRALIAN AIRPORTS .....	13
2.14.2 PRODUCTIVITY COMMISSION PUBLIC INQUIRY INTO AIRPORT SERVICES.....	14
2.14.3 ACCC REVIEW OF AIRPORT PRICING .....	14
2.14.4 NATIONAL AVIATION POLICY WHITE PAPER .....	15
2.15 BUSINESS PROFILE SUMMARY .....	16
<b>3. STAKEHOLDER CONSULTATION.....</b>	<b>17</b>
3.1 CONSULTATION PROCESS.....	17
3.2 RESPONSES FROM STAKEHOLDERS .....	18
3.3 CONSULTATION OUTCOMES SUMMARY .....	19
3.3.1 EMPLOYEE STAKEHOLDER CONSULTATION OUTCOMES .....	19
3.3.2 LESSEE STAKEHOLDER CONSULTATION OUTCOMES.....	20
<b>4. BUSINESS MODEL ASSESSMENT.....</b>	<b>21</b>



4.1	COMMUNITY IMPACT ASSESSMENT OF BUSINESS MODELS .....	21
4.2	FINANCIAL ASSESSMENT OF BUSINESS MODELS .....	29
4.2.1	OPERATING PERFORMANCE .....	30
4.2.2	FULL COST PRICING PERFORMANCE .....	31
4.2.3	SENSITIVITY ANALYSIS .....	32
<b>5.</b>	<b>RECOMMENDATIONS.....</b>	<b>33</b>
5.1	PBA RECOMMENDATION ON PREFERRED BUSINESS STRUCTURE .....	33
5.2	OTHER STRATEGIC RECOMMENDATIONS .....	33
5.2.1	AIRPORT SUSTAINABILITY .....	33
5.2.2	AIRPORT CAPITAL STRUCTURE .....	33
5.2.3	ESTABLISHMENT COSTS .....	34
5.2.4	RESOURCE SHARING .....	34
5.2.5	STRATEGIC FOCUS AND PERFORMANCE MONITORING .....	34
5.2.6	BOARD STRUCTURE .....	34
5.2.7	EMPLOYEE CONDITIONS .....	34
5.2.8	PRICING .....	34
5.3	TIMETABLE FOR IMPLEMENTATION OF REFORMS .....	35
	<b>APPENDIX A: BUSINESS MODEL IMPLICATIONS.....</b>	<b>37</b>
	<b>APPENDIX B: FEES AND CHARGES 2010/11.....</b>	<b>41</b>
	<b>APPENDIX C: 2010/11 COUNCIL OPERATIONAL PLAN AIRPORT OUTCOMES AND STRATEGIES (AND PROGRESS TO DECEMBER 2010) .....</b>	<b>42</b>
	<b>APPENDIX D: FINANCIAL MODELLING OUTPUTS .....</b>	<b>43</b>

# 1. Public Benefit Assessment Background

---

## 1.1 Background to the National Competition Policy

National Competition Policy (NCP) was adopted by the Council of Australian Governments (COAG – the Commonwealth, the States and the Territories) in 1995 based on the recommendations of the Hilmer Commission to improve the competitiveness of Australian industry. The Queensland Government reviewed and amended the *Local Government Act* and other key legislation to include provisions for facilitating the implementation of NCP to local government business activities.

NCP seeks to ensure fair competition and a level playing field between local government business activities and the private sector with the objective to improve services and value for money, in addition to encouraging better use of the nation's resources. Basically, NCP is designed to make local government business activities more accountable for financing and pricing decisions, as well as other business decisions. Particular emphasis is placed on larger, 'significant business activities' given their potential influence on regional economies.

## 1.2 Need for the Public Benefit Assessment

In accordance with the *Local Government Act*, all Queensland Councils must identify whether they have any 'significant business activities' (SBAs) for the purposes of applying NCP reforms. If any new SBAs are identified, then Council must undertake a Public Benefit Assessment (PBA) to determine the most appropriate business model to be applied to those activities under NCP reforms.

The three available business models for Council SBAs include:

1. The business remains a Council service, but applies Full Cost Pricing (FCP) reforms;
2. The business becomes a Commercial Business Unit (CBU); and
3. The business becomes a Council owned Corporatised Entity.

Gladstone Regional Council (Council) currently owns and operates the Gladstone Airport, which provides aeronautical services to residents and businesses in and around the Gladstone region. Council has recently invested significant capital into the Airport for the construction of new runway and terminal infrastructure. Funding of this capital expenditure through loan borrowings has resulted in the Airport now being considered a significant business activity under relevant expenditure threshold legislation.

***Council has reviewed the activities of the Gladstone Airport and has determined that its activities now constitute a financially significant Type 2 business activity<sup>1</sup>.***

This PBA is therefore being undertaken to determine the appropriate business model to be applied to Gladstone Airport in accordance with the requirements under the *Local Government Act*.

## 1.3 Comparison of Business Models Under Assessment

The primary differences between the business models under assessment are outlined in the table below. These are further expanded in Appendix A.

---

<sup>1</sup> In accordance with the provisions contained in the *Local Government Act*, expenditure for the business (calculated as operating expenses excluding depreciation and competitive neutrality adjustments, but including loan redemption payments) was compared against the threshold amounts published in Section 9 of the *Local Government (Beneficial Enterprises and Business Activities) Regulation 2010*, which for the 2009/10 financial reporting period of 12 months were \$23.6 million for Type 1 and \$7.9 million for Type 2, to determine that the business is in fact a Type 2 SBA.

**Table 1.1: Differences Between the Business Models Under Assessment**

Model	Implications
Full Cost Pricing	<ul style="list-style-type: none"> <li>The business is essentially operated as a departmental service area within Council's organisational structure (with reduced autonomy than under the CBU or Corporate Entity models)</li> <li>Prices are set in accordance with commercial cost recovery, including a commercial return on assets employed in the business</li> <li>Some minor compliance costs would be incurred</li> </ul>
Commercialised Business Unit	<ul style="list-style-type: none"> <li>A separate business unit (not a separate legal entity) within Council's corporate structure is created, with a dedicated, commercially-focused business unit manager employed</li> <li>The business unit has increased managerial autonomy for day-to-day operations of the business</li> <li>The business unit may have a greater ability to source inputs from outside of Council, subject to the framework adopted</li> <li>The business unit features its own business and operating plan</li> <li>The business unit has more of a commercial orientation than under the FCP model, and is subject to separate performance reporting (both financial and non-financial)</li> <li>Prices are set in accordance with commercial cost recovery, including a commercial return on assets employed in the business (as per FCP price setting)</li> <li>Compliance costs will exceed those incurred under the FCP model</li> </ul>
Corporatised Entity	<ul style="list-style-type: none"> <li>A separate corporate entity is created by Council to manage the business, with Council acting as the sole shareholder</li> <li>A Board of Directors is appointed, responsible for policy formulation and governance of the business</li> <li>Council retains ownership and ultimate control of business via its shareholder role, and sets strategic direction for the business and performance expectations of the Board through a Statement of Corporate Intent</li> <li>Corporatisation features a greater business focus than under FCP and CBU model options</li> <li>Prices are set in accordance with commercial cost recovery</li> </ul>

Source: AEC Group, *Local Government (Beneficial Enterprises and Business Activities) Regulation 2010*

It is important to note that all three reform options being considered involve setting prices to recover the same costs that would be incurred by a private sector entity, incorporating:

- Direct and indirect costs (e.g. wages, superannuation, materials, contractors, consumables);
- Administration and management costs;
- Return of capital/depreciation;
- Return on capital invested by Council (e.g. resources, infrastructure, land, buildings, plant/equipment);
- Incorporation of tax equivalents such as Council rates, land tax, payroll tax, FBT and taxes on business profits; and
- Adjustments for other advantages and disadvantages of public sector ownership.

Also, under all business models, non-commercial activities undertaken by the business at the direction of Council – such as providing discounted passenger service charges - need to be funded through Community Service Obligation (CSO) payments if a commercial charge is unable to be levied to cover the cost of the activities.

Adoption of any of the above business models is intended to make the true costs and performance levels of Council business activities more transparent and accountable, thereby facilitating better decisions by Elected Members, Chief Executive Officers and Managers within Queensland Councils. NCP makes no presumption that public sector business activities are inefficient. Instead, the aim of the reforms is to encourage productivity improvement and best practice in the operations of the Council businesses, as well as providing for a level playing field between the public and private sectors in service provision.

It is also important to note that all reform options under consideration do not include privatisation or the 'selling off' of the business. In all instances, Council will continue to retain ownership of the airport. The primary difference between the various options relates to operational responsibility, which is ascribed to Council under FCP, the business manager under the CBU model, and the Board of Directors under the Corporatised Entity

model. There is also an increased commercial focus under the CBU and Corporatised Entity models.

## 1.4 Business Models Adopted by Other Airports

The following table provides a summary of the structural reforms currently adopted by other Queensland Councils with major airport activities for the 2010/11 financial year, as well as a list of business structures for major non-Council airports.

**Table 1.2: Business Models Applied to Other Queensland Airports**

Entity	Owner	Structure
<b>LOCAL GOVERNMENT AIRPORTS IN QUEENSLAND</b>		
Bundaberg Airport	Bundaberg Regional Council	Type 3 Council Business Activity
Emerald Airport	Central Highlands Regional Council	Type 3 Council Business Activity
Hervey Bay Airport	Fraser Coast Regional Council	Type 3 Council Business Activity
Horn Island (Ngurapai) Airport	Torres Shire Council	No Reforms Applied
Longreach Airport	Longreach Regional Council	No Reforms Applied
Rockhampton Airport	Rockhampton Regional Council	Type 3 Council Business Activity (currently subject to PBA process, with the draft PBA report recommending the Corporatised Entity model)
Sunshine Coast Airport	Sunshine Coast Regional Council	Commercialised Business Unit
<b>OTHER AIRPORTS IN QUEENSLAND</b>		
Brisbane Airport	Brisbane Airport Corporation Pty Ltd (BAC)	Australian Proprietary Company, Limited By Shares
Cairns Airport	Cairns Airport Pty Ltd (CAPL) - part of the North Queensland Airports group comprising IIF Cairns Mackay Investment Ltd (an entity advised by JP Morgan Asset Management), The Private Capital Group's The Infrastructure Fund (TIF) managed by Hastings, Perron Investments and Auckland International Airport Limited (AIAL).	Australian Proprietary Company, Limited By Shares
Gold Coast Airport	Gold Coast Airport Pty Ltd	Australian Proprietary Company, Limited By Shares
Hamilton Island Airport	Hamilton Airport Pty Ltd	Australian Proprietary Company, Limited By Shares
Mackay Airport	Mackay Airport Pty Ltd (MAPL) - part of the North Queensland Airports group comprising IIF Cairns Mackay Investment Ltd (an entity advised by JP Morgan Asset Management), The Private Capital Group's The Infrastructure Fund (TIF) managed by Hastings, Perron Investments and the Westpac Banking Corporation.	Australian Proprietary Company, Limited By Shares
Mt Isa Airport	Queensland Airports Limited (QAL)	Australian Public Company, Limited By Shares
Townsville Airport	Queensland Airports Limited (QAL)	Australian Public Company, Limited By Shares

Source: AEC Group

## 1.5 Application of NCP Reforms to the Airport

Since 1966 and prior to the local government amalgamations in 2008, the Gladstone Airport was operated under a joint local government structure (the Gladstone-Calliope Aerodrome Board). As a legally separate standalone entity, the Airport did not see the need to apply NCP reforms, and operated under the general local government related provisions contained in the *Local Government Act*. Profits generated by the Airport in previous years were either reinvested back into the airport to fund capital expenditure, or used to repay borrowings.

The Gladstone-Calliope Aerodrome Board governance structure consisted of three councillors from each of the former component local governments (Gladstone City and Calliope Shire Councils). The day to day operations of the Gladstone-Calliope Aerodrome board were managed by the Chief Executive Officer and employed staff in accordance with the requirements of the *Local Government Act*.

The role of the Board was to formulate and review airport strategy and policy, as well as the development of management plans, budgets, financial controls and performance objectives. Board members were remunerated in accordance with a remuneration policy established in accordance with section 237 of the *Local Government Act*, which included annual allowances for the Board President and Vice President, and meeting fees for all Board members.

Following the amalgamation of the former Gladstone and Calliope Councils, the airport was brought under the direct responsibility of Gladstone Regional Council, resulting in a reduction in independence from Council. The Airport was required to be recognised by Council as a 'Type 3' business activity for NCP purposes, which included the election by Council to apply the 'Code of Competitive Conduct' to the business. This involved the annual application of full cost pricing, identifying any Community Service Obligations (CSO) and eliminating any advantages and disadvantages of public ownership of the Airport.

The recent significant capital investment in the airport runway and terminal has resulted in the Airport business activity now being classified as a new 'Type 2' SBA under the *Local Government Act* and the *Local Government (Beneficial Enterprises and Business Activities) Regulation*. In accordance with the legislation, when new SBAs are identified Council must undertake a PBA to determine the most appropriate business model to be applied to the activity moving forward.

## 1.6 The Public Benefit Assessment Process

The objective of the PBA is to determine whether or not the benefits that may be realised from the business models under consideration outweigh the costs, and which business model will ensure the greatest net benefit for the community.

There are four key stages in the assessment process:

**Stage 1** – *Definition of the existing structure and operation of Gladstone Airport, including management and reporting structures, annual income and expenditure, and other financial arrangements;*

**Stage 2** – *Identification of, and consultation with, stakeholders in the community who might be affected by the outcome of the PBA, including customers, employees, contractors and others, as well as consideration of how the business models will affect each group;*

**Stage 3** – *Assessment of the potential impact of the business models under consideration on the business activity and identified stakeholders; and*

**Stage 4** – *Based on stages 1-3, the provision of recommendations to Council regarding which of the business models is deemed most appropriate for Gladstone Airport, including detail on the costs and benefits of each model as well as a timetable for implementation of the recommended business model.*

Along with satisfying the legislative obligations of undertaking a PBA, the final PBA report may also include consideration of strategic issues identified during the consultation program and assessment process.

## 2. Business Structure and Operations

---

### 2.1 Background

The Gladstone Airport has been in operation since the 1950's, and caters primarily for business and leisure travellers and freight activities associated with the region's developed and emerging industries. The airport also services the international tourist destination of Heron Island. Regular public transport (RPT) services have historically been provided solely by QantasLink, primarily utilising Dash 8 Series Q400 aircraft. Strategic Airlines has recently begun operating a regular public transport service from Gladstone to Brisbane. Helicopter and general aviation flying also occurs on a daily basis at the Airport.

The Airport is located approximately 5 kilometres southwest of the Gladstone city centre. The airport site currently occupies approximately 79 hectares of land, with vehicular access to the airport via Aerodrome Road from the Dawson Highway to the south east. The Dawson Highway links Gladstone with Calliope and the Callide Valley. The site is surrounded by industrial development to the north and west and residential development to the south and east.

Council has recently completed upwards of \$81 million of runway reconstruction and lengthening and terminal augmentation works at the airport. The works were required to meet compliance requirements and to address identified future capacity issues. As a result of these works, the airport is now capable of accepting commercial airliners sized up to B737-800 and A320-200 design standard (i.e. Virgin Australia, Tiger and Jetstar sized airliners).

Gladstone Airport faces a moderate level of competition from the Rockhampton Airport, which is located approximately 115 kilometres away. The Rockhampton Airport has held a competitive advantage in the past with its runway able to cater for larger sized low cost carrier airlines. This has resulted in significant historical passenger leakage, with travellers able to fly into Rockhampton and then travel by car / bus to the Gladstone region.

It is envisaged that the recent runway upgrade will provide an opportunity for the Airport to become more competitive by attracting low cost carriers and increase services and passengers in and out of the airport (already evidenced with the recent commencement of Strategic Airlines services from Brisbane to Gladstone).

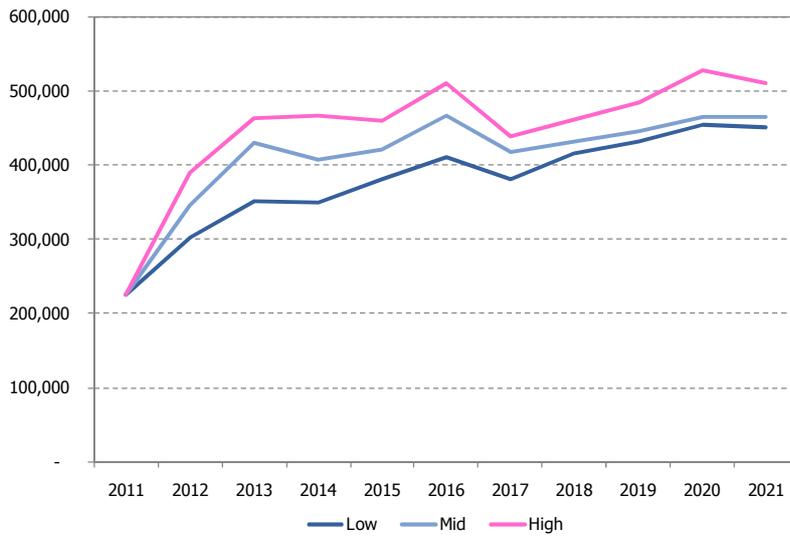
### 2.2 Future Passenger Growth and Business Opportunities

Gladstone Airport services one of Queensland's major industrial regions, with strong growth currently being experienced across a number of business sectors. The Gladstone region is the current location for many of Queensland's large projects of state significance as well as a number of other major projects. For example, the following projects are currently underway or planned for commencement in the Gladstone region:

- Australia Pacific - Integrated liquefied natural gas (LNG) project. (50:50 joint venture between Origin Energy and Conoco Phillips);
- Santos Limited and Petroliam Nasional Berhad (PETRONAS) - liquefied natural gas (LNG) export facility; and
- Queensland Curtis project (BG GROUP) - integrated liquefied natural gas project.

Growth in economic activity in the region is expected to translate into significant employment growth, with an expected corresponding increase in business related passenger movements arriving and departing the airport (particularly due to the expected accommodation shortages and requirement for long distance commuting for workers). The following graph provides indicative airport passenger forecasts based on low, medium and high range growth forecasts:

**Figure 2.1: Projected Airport Passenger Forecasts**

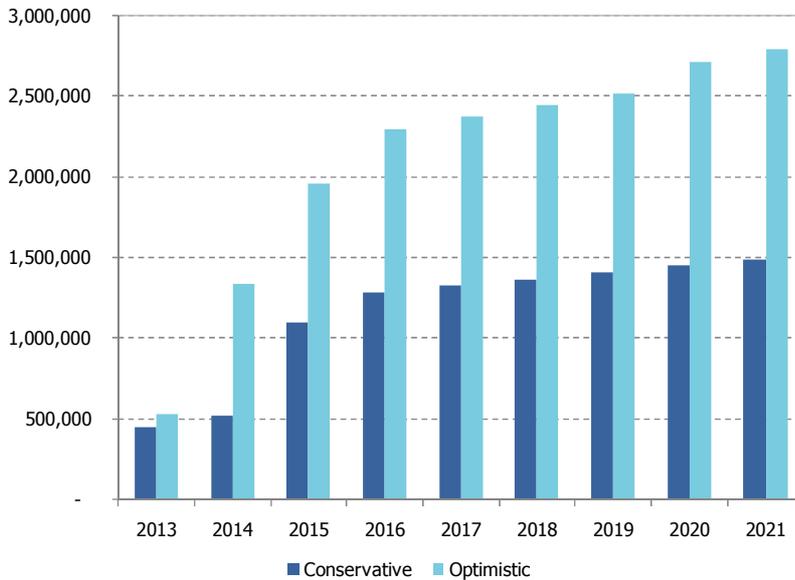


Note: Based on forecasts provided May 2011. More current forecasts indicate growth may actually be higher.  
Source: Gladstone Regional Council

The updating of the Airport master plan is currently underway, which will identify future aviation and non-aviation opportunities. In particular, the master plan seeks to identify opportunities for commercial development on existing unutilised on-airport land. It is believed that these commercial opportunities may assist the Airport in promoting further business-sector growth as well as diversifying the Airport revenue sources in the short to medium term and reducing its reliance on passenger charges and landing fees (which currently contribute 92% of Airport revenues).

The following graph outlines the potential revenue stream associated with commercial Airport land development identified as part of the master planning process (incorporating conservative and optimistic revenue streams).

**Figure 2.2: Master Plan Commercial Revenue Forecasts**



Source: Gladstone Regional Council

## 2.3 Business Structure and Governance

The diagram below presents the current structure of the Gladstone Airport business activity, and its relationship within Council's overall organisational structure. The business resides within the Corporate Services directorate, with the Airport Manager reporting directly to the Director Corporate Services.

**Figure 2.3: Gladstone Airport Governance Structure**



Source: Gladstone Regional Council

## 2.4 Business Personnel

The Airport currently employs 28 staff, who undertake a variety of operational and administrative functions for the business.

**Table 2.1: Current Airport Employees**

Section	Employees	Proportion %
Management and Administration	5	18%
Technical Officers	2	7%
Reporting Officers	5	18%
Screening and Baggage	15	54%
Cleaning	1 <sup>(a)</sup>	3%
<b>Total</b>	<b>28</b>	<b>100%</b>

Note: (a) Two cleaning employees part time  
Excludes contract staff currently utilised for the Airport upgrade works  
Source: Gladstone Regional Council

Employees of the business are currently employed subject to Council's current Enterprise Bargaining Agreement<sup>2</sup> (EBA) and the following parent awards:

- *Local Government Employees (excluding Brisbane City Council) Award State 2003;*
- *Queensland Local Government Officers Award 1998;*
- *Building Trades Public Sector Award State 2003;*
- *Engineering Award – State 2002; and*
- *Apprentices and Trainees Wages and Conditions.*

Specific special work arrangements for Airport reporting officers are contained in the current EB agreement, that outline the specific employee conditions applicable to those affected Airport employees, given the particular nature of operating a Airport business (such as non standard operating hours). A special workplace agreement was also recently finalised with respect to the new screening officer positions. This agreement commenced

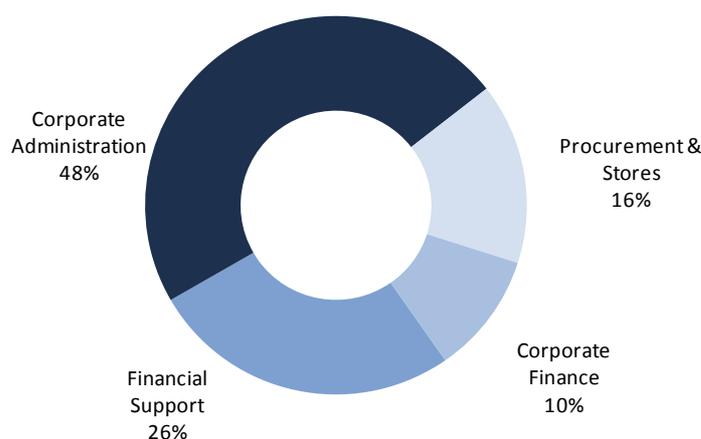
<sup>2</sup> The EBA for current Gladstone Regional Council employees was finalised in 2008 to replace the individual agreements of the former Councils prior to amalgamation. The EBA is operational until the 7<sup>th</sup> September 2011.

on 1<sup>st</sup> January 2011 and is due to expire with the ending of the existing Council EBA on 7<sup>th</sup> September 2011.

## 2.5 Support Services

Gladstone Airport utilises a number of support services from Council via internal support service arrangements and is charged a calculated percentage (based on expenditure) of corporate overhead costs to represent payment for these services. The charge levied on the operating and capital budgets of the business in 2010/11 is \$0.16 million, to cover financial support, corporate administration (receipting, customer services), procurement and stores, and corporate finance charges.

**Figure 2.4: Distribution of Overhead Charges, 2010/11 Budget**



Source: Gladstone Regional Council

The business is also levied usage based charges for information technology support (per computer), Accounts Payable and Stores Issues (per transaction), and receives charges for its usage of Council's payroll, human resource, and workplace health and safety services via Council's labour based on-costing process.

## 2.6 Business Assets

The following table summarises the key asset types utilised by the airport for its business activities.

**Table 2.2: Main Airport Asset Types**

Asset Type	Description
Land	<ul style="list-style-type: none"> <li>79 hectares</li> </ul>
Runway / Taxiway	<ul style="list-style-type: none"> <li>Single sealed runway (1,965 metres long and 45 metres wide)</li> <li>Significant reconstruction and lengthening of the runway recently undertaken to meet required Civil Aviation Safety Authority (CASA) standards and address runway structural deficiencies</li> <li>Capable of accepting commercial airliners sized up to B737-800 and A320-200</li> </ul>
Terminal	<ul style="list-style-type: none"> <li>Arrival and departure hall areas</li> <li>Bistro</li> <li>Check bag and passenger screening</li> <li>Rental car booths</li> <li>RPT check-in desks</li> </ul>
Aprons	<ul style="list-style-type: none"> <li>RPT apron</li> <li>Helicopter apron</li> <li>GA apron</li> </ul>
Lighting	<ul style="list-style-type: none"> <li>Runway edge lighting system</li> <li>Floodlights for RPT apron</li> <li>Lower apron retaining wall lighting</li> </ul>
Navigation Aids	<ul style="list-style-type: none"> <li>Aerodrome beacon</li> <li>Obstacle lights / beacons</li> </ul>

Asset Type	Description
Carpark	<ul style="list-style-type: none"> <li>• Long term parking area provided on the eastern side of the terminal building</li> <li>• Public car parking in front of the terminal building</li> <li>• Kerbside bus zone, loading zones and taxi bays</li> <li>• Rental car bays adjacent to the RPT car park</li> <li>• Overflow car park</li> </ul>
Other Buildings	<ul style="list-style-type: none"> <li>• Fuelling facility</li> <li>• Shed for storing fuel testing equipment, emergency equipment, a tractor and truck</li> <li>• Airport Management Centre</li> <li>• Motor vehicle detailing facilities</li> <li>• Hangar occupied by Australian Helicopters</li> <li>• Freight offices</li> <li>• Manager's residence</li> <li>• 3 bay vehicle/equipment garage</li> <li>• Electrical generator building (houses the PALC and automatic frequency response unit (AFRU))</li> </ul>

Source: Gladstone Regional Council

At 30<sup>th</sup> June 2010, the value of the assets utilised by the business was just under \$39 million, excluding the majority of the \$81 million currently being spent to fund the runway and terminal upgrade. Airport assets represented just over 3% of the total assets owned and operated by Council at 30<sup>th</sup> June 2010, although this will increase to 9% after the capitalisation of the recent runway and terminal upgrade.

**Table 2.3: Value of Airport Assets**

	Replacement Value (\$'000)	Accumulated Depreciation (\$'000)	Written Down Value (\$'000)
Land	\$26,368	-	\$26,368
Runway / Taxiway	\$2,635	(\$50)	\$2,685
Terminal	\$7,563	\$88	\$7,476
Aprons	\$528	\$78	\$450
Lighting	\$282	\$79	\$203
Navigation Aids	\$22	\$4	\$18
Buildings / Other Assets	\$1,664	\$70	\$1,594
<b>Total Business</b>	<b>\$39,062</b>	<b>\$269</b>	<b>\$38,793</b>

Note: Negative accumulated depreciation for Runway/Taxiway is as a result of impairment adjustments  
Source: Gladstone Regional Council

## 2.7 Regulatory Responsibilities

As a joint local government, the previous Gladstone-Calliope Aerodrome Board was required to comply with all local government legislation. In addition to this, the Board was also required to comply with applicable federal aviation legislation in its role as a regional airport.

The current Gladstone Airport business activity is still required to comply with a variety of state and federal legislative requirements. The following provides an example of some of these key legislative instruments:

- *Airspace Act and Airspace Regulation 2007;*
- *Civil Aviation Act 1998;*
- *Civil Aviation Safety Regulations 1998;*
- *Civil Aviation Regulations 1988;*
- *Local Government Act 2009;*
- *Local Government (Beneficial Enterprises and Business Activities) Regulation 2010;*
- *Local Government (Finance, Plans and Reporting) Regulation 2010;*
- *Local Government Taxation Equivalents Regime;* and
- *Freedom of Information Act.*

Regulatory requirements surrounding the application of NCP reforms to the Airport for 2010/11 include:

- Application of full cost pricing including financial adjustments to ensure competitive neutrality;
- Reporting the finances of the business separately from Council in the annual budget papers; and
- Specific reporting obligations for the business in Council’s annual report.

## 2.8 Price Setting Practices

### 2.8.1 Methodology

The Airport is responsible for recommending appropriate revenue targets, price structures and price paths to Council to ensure the ongoing viability of the business, with Council having final approval for the setting of Airport fees and charges. The provisions contained in the *Local Government (Beneficial Enterprises and Business Activities) Regulation 2010* require prices to be generally set to deliver sufficient revenue to meet the following objectives:

- Full cost recovery including required rates of return on capital employed;
- Competitive neutrality;
- Economic, asset and ecological sustainability;
- Elimination of cross subsidies; and
- Transparency in pricing regarding Community Service Obligations (CSOs).

### 2.8.2 Airport Fees and Charges

The Gladstone Airport fees and charges are levied pursuant to section 262(3)(c) of the *Local Government Act 2009* on a user pays basis. Appendix B outlines the applicable fees and charges for 2010/11 from which revenues are derived.

As a Council business and service provider, the Airport operates on a user pays basis, with the intention that operating costs are funded by collected revenues. In terms of fees charged a passenger service charge is applicable to each Regular Public Transport (RPT) passenger, with landing fees also levied on RPT aircraft as well as passenger helicopters and itinerant aircraft. The business currently allows a 5% discount on regular public transport operators & charter operator payments made within 21 days of month end.

Annual parking fees are levied on Gladstone based itinerant aircraft and helicopters. Charges apply for use of the long-term secure car park and the passenger terminal public car park, but only after a two-hour free period. Airport management also receives rental income from airport lessees and operates the aviation fuel facility in an agent capacity for Shell Australia.

The following table provides comparative benchmarking information on passenger service charges as well as car parking charges for other airports throughout Queensland. The information shows that Gladstone Airport’s passenger service charges are the highest within the survey group, whilst car parking charges appear comparative with other regional airports.

**Table 2.4: Comparative Queensland Airport Fees and Charges, 2010/11**

Airport	Passenger Charges	Car Parking Charges (per 24 hours)
Gladstone	Passenger Service Charge - \$27.50 Concessional PSC - \$13.75	Short Term - \$20.00 Long Term - \$10.00
Rockhampton	Passenger Service Charge - \$5.50 Common User Charge - \$1.65	Short Term - \$20.00 Long Term - \$10.00
Bundaberg	Passenger Service Charge - \$8.80	-
Emerald	Passenger Service Charge - \$18.00 Concessional PSC - \$9.00	-

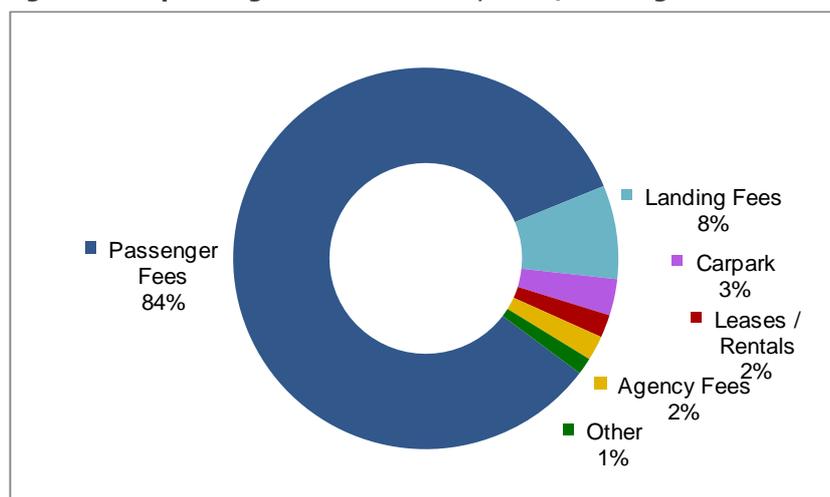
Airport	Passenger Charges	Car Parking Charges (per 24 hours)
Hervey Bay	Passenger Service Charge - \$15.00	Short Term - \$12.00
Longreach	Passenger Service Charge - \$17.75 Concessional PSC - \$9.10	-
Sunshine Coast	Passenger Service Charge - \$13.30	Short Term - \$19.00 Long Term - \$13.00
Brisbane	Passenger Service Charge - \$9.15 (incl. aerobridge usage) Common User Terminal Equipment charge - \$0.41	Short Term - \$40.00 Long Term - \$40.00
Gold Coast	Passenger Service Charge - \$6.05 Terminal Usage - \$3.47 Security Screening Charge - \$1.76 General Security Levy - \$0.44 Baggage Infrastructure Charge - \$0.825 Common User Terminal Equipment Charge - \$0.297	Short Term - \$20.00 Long Term - \$14.00
Mackay	Passenger Service Charge - \$10.37	Short Term - \$20.00 Long Term - \$14.00
Mt Isa	Passenger Service Charge - \$14.63 Common User Charge - \$7.81 Screening Charge - \$3.19 Checked Baggage Screening - \$3.19	Short Term - \$20.00 Long Term - \$14.00
Townsville	Passenger Service Charge - \$5.20 Common User Charge - \$2.42 Checked Baggage Screening - \$2.32	Short Term - \$27.00 Long Term - \$14.00

Note: Fees include GST  
Source: AEC Group, assorted service providers

## 2.9 Operating Revenue

The Airport collects the majority of its \$5.7 million of operating revenue from landing fees and passenger service fees (approximately \$5.2 million or 92% of revenues). Other fees and charges are received by the business for car parking (\$0.18 million), leasing of airport facilities (\$0.11 million), fuel distribution agency fees (\$0.12 million), and other general fees and charges of (\$0.08 million).

**Figure 2.5: Operating Revenue Sources, 2010/11 Budget**



Source: Gladstone Regional Council

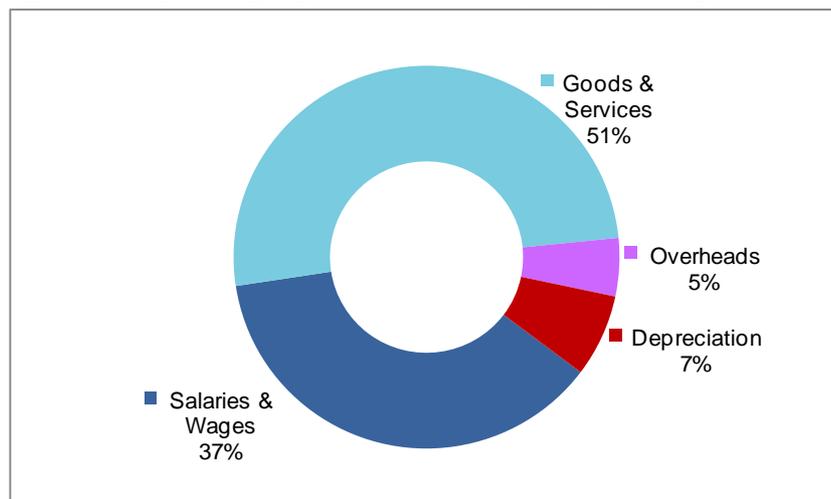
In order to ensure that it is not placed at a financial disadvantage to private sector entities, the Airport should be provided with compensation by Council for the net cost it incurs for any non-commercial or community service activities it undertakes upon direction by Council – such activities are called Community Service Obligations (CSOs). In March 2011, Council resolved to adopt CSOs for the provision of annual landing fees as a donation for the Royal Flying Doctor Service, Angel Flight and Capricorn Helicopter Rescue Service.

A further review of potential CSOs may be required to ensure that all non-commercial activities requested of the business by Council are appropriately identified and funded through CSO payments from Council's general fund.

## 2.10 Operating Expenditure

Operations and maintenance (O&M) expenses for 2010/11 are forecast at approximately \$3.3 million. Expenditure items include employee costs of \$1.2 million, materials and services costs of \$1.6 million, depreciation of \$0.2 million and Council overhead charges of \$0.2 million.

**Figure 2.6: Operating Expenditure Sources, 2010/11 Budget**



Note: Excludes competitive neutrality adjustments  
Source: Gladstone Regional Council

## 2.11 Capital Expenditure

The Airport expects to complete \$42.6 million of capital works in 2010/11, with the majority being for the completion of the runway and terminal upgrade project. In addition to the airport upgrade, other capital works include \$0.10 million for security fencing, \$0.065 million for electrical and CCTV upgrades, and \$0.06 million for other minor works. The runway upgrade/development project has expanded well beyond its original budget forecast and is now estimated to cost \$81 million in total (with \$65 million funded by Council, \$5.5 million by the federal government and \$10.5 million by the LNG industry proponents).

Changes in the original project scope include:

- Further terminal expansion including the provision for aviation security (the latter funded by the federal government);
- Provision for a precision approach instrument landing system (ILS) including preparatory site works, high intensity runway lighting upgrade, equipment installation and 15 year calibration/maintenance contract with Airservices Australia; and
- Widening of the newly constructed runway from 30 to 45 metres to comply with a last minute change (December 2010) in Civil Aviation Safety Authority (CASA) regulatory policy for operation of B737/A320 aircraft.

It is understood that further works to upgrade the terminal and establish commercial precincts are anticipated over the next 5 to 10 years, as well as requirements to undertake minor works and renewal / replacement works. At present, no indicative costs have been established in relation to these works.

## 2.12 Financial Performance

The following table provides an assessment of the financial performance of the Airport in recent years. An operating surplus has been achieved in all years except 2008 and 2009,

with the Airport required in 2008 to significantly write down the value of its assets due to a significant reduction in the remaining useful life of certain sections of the airport runway. The global financial crisis also impacted on passenger movements and Airport revenues in 2009, with passenger related revenues rebounding in 2009/10 and further strong performance predicted for 2010/11. The Airport remains well short of achieving its full targeted return on capital.

**Table 2.5: Operating Financial Performance, 2007-2011**

	2006/07 Actual (\$'000)	2007/08 Actual (\$'000)	2008/09 Actual (\$'000)	2009/10 Actual (\$'000)	2010/11 Budget (\$'000)
Operating Income	\$2,277	\$1,803	\$2,346	\$3,747	\$5,688
<b>Total Operating Income</b>	<b>\$2,277</b>	<b>\$1,803</b>	<b>\$2,346</b>	<b>\$3,747</b>	<b>\$5,688</b>
Operating Costs	\$1,112	\$933	\$2,128	\$2,007	\$3,040
Competitive Neutrality	\$-	\$-	\$92	\$536	\$624
Depreciation	\$443	\$1,727	\$320	\$251	\$228
<b>Total Operating Costs</b>	<b>\$1,555</b>	<b>\$2,660</b>	<b>\$2,540</b>	<b>\$2,794</b>	<b>\$4,529</b>
<b>Operating Surplus/(Deficit)</b>	<b>\$722</b>	<b>(\$857)</b>	<b>(\$194)</b>	<b>\$953</b>	<b>\$1,169</b>
Targeted Return on Capital	n.a.	n.a.	\$2,767	\$5,012	\$7,652

Notes: 2007/08 actuals based on 8.5 months, 2008/09 actuals based on 15.5 months, n.a. = information not available  
Source: AEC Group, Gladstone Regional Council

## 2.13 Non-Financial Performance

Non financial performance measures for the Airport are included in Council's annual operational plan that assists in meeting the strategic objectives contained in its Corporate Plan. Appendix C provides a list of the key performance indicators applicable to the airport business and contained in Council's annual operational plan.

Council provides a quarterly assessment of its performance against its key indicators to measure its progress in achieving its Corporate Plan outcomes. Appendix B also provides the second quarter performance (i.e. as at December 2010) per indicator for the business. A summary of performance is outlined in the table below, which indicates the business has completed 15% of its targets at the end of the 2<sup>nd</sup> quarter.

**Table 2.6: Summary of Performance against Targets December 2010**

Program Output	On Track	Off Track	Completed	Amended	Total
Manage Council's financial and physical resources to the most beneficial and sustainable effect	1	0	0	0	<b>1</b>
Provide Gladstone Region with an efficient and effective airport facility	5	0	2	5	<b>12</b>
<b>Total Business</b>	<b>6</b>	<b>0</b>	<b>2</b>	<b>5</b>	<b>13</b>
<b>Total Business %</b>	<b>46%</b>	<b>0%</b>	<b>15%</b>	<b>38%</b>	<b>100%</b>

Source: Gladstone Regional Council

## 2.14 Industry Trends

### 2.14.1 Privatisation of Major Australian Airports

In 1997, the Australian Government implemented a process of privatisation for all key domestic airports being operated by the Government's Federal Airports Corporation. This process involved the sale of all long-term leases over airports for a 50 year period, with an option to renew for a further 49 years. This privatisation was implemented in conjunction with strict regulation and monitoring of both pricing and service levels of the newly privatised airports. The intent of the regulation was to ensure that monopoly pricing did not occur, airport assets were not 'run down' and service standards were maintained.

More recently, the Queensland Government decided to divest its Airport shareholding interests as part of its strategy to withdraw from owning and operating Airports. During 2008 the Queensland Government received \$1.028 billion (including stamp duty) from

the sale of its investments in the Brisbane, Cairns and Mackay Airports to private investors. As a result the only remaining government owned Airports in Queensland are local government owned Airports such as those in Gladstone, Sunshine Coast, Rockhampton, Emerald, Bundaberg, Hervey Bay, Horn Island (Ngurapai) and Longreach.

### 2.14.2 Productivity Commission Public Inquiry into Airport Services

The Australian Government's Productivity Commission has been involved in undertaking reviews of the effectiveness of the Airport services regulatory environment every five years since the privatisation of Federal Government-owned airports in 1997.

The first inquiry was held in 2002, and was undertaken to assess the impact of price regulation of the Airport services industry. This inquiry only focused on Australia's key domestic airports at Brisbane, Sydney, Melbourne, Adelaide and Perth. The inquiry was commissioned to review the effectiveness of the 1997 reforms and address concerns that some major Airports with significant market power (given their monopoly) were unfairly raising prices. This inquiry determined that the level of regulation introduced in 1997 was too heavy-handed and the risk and potential costs of strict price controls were being compounded by the information problems confronting the regulator. This information problem led to a risk of regulatory failure and as a result distorted production and investment decisions. As a result of this inquiry, the Australian Government subsequently introduced a light-handed approach to price regulation of Airport services.

In 2006, the Productivity Commission undertook a follow-up inquiry to assess the effectiveness of a light-handed approach to price regulation within Australia's key domestic Airports, finding that:

- Price increases and rates of return earned by the monitored Airports do not appear to have been excessive;
- Levels of service provided by the Airports have been rated between satisfactory to good;
- A more favourable and timely investment environment exists under the light-handed regulatory environment;
- Compliance costs have been relatively modest; and
- The behaviour of airports in relation to negotiating non-price terms with commercial customers has been less than satisfactory, partially as a result of such issues not being explicitly covered by the regulation and monitoring process.

In 2011, the Productivity Commission commenced the latest inquiry into the effectiveness of the economic regulation of airport services, with the report expected to be made public by December 2011.

### 2.14.3 ACCC Review of Airport Pricing

In March 2010, the Australian Competition and Consumer Commission (ACCC) released the *Airport Monitoring Report, 2008-09*. This report investigated prices, financial performance and quality of service monitoring in relation to the provision of aeronautical and car parking services at Australia's key domestic airports. In particular the report addresses whether the monitored domestic airports are exercising their market power.

The key outcomes for aeronautical services were as follows:

- All monitored airports recorded increased revenue per passenger;
- Overall quality of service ratings also increased for nearly all monitored airports; and
- Sydney Airport appears to be the only airport that is potentially using its market power to earn monopoly rents;

Key outcomes for car parking services were as follows:

- Total car parking revenue increased, on average, by 9.4% during 2008-09;
- Many airports, particularly Melbourne, appear to have taken advantage of market power and reduced competition from off-airport car parking and private bus operators by imposing excessive levies;

- It is unclear whether actual rates charged for parking are excessive although concerns exist that Sydney Airport is earning excessive returns on investment; and
- Brisbane Airport, whose car parking facilities have been at capacity for some time, has been slow to invest in new parking infrastructure potentially having the effect of pushing up prices and its return on investment.

#### 2.14.4 National Aviation Policy White Paper

In December 2009, the Federal Government's Department of Infrastructure and Transport released the National Aviation Policy White Paper (following an earlier policy green paper release). This paper represents the first aviation policy statement by the Federal Government with the aim of consolidating all other aviation policies and implementing an enhanced regulatory environment for the industry. The objective of the policy statement is:

- To give the industry the certainty and incentive to plan and invest for the long term;
- To maintain and improve Australia's excellent safety record;
- To give proper consideration to the interest of travellers and user of airports; and
- To better manage the impact of aviation activities on communities and the environment.

To ensure that these objectives are reached, the policy statement sets out a list of initiatives to be implemented that address issues relating to planning and development, regulation and investigation, safety and security, air traffic as well as noise and carbon emissions. The following points list out some of the key initiatives listed that may impact the regulatory, economic and strategic management aspects for Gladstone Airport:

- Consolidation of all subsidy schemes and work with state and local governments and communities to identify routes and aerodromes that might be developed as hubs for serving remote areas;
- Ensuring airport master plans are maintained with a continued focus on aviation development at secondary airports and not allowing non-aeronautical uses to compromise future aviation activity;
- Establishment of more detailed master plans, including ground transport plans and airport environment strategies;
- Establishment of a new requirement for developments with a significant community, economic or social impact to go through a Major Development Plan assessment, which will enable the Government to better assess the impact of airport development on surrounding communities;
- Establishment of formalised Community Aviation Consultation Groups to ensure that local communities have direct input on airport planning matters, with appropriate arrangements for engagement with other industry stakeholders such as airlines and Airservices Australia where necessary;
- Establishment of a requirement for all applications for building approval on airport sites to be published;
- Prohibition of incompatible developments on airport sites, such as residential developments and schools, unless exceptional circumstances exist;
- Continuation of the existing economic regulatory regime for leased airports, including the price and quality of service monitoring regime conducted by the ACCC until at least 2013, with a full review by the Productivity Commission in 2012;
- Introduction of a self-administered price and quality of service monitoring regime for second-tier airports; and
- Inclusion of the second tier monitoring system in the 2012 Productivity Commission review to assess the effectiveness of these arrangements.

## 2.15 Business Profile Summary

**Table 2.7: Business Profile Summary**

Issue	Business Profile Outcome
Business Structure and Governance	<ul style="list-style-type: none"> <li>• Prior to amalgamation, the Gladstone Airport was operated under a joint local government structure (the Gladstone-Calliope Aerodrome Board)</li> <li>• Following amalgamation, the Airport was identified by Council as a 'Type 3' business activity and the Code of Competitive Conduct was adopted as the relevant level of NCP reform</li> <li>• The business resides within the Corporate Services Directorate of Council, with the Airport Manager reporting to the Director Corporate Services</li> <li>• The Airport has now grown to a size that requires (and warrants) a further review of the appropriate business model to apply moving forward</li> </ul>
Personnel	<ul style="list-style-type: none"> <li>• The Airport currently employs 28 staff</li> <li>• The Airport utilises Council's internal support services in areas such as financial support, corporate administration (receipting, customer services), procurement and stores, human resources and information technology</li> </ul>
Functions	<ul style="list-style-type: none"> <li>• The Airport receives nearly 200,000 passengers on an annual basis, with strong growth expectations predicted to increase the number of passengers per annum to over 600,000 by 2031</li> <li>• The airport is currently serviced by two major domestic airlines, Qantas and Strategic Airlines</li> </ul>
Responsibilities	<ul style="list-style-type: none"> <li>• In addition to its service provision responsibilities, the business has a large number of regulatory responsibilities regarding price-setting practices, business planning, asset management and customer service standards</li> </ul>
Pricing	<ul style="list-style-type: none"> <li>• The business is responsible for recommending appropriate revenue targets, price structures and price paths to Council to ensure the ongoing viability of the business, with Council having final approval on pricing levels</li> <li>• Passenger service charges account for over 84% of revenue received</li> <li>• The business also charges landing fees, aircraft parking, vehicle parking for longer than 2 hours, as well as lease fees for small commercial operators (flying schools, helicopter services, etc)</li> </ul>
Financial Performance	<ul style="list-style-type: none"> <li>• Budgeted operating revenue for the Airport in 2010/11 is \$5.7 million, with passenger charges and landing fees (\$5.2 million) and parking and lease fees (\$0.4 million) accounting for the majority of revenue received</li> <li>• Total operating expenditure for the Airport in 2010/11 is \$3.3 million, with significant cost items including employee costs (\$1.2 million), materials and services (\$1.6 million), depreciation (\$0.2 million) and internal charges from Council (\$0.2 million)</li> <li>• The Airport receives modest Community Service Obligations by returning landing fee equivalents to the Royal Flying Doctor, Angel Flight and Capricorn Helicopter Rescue Services</li> <li>• An operating surplus was realised in 2009/10, with surpluses also forecast for 2010/11, 2011/12 and 2012/13</li> <li>• Operating profitability has been mixed since 2007, due to asset write downs and the impact of the global financial crisis</li> <li>• The operating surpluses achieved by the Airport remain well below its full targeted return on capital</li> </ul>
Non-Financial Performance	<ul style="list-style-type: none"> <li>• Non financial performance measures for the Airport are included in Council's annual operational plan</li> <li>• The Airport has completed 15% of its targets for the period July – December 2010</li> </ul>
Assets	<ul style="list-style-type: none"> <li>• The written down value of assets utilised by the business at 30<sup>th</sup> June 2010 was \$38.7 million, with a replacement cost of \$39.1 million</li> <li>• The Airport has almost completed \$81 million of capital works to upgrade the runway and terminal facilities to cater for future regional growth requirements, which will significantly increase the value of the assets utilised by the business</li> <li>• Capital expenditures are anticipated in future years to accommodate further growth in passenger numbers and the development of Airport commercial precincts</li> </ul>
Industry Trends	<ul style="list-style-type: none"> <li>• Federal and State Governments have progressively divested ownership in Airports over the last 30 years</li> <li>• Industry trends suggest an ongoing focus by other levels of government on monitoring of pricing and service levels of airports</li> </ul>

Source: AEC Group

## 3. Stakeholder Consultation

### 3.1 Consultation Process

Consultation is a key tool in identifying the costs and benefits that may accrue to different stakeholders within and outside of the Gladstone region as a result of implementing the business models under consideration. The consultation program also provides a forum for stakeholders to express concerns and/or suggestions regarding any aspect of the reform process and/or the future strategy of the airport.

A targeted consultation approach was adopted as part of this PBA to ensure that key stakeholders had appropriate opportunity to provide input into the process.

**Table 3.1: PBA Consultation Process**

Stage	Action
Information Preparation	<ul style="list-style-type: none"> <li>A Stakeholder Information Paper was prepared for distribution to key stakeholders, setting out the key features of competition policy and competitive neutrality, as well as the potential implications of each business model</li> </ul>
Public Announcement	<ul style="list-style-type: none"> <li>The PBA process was announced in the 'Gladstone Observer' on Saturday 23<sup>rd</sup> April 2011, with Council's internet site also featuring a public notice announcing the PBA</li> <li>A copy of the stakeholder information paper was also made available for download on Council's internet site</li> <li>Interested parties were invited to submit comments on the implications of each business model by 23<sup>rd</sup> May 2011 (although leniency was allowed for submissions after 23<sup>rd</sup> May)</li> </ul>
Identification of Interested External Parties	<ul style="list-style-type: none"> <li>Specific stakeholders that could be affected by any changes to the airport's activities were identified, sent a copy of the Stakeholder Information Paper directly and asked to provide comments on the implications of each business model under consideration</li> <li>The stakeholder groups targeted included:                             <ul style="list-style-type: none"> <li>Customers and the general public</li> <li>Business and industry</li> <li>Environmental bodies</li> <li>Suppliers, contractors and Airport Lessees</li> <li>Airport management</li> <li>Employees of the airport</li> <li>Regulators (i.e. State Government)</li> <li>Unions</li> </ul> </li> </ul>
Internal Consultation	<ul style="list-style-type: none"> <li>Stakeholders within Council and the airport business were consulted and comments sought regarding the PBA process and potential outcomes</li> <li>The following consultation methods were adopted:                             <ul style="list-style-type: none"> <li>Targeted discussions with Council's executive management (CEO, Director Finance)</li> <li>Targeted discussions with the Director Corporate Services and the Manager Airport</li> <li>Information handouts and sessions for Airport staff</li> </ul> </li> </ul>

Source: AEC Group

## 3.2 Responses from Stakeholders

The following table provides a summary of the responses received from stakeholders.

**Table 3.2: Responses from Stakeholders**

Stakeholder	Process Undertaken and Response Received
<b>EXTERNAL STAKEHOLDERS</b>	
Unions	<p>The following unions were provided Stakeholder Information Papers for comment:</p> <ul style="list-style-type: none"> <li>• Transport Workers Union</li> <li>• Australian Workers Union</li> <li>• Australian Municipal, Administrative, Clerical and Services Union (Queensland Services Union)</li> <li>• Association of Professional Engineers, Scientists and Managers Australia</li> <li>• Construction, Forestry, Mining and Energy Union</li> </ul> <p><i>One submission was received by the Queensland Services Union. The response expressed that the union was opposed to a Corporate Entity structure given a risk exists that airport employees may lose their current conditions of employment. In addition, the Union feels that the expected commercial objectives prescribed for a significant business activity can still be achieved if the airport remains part of Council's corporate structure rather than to corporatise.</i></p>
Regional Business Representatives	<p>The following key local and regional business organisations were provided Stakeholder Information Papers for comment:</p> <ul style="list-style-type: none"> <li>• Gladstone Chamber of Commerce</li> <li>• Discovery Coast Tourism and Commerce Inc</li> <li>• Gladstone Area Promotion and Development Ltd</li> </ul> <p><i>No responses were received by the closing date</i></p>
Business Customers and Airport Lessees	<p>The following identified business customers and lessees were provided with Stakeholder Information Papers for comment:</p> <ul style="list-style-type: none"> <li>• Lorton (QLD) Pty Ltd</li> <li>• Hertz Australia Pty Ltd</li> <li>• Remberg Pty Ltd</li> <li>• CLA Trading Pty Ltd</li> <li>• Famasika Pty Ltd</li> <li>• Central Car &amp; Truck Rental Pty Ltd</li> <li>• DSB Express Couriers</li> <li>• Marine Helicopters Pty Ltd</li> <li>• Traikliz Pty Ltd</li> <li>• Neatford Pty Ltd</li> <li>• Nixon Communications Pty Ltd</li> <li>• EF, PB &amp; SE Ryan</li> <li>• Straatmans: T, KE &amp; D</li> <li>• Curry-Kenny Promotions Pty Ltd</li> <li>• Aerotor Pty Ltd</li> <li>• Qantas</li> <li>• Strategic Airlines</li> <li>• John Groth</li> </ul> <p><i>An information session was held with interested Airport customers on 2nd June 2011 at the Airport regarding the PBA process. A number of current lessees at the Airport expressed concerns regarding the impact of any change in structure on existing licences and agreements, along with concerns regarding the likely cost impacts associated with a move to a Corporate Entity structure.</i></p>
General Community	<p>The public advertisement of the PBA process requested submissions from interested parties.</p> <p><i>No responses were received by the closing date.</i></p>
Environment	<p>The following identified local and regional environmental organisation was provided with a Stakeholder Information Paper for comment:</p> <ul style="list-style-type: none"> <li>• Fitzroy River Basin</li> </ul> <p><i>No responses were received by the closing date.</i></p>

Stakeholder	Process Undertaken and Response Received
Regulators	<p>The following regulators were provided Stakeholder Information Papers for comment:</p> <ul style="list-style-type: none"> <li>• Civil Aviation and Safety Authority</li> <li>• Queensland Competition Authority</li> <li>• Environmental Protection Agency</li> <li>• Department of Local Government and Planning</li> <li>• Department of Environment and Resource Management</li> </ul> <p><i>Responses were received from the Department of Environment and Resource Management (who advised that the scope of the PBA was outside their role as environmental regulator and as such they were unable to comment) as well as the Civil Aviation Safety Authority who advised that regardless of the business structure the Airport must comply with its safety responsibilities.</i></p>
<b>INTERNAL STAKEHOLDERS</b>	
Councillors	<p>Councillors were informed of the PBA process through Council meetings on 15 March 2011. They were requested to provide back any comments and feedback along with all other stakeholder submissions.</p> <p><i>No responses were received by the closing date, with Councillors awaiting the opportunity to comment following the release of the draft report.</i></p>
Airport Employees	<p>Information papers were provided to employees of the business outlining the PBA process and addressing potential concerns that may exist. The Airport Manager held briefing sessions to discuss the process, reform options and address any concerns raised.</p> <p><i>Seven responses were received from Airport employees. All employee responses indicated that a Corporate Entity business model was preferred due to increased potential for a more commercial focus. However, a number of concerns were raised regarding maintaining job and pay security under a Corporate Entity structure.</i></p>
Council Senior Management and Airport Management	<p>The implications of each business model under assessment were discussed with Council senior management and also the Airport Manager on 2nd June 2011.</p> <p><i>There was a general consensus that the most appropriate business model for the Airport moving forward would involve the business having the ability to take advantage of commercial opportunities in a timely fashion to ensure that the Airport operates in a manner that maximises the significant recent investment made by the community into the Airport.</i></p>

Source: AEC Group

### 3.3 Consultation Outcomes Summary

The response rates received as part of the consultation program in this PBA were similar to response rates achieved by similar PBA exercises for other local government SBAs. The majority of issues raised during the consultation process outside of the above-mentioned concerns from one of the unions were from two key stakeholder groups, Airport employees and also its customers (namely lessees). The responses received from these two groups are discussed in further detail below.

#### 3.3.1 Employee Stakeholder Consultation Outcomes

Submissions were received from seven of the airport's employees in response to the stakeholder consultation process, which equates to a high feedback rate of 25% of employees. The key response noted from the employee feedback was the preference for a Corporate Entity business model to be adopted for the Airport. The following points elaborate on the reason why the Airport's employees feel this provides the best alternative:

- The aeronautical industry is fast moving, with Gladstone Airport currently experiencing high levels of growth, and as a result the business model implemented needs to promote a business environment that is able to make fast moving decisions to keep up with the industry;
- A corporate structure is needed to ensure that the airport can reach its full potential, given that the existing structure (and those available under FCP and CBU business models) inhibits the Airport as it is too close to Council;
- The establishment of a Board of Directors (required under a Corporate Entity model) will allow for refining of strategic direction and provide greater control over the running of the Airport; and

- Development of more stringent service level agreements with Council will ensure improved service delivery and co-operation from other Council departments.

Employees indicated that any change to the business model for the airport should not affect pay levels and job security for existing staff. This point was also raised by the Queensland Services Union in its response.

### 3.3.2 Lessee Stakeholder Consultation Outcomes

A number of Airport lessees expressed concern regarding the timing of the consultation process and lack of available information in the stakeholder information paper (along with identifying a factual inaccuracy which was investigated and subsequently corrected). An onsite meeting was held on the 2<sup>nd</sup> June 2011 where all Airport lessees were invited to be briefed on the process and to discuss any concerns or issues.

The following issues were raised at the meeting:

- Concerns were raised regarding that adopting a Corporate Entity structure would result in current lease and licence arrangements being cancelled. It was stated that all existing leases and licence agreements would continue unaffected under each of the three business models.
- A question was raised as to whether the Airport would be required to pay physical tax payments to the State Government under a Corporate Entity structure. It was confirmed that under both the CBU and Corporate Entity structures tax equivalent payments are required to be made to Council in accordance with the specific requirements contained in Local Government legislation, and that taxes would not leave the region to be used as general revenue for the State Government.
- Queries were also raised as to the additional costs of operating under a Corporate Entity structure, including Directors and CEO costs. Discussions were held regarding the costs as well as the additional benefits that could be realised by the Airport under a Corporate Entity structure (such as the ability to operate on a more commercial basis, react more quickly to market changes, etc.).

## 4. Business Model Assessment

---

### 4.1 Community Impact Assessment of Business Models

The information collected from the review of business structure and operations and the PBA stakeholder consultation process, along with established information in respect of likely and potential community impacts from each of the business models under consideration, are utilised in the assessment.

The following impact areas are considered:

- Financial position of the Gladstone Airport;
- Gladstone Regional Council budget;
- Market;
- Staff;
- Consumers;
- Regional development and stability;
- Social welfare and equity; and
- Environment.

It is evident from the analysis contained in the next few pages that most of the differences between the business models under consideration relate to the extent of managerial autonomy from Council, reporting processes and the level of commercial orientation in business operations. As such, most of the impacts cannot be quantified and are instead qualitatively assessed. Even so, the potential financial impacts of each business model are discussed in Section 4.2.

**Table 4.1: Impact Assessment of Business Model Reform Options**

AREA OF IMPACT	ADOPTION OF FULL COST PRICING REFORMS	ADOPTION OF COMMERCIALISED BUSINESS UNIT REFORMS	ADOPTION OF CORPORATE ENTITY REFORMS	NET OUTCOME
<b>IMPLICATIONS FOR AIRPORT FINANCIAL POSITION</b>				
<b>Pricing</b>	<ul style="list-style-type: none"> <li>The adoption of full cost price-setting practices and user pays principles will ensure the price of services provided by the airport reflects the full economic cost of service provision including a targeted commercial return on assets employed, thus ensuring ongoing financial sustainability.</li> </ul>	<ul style="list-style-type: none"> <li>The adoption of full cost price-setting practices and user pays principles will ensure the price of services provided by the airport reflects the full economic cost of service provision including a targeted commercial return on assets employed, thus ensuring ongoing financial sustainability.</li> <li>Benefit of being able to apply commercial principles when negotiating pricing agreements.</li> </ul>	<ul style="list-style-type: none"> <li>The adoption of full cost price-setting practices and user pays principles will ensure the price of services provided by the airport reflects the full economic cost of service provision including a targeted commercial return on assets employed, thus ensuring ongoing financial sustainability.</li> <li>Benefit of being able to apply commercial principles and leverage off Board expertise when negotiating pricing agreements and react to market conditions.</li> </ul>	<p><b>Low Benefit – CBU</b> <b>Low Benefit – Corporate Entity</b> (increased commercial focus in price setting and product offerings)</p>
<b>Non-Commercial Activities</b>	<ul style="list-style-type: none"> <li>Any non-commercial activities undertaken by the business need to be identified and funded via a Community Service Obligation (CSO) which is funded by the general rate.</li> </ul>	<ul style="list-style-type: none"> <li>Any non-commercial activities undertaken by the business need to be identified and funded via a Community Service Obligation (CSO) which is funded by the general rate.</li> </ul>	<ul style="list-style-type: none"> <li>Any non-commercial activities undertaken by the business need to be identified and funded via a Community Service Obligation (CSO) which is funded by the general rate.</li> </ul>	<p><b>No Difference</b> (similar recognition of non-commercial activities)</p>
<b>Administration</b>	<ul style="list-style-type: none"> <li>Requires the ongoing use of a full cost pricing model for the business, to ensure legislative requirements regarding full cost recovery are met.</li> <li>The business is not required to undertake additional statutory reporting functions.</li> </ul>	<ul style="list-style-type: none"> <li>Requires the ongoing use of a full cost pricing model for the business, to ensure legislative requirements regarding full cost recovery are met.</li> <li>The business would be required to undertake additional statutory reporting functions associated with a CBU structure (including annual performance plans, separate reporting of performance in Council’s annual report, annual reporting and tax equivalent returns).</li> <li>Requires additional government and management structures, with an establishment of an advisory board optional.</li> </ul>	<ul style="list-style-type: none"> <li>Requires the ongoing use of a full cost pricing model for the business, to ensure legislative requirements regarding full cost recovery are met.</li> <li>The business would be required to undertake additional statutory reporting functions associated with a Corporate Entity (including the statement of corporate intent, preparation of separate statutory annual report, lodgment of periodic and annual returns and other requirements with government authorities).</li> <li>The business would incur additional governance costs associated with the establishment of a separate management structure with a CEO and a Board of Directors.</li> </ul>	<p><b>Low Cost – CBU</b> <b>Moderate Cost – Corporate Entity</b> (cost in meeting additional governance and compliance requirements)</p>
<b>Operational Efficiency</b>	<ul style="list-style-type: none"> <li>There would be a reduced commercial focus for the business, with reporting processes and performance monitoring limited to Council’s internal processes.</li> </ul>	<ul style="list-style-type: none"> <li>Greater degree of management autonomy (via delegated authority from Council’s Chief Executive Officer) <u>may</u> allow for more efficient decision making and timely responses to business and customer issues.</li> <li>Greater scope for the business to implement formal service level agreements for internal services provided by Council to ensure value for money and more accurate cost inputs for pricing determination.</li> </ul>	<ul style="list-style-type: none"> <li>Greater degree of management autonomy than under CBU model to allow for more efficient decision making and timely responses to commercial opportunities as well as business and customer issues.</li> <li>Performance targets can be established for the CEO and Board of Directors to ensure opportunities are maximised.</li> <li>Requires the development of stringent service level agreements with Council for internal services.</li> </ul>	<p><b>Low Benefit – CBU</b> <b>Moderate Benefit – Corporate Entity</b> (increased efficiency from commercial focus and performance reporting requirements)</p>



AREA OF IMPACT	ADOPTION OF FULL COST PRICING REFORMS	ADOPTION OF COMMERCIALISED BUSINESS UNIT REFORMS	ADOPTION OF CORPORATE ENTITY REFORMS	NET OUTCOME
<b>IMPLICATIONS FOR AIRPORT FINANCIAL POSITION CONT'D</b>				
<b>Business Definition</b>	<ul style="list-style-type: none"> <li>It is possible that the adoption of the FCP model may result in ambiguity in business structure, functions, assets and responsibilities, although the risk of this occurring would be low provided that the business remain separated in Council's organisational structure (including the current dedicated Airport manager).</li> </ul>	<ul style="list-style-type: none"> <li>The business would have a clear understanding of its functions and responsibilities under the CBU model and would ensure that its strategic targets and objectives are clearly defined and realised.</li> </ul>	<ul style="list-style-type: none"> <li>The creation of an independent entity would allow the business greater freedom to focus solely on core responsibilities and functions (including its commercial agenda), and provide the business with the ability to reinforce its 'brand' in the marketplace.</li> <li>All revenues, costs and profits attributed to the community's investment in the Airport will be clearly identifiable.</li> </ul>	<p><b>Low Benefit – CBU</b> <b>Moderate Benefit – Corporate Entity</b> (potential for increased definition of the activity, including assignment of assets and responsibilities)</p>
<p><b>SUMMARY COMMENT</b>  <b>Net Benefit Under CBU – A low net financial benefit relative to the FCP model is potentially realisable under the CBU model. Whilst compliance costs are higher than under a FCP model, a clearer business definition would ensure that operational efficiencies and commercial opportunities are maximised to ensure efficient and sustainable outcomes for the business.</b>  <b>Net Benefit Under Corporate Entity – A low to moderate net financial benefit relative to the FCP model is potentially realisable under the Corporate Entity model. Whilst compliance costs are higher than under a FCP or CBU model, an increased commercial focus driven by a skills based Board of Directors would ensure that operational efficiencies and commercial opportunities are maximised to ensure efficient and sustainable outcomes for the business. Current Airport management and employees indicated during the consultation process that such benefits would more than offset any additional costs incurred.</b></p>				
<b>IMPLICATIONS FOR GLADSTONE REGIONAL COUNCIL BUDGET</b>				
<b>Community Service Provision</b>	<ul style="list-style-type: none"> <li>Airport operations would continue to be provided from within Council with all customer service issues dealt with by airport staff and management.</li> <li>Any non-commercial activities undertaken by the business may be identified and funded via Community Service Obligation (CSO) payments funded by the general rate to ensure they are continued without community impact.</li> </ul>	<ul style="list-style-type: none"> <li>Airport staff and management would continue to deal directly with customer service issues. Performance targets established under an Annual Performance Plan will ensure service levels are formally adopted.</li> <li>Any non-commercial activities undertaken by the business may be identified and funded via Community Service Obligation (CSO) payments funded by the general rate to ensure they are continued without community impact.</li> </ul>	<ul style="list-style-type: none"> <li>Airport staff and management would continue to deal directly with customer service issues. Performance targets established under an Annual Statement of Corporate Intent will ensure service levels are formally adopted.</li> <li>Any non-commercial activities undertaken by the business may be identified and funded via Community Service Obligation (CSO) payments funded by the general rate to ensure they are continued without community impact.</li> </ul>	<p><b>Negligible Difference</b> (similar customer service focus)</p>
<b>Financial Sustainability</b>	<ul style="list-style-type: none"> <li>The FCP model requires the business to set prices on a commercial basis in a transparent manner to ensure long-term viability and contribute to Council's financial sustainability through the payment of dividends and taxation equivalents.</li> <li>The level of mandatory performance reporting from the business to Council is reduced, with a reduced commercial focus potentially impacting on Council's ability to ensure financial outcomes are maximised from the business.</li> </ul>	<ul style="list-style-type: none"> <li>The CBU model requires the business to set prices on a commercial basis in a transparent manner to ensure long-term viability and contribute to Council's financial sustainability through the payment of dividends and taxation equivalents.</li> <li>Service levels and performance standards may be documented in service level agreements between Council and the business which may assist Council in driving productivity improvements for internal services, but may also result in reduced payments for internal support services provided to the business which would then need to be funded through other areas of Council's operation.</li> </ul>	<ul style="list-style-type: none"> <li>The Corporate Entity model requires the business to set prices on a commercial basis in a transparent manner to ensure long-term viability and contribute to Council's financial sustainability through the payment of dividends and taxation equivalents.</li> <li>The commercial mandate set under a Corporate Entity model would allow a more aggressive pursuit of efficiency gains and commercial opportunities to maximise business revenues and minimise costs, therefore increasing the potential for higher dividends.</li> <li>Clearly defined service levels and performance standards documented in inter entity service level agreements between Council and the business may assist Council in driving productivity improvements and levels of performance for internal services, but may also result in reduced payments for internal support services provided to the business which would then need to be funded through other areas of Council's operation.</li> </ul>	<p><b>Low Benefit – CBU</b> <b>Moderate Benefit – Corporate Entity</b> (commercial opportunities maximised, efficiency gains may be achieved)</p>



AREA OF IMPACT	ADOPTION OF FULL COST PRICING REFORMS	ADOPTION OF COMMERCIALISED BUSINESS UNIT REFORMS	ADOPTION OF CORPORATE ENTITY REFORMS	NET OUTCOME
<b>IMPLICATIONS FOR GLADSTONE REGIONAL COUNCIL BUDGET CONT'D</b>				
<b>Ratepayer Impact</b>	<ul style="list-style-type: none"> <li>There may be negative ratepayer impacts from missing business opportunities which would otherwise be available through adopting an alternative business model promoting a greater strategic focus.</li> </ul>	<ul style="list-style-type: none"> <li>Council may lose control over operational decisions in the day-to-day running of the business should a CBU model be adopted that provided full autonomy to the Airport Manager.</li> <li>There may be negative ratepayer impacts of more commercial decisions under the CBU model, although Council still retains the ultimate decision-making power regarding the setting of fees and charges under all models.</li> </ul>	<ul style="list-style-type: none"> <li>Using a Board of Directors as the decision-making body for the Corporate Entity would free up time for Councillors and Council management to focus efforts on other community projects and service provision.</li> <li>Council has the ability to ensure financial outcomes are maximised from the business under clear commercial drivers by establishing and enforcing appropriate performance indicators in the Statement of Corporate Intent, whilst still having indirect power to ensure community outcomes are maximised.</li> </ul>	<b>Negligible Difference</b> (similar ratepayer impacts)
<b>Compliance</b>	<ul style="list-style-type: none"> <li>Reduced administrative and reporting compliance may be achieved, as the business would not be required to undertake compliance functions associated with a CBU or Corporate Entity model.</li> </ul>	<ul style="list-style-type: none"> <li>Costs would be incurred to support the CBU, including service level agreement negotiation and documentation, corporate plan reporting requirements, reporting the business within the annual budget and consolidating the airport annual report within Council's annual report, etc.</li> </ul>	<ul style="list-style-type: none"> <li>Costs would be incurred to support the Corporate Entity which are equivalent to the costs incurred under CBU model, plus additional initial establishment and ongoing compliance costs associated with preparation of statutory reports, annual returns, audits, etc.</li> <li>The net consolidated financial position of Council may be degraded if internal services previously provided by Council are duplicated within the Corporate Entity, although consultation outcomes from both parties suggests service duplication would be avoided in most instances (unless there was a business case with clear net benefits).</li> </ul>	<b>Low Cost – CBU</b> <b>Moderate Cost – Corporate Entity</b> (cost in meeting additional establishment and ongoing compliance requirements)
<b>SUMMARY COMMENT</b>				
<b><i>Net Benefit Under CBU – A low net financial benefit relative to the FCP model is potentially realisable under the CBU model provided internal service productivity improvements are achieved.</i></b>				
<b><i>Net Benefit Under Corporate Entity – A low to moderate net financial benefit is likely to be realised under the Corporate Entity model provided efficiency gains and commercial opportunities available to be maximised are realised, and additional establishment and ongoing business compliance costs are minimised.</i></b>				
<b>IMPLICATIONS FOR THE MARKET</b>				
<b>Market Pricing</b>	<ul style="list-style-type: none"> <li>The adoption of full cost price-setting principles for the business ensures less distortion and greater transparency in relation to pricing of Airport services.</li> </ul>	<ul style="list-style-type: none"> <li>The adoption of full cost price-setting principles for the business ensures less distortion and greater transparency in relation to pricing of Airport services.</li> <li>Any additional net costs associated with the CBU model (compliance costs) would need to be recovered through prices charged to customers, although operational efficiencies will work to offset these costs.</li> </ul>	<ul style="list-style-type: none"> <li>The adoption of full cost price-setting principles for the business ensures less distortion and greater transparency in relation to pricing of Airport services.</li> <li>Any additional net costs associated with the Corporate Entity model (compliance costs) would need to be recovered through prices charged to customers, although enhanced operational efficiencies will work to offset these costs.</li> </ul>	<b>Negligible Difference</b> (similar price-setting practices)
<b>Competitive Neutrality</b>	<ul style="list-style-type: none"> <li>Adopting FCP reforms may impact the level of competitive neutrality compliance due to ambiguity in the business' functions, assets and responsibilities.</li> </ul>	<ul style="list-style-type: none"> <li>The adoption of CBU reforms may enhance competitive neutrality compliance due to the legislative requirement for clear delineation of the business' functions, assets and responsibilities.</li> </ul>	<ul style="list-style-type: none"> <li>The adoption of Corporate Entity reforms may enhance competitive neutrality compliance due to the legislative requirement for clear delineation of the business' functions, assets and responsibilities.</li> </ul>	<b>Negligible Difference</b> (similar competitive neutrality compliance)
<b>SUMMARY COMMENT</b>				
<b><i>Negligible Difference Between FCP, CBU &amp; Corporate Entity – There will be negligible impact on the market from the adoption of either of the business models, given that all reform options require full cost pricing principles to be applied to the business.</i></b>				



AREA OF IMPACT	ADOPTION OF FULL COST PRICING REFORMS	ADOPTION OF COMMERCIALISED BUSINESS UNIT REFORMS	ADOPTION OF CORPORATE ENTITY REFORMS	NET OUTCOME
<b>IMPLICATIONS FOR CUSTOMERS (INCORPORATING AIRLINES AND OTHER COMMERCIAL CUSTOMERS)</b>				
<b>Pricing</b>	<ul style="list-style-type: none"> <li>Improved price transparency to customers regarding the true cost of providing aeronautical services.</li> </ul>	<ul style="list-style-type: none"> <li>Improved price transparency to customers regarding the true cost of providing aeronautical services.</li> <li>Pricing implications are unlikely to be significant given that Airport management and employees believe that increased operational efficiencies and a greater ability to take advantage of commercial opportunities would offset any increased compliance and administration costs.</li> </ul>	<ul style="list-style-type: none"> <li>Improved price transparency to customers regarding the true cost of providing aeronautical services.</li> <li>Pricing implications are unlikely to be significant given that Airport management and employees believe that increased operational efficiencies and a greater ability to take advantage of commercial opportunities would offset any increased compliance and administration costs.</li> </ul>	<p><b>Negligible Difference</b> (similar price-setting practices)</p>
<b>Customer Service Aspects</b>	<ul style="list-style-type: none"> <li>Little, if any, confusion or impact on customer service provision would be likely.</li> </ul>	<ul style="list-style-type: none"> <li>Customer service levels would be formalised within the annual performance plan for the CBU (although little, if any, confusion or impact on customer service provision would be likely based on current levels).</li> </ul>	<ul style="list-style-type: none"> <li>Customer service levels would be formalised within the Corporate Entities annual Statement of Corporate Intent (although little, if any, confusion or impact on customer service provision would be likely based on current levels).</li> </ul>	<p><b>Negligible Difference</b> (similar customer service)</p>
<b>SUMMARY COMMENT</b>				
<p><b><i>Negligible Difference between FCP, CBU and Corporate Entity – Similar price setting practices are required to ensure that full cost pricing requirements are being met in accordance with legislative requirements. It is expected that any additional costs under the CBU and Corporate Entity models will be more than offset by the benefits associated with increased operational efficiencies and a greater ability to take advantage of commercial opportunities.</i></b></p>				
<b>IMPLICATIONS FOR REGIONAL DEVELOPMENT AND ECONOMIC STABILITY</b>				
<b>Essential Service Provision</b>	<ul style="list-style-type: none"> <li>Adopting full cost pricing practices would provide the funds necessary to ensure appropriate ongoing investment in new airport infrastructure and sustainable service provision, providing business and industry with the confidence to stay in or move to the region.</li> </ul>	<ul style="list-style-type: none"> <li>Adopting full cost pricing practices would provide the funds necessary to ensure appropriate ongoing investment in new airport infrastructure and sustainable service provision, providing business and industry with the confidence to stay in or move to the region.</li> </ul>	<ul style="list-style-type: none"> <li>Adopting full cost pricing practices would provide the funds necessary to ensure appropriate ongoing investment in new airport infrastructure and sustainable service provision, providing business and industry with the confidence to stay in or move to the region.</li> </ul>	<p><b>Negligible Difference</b> (similar level of service provision)</p>
<b>Sustainable Investment</b>	<ul style="list-style-type: none"> <li>Responsible and sustainable business planning and capital investment in aeronautical infrastructure may be compromised given the business could potentially have less control over its capital works planning and would essentially be competing with other Council programs for scarce capital funding.</li> <li>Price increases may be required which could impact on industry competitiveness, with price benchmarking with other areas showing that current passenger service charges levels are amongst the highest in Queensland.</li> </ul>	<ul style="list-style-type: none"> <li>Whilst still theoretically competing with other Council programs for scarce funding, sustainable business planning and capital investment in aeronautical infrastructure may be improved due to greater control over planning and performance for the CBU.</li> <li>Price increases may be required which could impact on industry competitiveness, with price benchmarking with other areas showing that current passenger service charges levels are amongst the highest in Queensland.</li> </ul>	<ul style="list-style-type: none"> <li>The opportunity for developing sustainable business planning and capital investment in aeronautical infrastructure would be improved due to greater board control over planning and performance for the Corporate Entity.</li> <li>Price increases may be required which could impact on industry competitiveness, with price benchmarking with other areas showing that current passenger service charges levels are amongst the highest in Queensland.</li> </ul>	<p><b>Low Benefit - CBU Moderate Benefit – Corporate Entity</b> (greater control over capital works planning and delivery, but additional costs may impact development)</p>
<b>SUMMARY COMMENT</b>				
<p><b><i>Net Benefit Under CBU – An overall net benefit for regional development and economic sustainability would be most likely under a CBU model as a result of the net benefits incurred through greater ability for the business to control ongoing planning and performance.</i></b></p> <p><b><i>Net Benefit Under Corporate Entity – An overall net benefit for regional development and economic sustainability would be most likely under a Corporate Entity model as a result of the net benefits incurred through greater ability for an expert Board to control ongoing planning and investment in capital infrastructure to maximise commercial objectives.</i></b></p>				

AREA OF IMPACT	ADOPTION OF FULL COST PRICING REFORMS	ADOPTION OF COMMERCIALISED BUSINESS UNIT REFORMS	ADOPTION OF CORPORATE ENTITY REFORMS	NET OUTCOME
<b>IMPLICATIONS FOR SOCIAL WELFARE AND EQUITY</b>				
<b>Equity Between Customers</b>	<ul style="list-style-type: none"> <li>The adoption of user pays pricing principles and the identification and removal of cross subsidies in service provision will enhance equity between customer groups.</li> </ul>	<ul style="list-style-type: none"> <li>The adoption of user pays pricing principles and the identification and removal of cross subsidies in service provision will enhance equity between customer groups.</li> </ul>	<ul style="list-style-type: none"> <li>The adoption of user pays pricing principles and the identification and removal of cross subsidies in service provision will enhance equity between customer groups.</li> </ul>	<p><b>No Difference</b> (similar price-setting practices)</p>
<b>Ratepayer Equity</b>	<ul style="list-style-type: none"> <li>Transparent decision making regarding the provision of non-commercial and community-focused activities should occur, with Council directives funded via CSO payments to the business funded by the general rate (with the incidence of the Council decisions being borne by all ratepayers rather than just airport customers).</li> </ul>	<ul style="list-style-type: none"> <li>Transparent decision making regarding the provision of non-commercial and community-focused activities should occur, with Council directives funded via CSO payments to the business funded by the general rate (with the incidence of the Council decisions being borne by all ratepayers rather than just airport customers).</li> </ul>	<ul style="list-style-type: none"> <li>Transparent decision making regarding the provision of non-commercial and community-focused activities should occur, with Council directives funded via CSO payments to the business funded by the general rate (with the incidence of the Council decisions being borne by all ratepayers rather than just airport customers).</li> </ul>	<p><b>No Difference</b> (same funding principles for non-commercial activities undertaken)</p>
<b>Inter-generational Equity</b>	<ul style="list-style-type: none"> <li>Adopting full cost pricing practices would provide the funds necessary to ensure sustainable service provision through the longer term, ensuring that the incidence of costs is attributed to the period in which they are incurred rather than left for future generations – however, there is a risk under the FCP model that reserves to fund future new and replacement capital works may be used for other purposes.</li> <li>Adopting the FCP model as opposed to a CBU or Corporate Entity structure may place some risk on sustainable capital investment given conflicting objectives and priorities of the Council of the day.</li> <li>Council retains greatest control over the setting of airport fees and charges (and therefore the impact on social welfare from such decisions) under the FCP model, although it still has ultimate decision making powers in the setting of charges under the CBU or Corporate Entity models.</li> </ul>	<ul style="list-style-type: none"> <li>Adopting full cost pricing practices would provide the funds necessary to ensure sustainable service provision through the longer term, ensuring that the incidence of costs is attributed to the period in which they are incurred rather than left for future generations.</li> <li>Adopting a CBU structure may reduce the risk of unsustainable practices resulting from the conflicting objectives of the Council of the day (provided the business is afforded decision making autonomy under a CBU model).</li> </ul>	<ul style="list-style-type: none"> <li>Adopting full cost pricing practices would provide the funds necessary to ensure sustainable service provision through the longer term, ensuring that the incidence of costs is attributed to the period in which they are incurred rather than left for future generations.</li> <li>Adopting a Corporate Entity structure will further reduce the risk of unsustainable practices (than may occur under a CBU or FCP model) which are the result of conflicting objectives of the Council of the day (given the business will be most likely to achieve the greatest decision making autonomy under a Corporate Entity model).</li> </ul>	<p><b>Low Benefit – CBU</b> <b>Moderate Benefit</b> <b>– Corporate Entity</b> (Corporate Entity model may allow greater control over adopting sustainable practices)</p>
<b>Community Affordability</b>	<ul style="list-style-type: none"> <li>Administration and compliance costs would be minimised and the fees and charges levied on Airlines and businesses for aeronautical services are likely to be lowest under the FCP model.</li> </ul>	<ul style="list-style-type: none"> <li>Any additional net costs associated with the CBU model (compliance costs) would need to be at least offset by increased efficiency gains in order to prevent the need to recover these costs through fees and charges levied on Airlines and businesses.</li> </ul>	<ul style="list-style-type: none"> <li>Additional net costs associated with the Corporate Entity model (compliance costs) would need to be at least offset by increased efficiency gains and the greater ability to take advantage of commercial opportunities in order to prevent the need to recover these costs through fees and charges levied on Airlines and businesses.</li> </ul>	<p><b>Negligible Difference</b> (with any increased compliance costs at least offset by benefits)</p>
<p><b><i>Negligible Difference between FCP, CBU and Corporate Entity – Similar price setting practices are required to ensure that full cost pricing requirements are being met in accordance with legislative requirements. Higher prices may occur under both CBU and Corporate Entity models should any net costs eventuate, although this is mitigated somewhat by a reduction in the risk of unsustainable capital investment in the Airport arising from competing Council objectives and priorities.</i></b></p>				





## 4.2 Financial Assessment of Business Models

The preceding impact assessment identified a number of financial implications associated with the adoption of each business model. In particular, the assessment identified additional compliance related costs as well as the potential commercial benefits that may be realised under both CBU and Corporate Entity models (such as the realisation of operational efficiencies and a greater ability to take advantage of commercial opportunities and source additional commercial revenue streams).

Financial modelling forecasts were undertaken to assess the financial implications of each business model on the Airport financial position and to provide support for the qualitative assessment findings. The following assumptions were used in the modelling process:

**Table 4.2: Financial Modelling Assumptions**

Assumption	FCP Model	CBU Model	Corporate Entity Model
Return on Capital (%)	12.44%	12.44%	12.44%
Annual Price Increase (Post 2012)	2.5%	2.5%	2.5%
General Cost Inflation	2.5%	2.5%	2.5%
Wage Inflation	4.0%	4.0%	4.0%
Other Fees Inflation	2.5%	2.5%	2.5%
Income Tax Rate	30%	30%	30%
Depreciation Rate	1.81%	1.81%	1.81%
Passenger Growth Scenario	Mid	Mid	Mid
Commercial Development Revenue	Low	Medium	High
Additional Compliance Costs	No	Yes	Yes
Efficiency Savings (Per Annum - Years 1-5)	Nil	Nil	2%

Source: AEC Group

It was assumed that passenger growth forecasts would remain unchanged under each business model as passenger growth is deemed to be primarily demand driven. Commercial development revenues were estimated based on the expectation that the more commercially focussed reform options (CBU and Corporate Entity) would translate into increased revenue opportunities given the greater incremental commercial focus under these business models (with a Corporate Entity model resulting in the Airport maximising its returns from development opportunities).

Additional compliance costs for the CBU and Corporate Entity business models were estimated according to the specific legislative obligations that would be incurred under the particular business model if adopted. It was estimated that one additional employee would be required under the CBU model, whilst the Corporate Entity model would require an additional two employees given the greater level of compliance required. It was assumed that the requirement for a Chief Executive Officer to be appointed under a Corporate Entity model could occur at no additional cost to the Airport (i.e. the position would be filled within the current Airport employee allocation).

Other operating expenses associated with compliance were also included (such as audit fees, external commercial advice, advertising, recruitment costs etc). The total ongoing compliance costs under each model were estimated as follows:

**Table 4.3: CBU and Corporate Entity Annual Compliance Cost Estimates**

Description	CBU Model	Corporate Entity Model
Board of Directors	\$-	\$150,000
Salaries (including oncosts)	\$100,000	\$200,000
Other Operating Expenses	\$50,000	\$100,000
<b>Total</b>	<b>\$150,000</b>	<b>\$450,000</b>

Source: AEC Group

The total additional compliance cost per passenger equates to approximately \$0.43 under the CBU model compared to \$1.30 under the Corporate Entity model. The modelling assumptions assumed that efficiency savings of 2% per annum (for five years) under the Corporate Entity model would assist in offsetting somewhat the additional compliance costs incurred.

In terms of establishment costs for the CBU and Corporate Entity models, it was assumed that costs of establishment for the CBU model could be absorbed within the current business expenditure base. It was also assumed that the establishment costs associated with implementing a Corporate Entity model (including costs associated with establishing the corporatisation committee, legal costs etc would be incurred by Council as shareholder rather than the business (with those upfront establishment costs likely to be incurred by Council estimated at between \$100,000 and \$300,000).

It should be noted that the financial assessment also made no allowance for potential Community Service Obligations that may be further identified which would increase the revenue stream of the Airport under each business model scenario, given that there would be a corresponding cost incurred by Council in providing the Community Service Obligation payment to the Airport.

The modelling also assumed that the total debt currently assigned to the Airport remains under each business model (i.e. the possible capital structure implications of full debt retention under a Corporate Entity structure has been ignored for the purposes of the financial modelling exercise).

Appendix D provides the outputs of the financial modelling exercise under each business model scenario.

#### 4.2.1 Operating Performance

The following table and graphs highlight the net operating position of the business under each business model after factoring in the individual assumptions associated with each option. Business profitability suffers in the first few years under all three business models due to the impact of interest payments on the \$65 million loan borrowings for the runway and terminal upgrade.

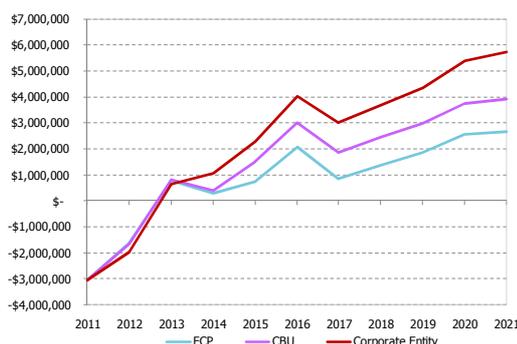
In future years, profitability returns under each business model due to increased passenger charge revenue growth, with the greater pursuit of commercial development opportunities under the Corporate Entity model realising increased profitability above the CBU and FCP models.

**Table 4.4: 10-Year NPV of Operating Profitability**

Business Model	NPV (\$'000)
FCP	\$1,703
CBU	\$4,995
Corporate Entity	\$8,863

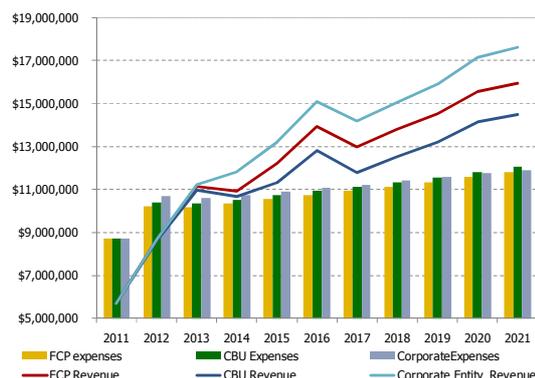
Source: AEC Group

**Figure 4.1: Operating Profitability**



Source: AEC Group

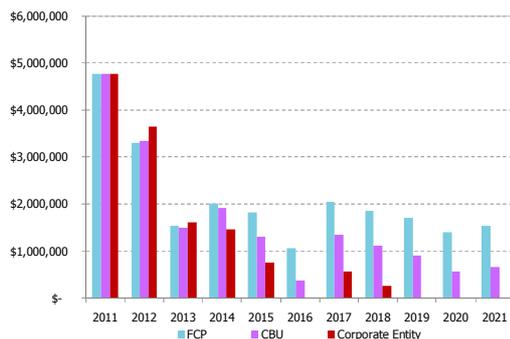
**Figure 4.2: Revenues and Expenses**



Source: AEC Group

It should be noted however that under all three business models Council will be required to inject additional funds/equity into the Airport at varying levels over the next ten years to ensure that debt repayments are able to be made by the business on an annual basis to repay the \$65 million borrowed for the Airport upgrade. Equity injections are required where operating profits realised are not at sufficient levels to cover both income tax equivalent and loan repayment requirements.

**Figure 4.3: Likely Council Equity Injection Required**



Source: AEC Group

#### 4.2.2 Full Cost Pricing Performance

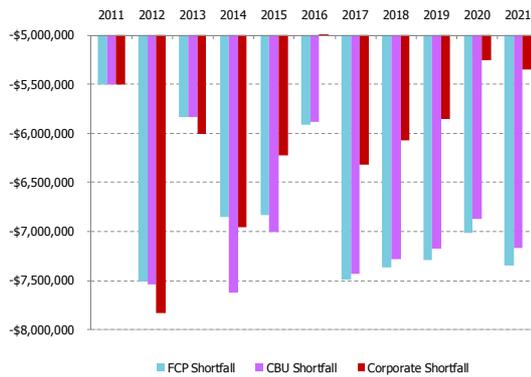
The following table and graphs highlight the full cost pricing position of the Airport under each business model. The recent significant investment in Airport infrastructure results in the Airport being unable to achieve the required return on capital over the 10-year forecast period (which includes a full commercial return on capital of 12.44% on the Airport’s assets). It should be reiterated that any passenger price increases and also passenger growth above those used for modelling purposes will reduce the FCP shortfall under each business model scenario.

**Table 4.5: 10-Year NPV of Revenue Surplus/(Shortfall) from FCP**

Business Model	NPV (\$'000)
FCP	(\$43,689)
CBU	(\$44,138)
Corporate Entity	(\$40,299)

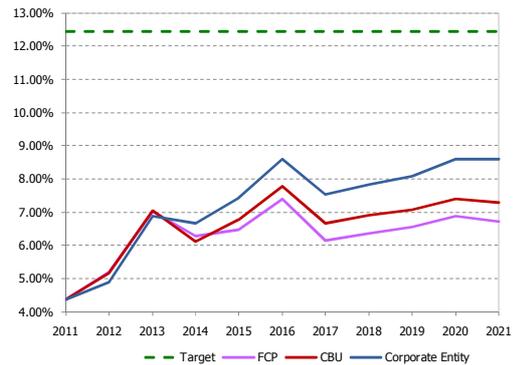
Source: AEC Group

**Figure 4.4: FCP Position**



Source: AEC Group

**Figure 4.5: Return on Capital vs Target**



Source: AEC Group

### 4.2.3 Sensitivity Analysis

A 5% annual price increase sensitivity (double the existing 2.5% annual assumption) was modelled to quantify the impact of further price increases on passenger and landing fee charges on operating performance and the full cost pricing position under each business model.

**Table 4.6: 10 Year NPV of Operating Profitability - Sensitivity**

Business Model	5% Annual Price Increase (\$'000)
FCP	\$7,464
CBU	\$10,756
Corporate Entity	\$14,624

Source: AEC Group

**Table 4.7: 10 Year NPV of FCP Position - Sensitivity**

Business Model	% Annual Price Increase (\$'000)
FCP	(\$37,680)
CBU	(\$38,129)
Corporate Entity	(\$34,289)

Source: AEC Group

## 5. Recommendations

### 5.1 PBA Recommendation on Preferred Business Structure

The PBA shows that when comparing the net community benefit of the available reform options, the adoption of the **Corporate Entity business model** appears to provide the greatest net community benefit when compared to the Full Cost Pricing (FCP) and Commercialised Business Unit (CBU) models.

**It is therefore recommended that Gladstone Regional Council adopt the Corporate Entity business model for Gladstone Airport moving forward.**

For the Airport, the Corporate Entity business model appears to be the most appropriate reform option as:

- It is believed that the Corporate entity model will allow greater autonomy in commercial decision making by management, ensuring the business operates under clear commercial drivers whilst removing current unavoidable bureaucratic impediments;
- A skills based board of directors will add specific value in terms of business decision making efficiency and timely responses to commercial opportunities as well as business and customer issues;
- Ongoing infrastructure investment will be made based on a business case basis and without the need to compete against other Council capital priorities;
- Allows Council to assume a more strategic oversight role of the business (and frees up time for Councillors and Council management to focus efforts on other core community projects and service provision),
- Council has the ability to ensure financial outcomes are maximised from the business under clear commercial drivers by establishing and enforcing appropriate performance indicators in the Statement of Corporate Intent;
- Allows greater operational flexibility for the business without the need to be commercially disadvantaged by current procurement and other legislative based constraints; and
- Allows the business greater flexibility in attracting and retaining appropriately skilled employee resources (with greater ability to negotiate remuneration and employment conditions not available under the FCP and CBU models).

### 5.2 Other Strategic Recommendations

#### 5.2.1 Airport Sustainability

- Consideration be given by Council towards a contribution to the Airport (via a CSO payment) to assist in the financing of the recent significant infrastructure upgrade on the basis that the upgrade produces broader economic benefits for the region (with Council reaching an agreement with the new entity regarding the extent of that payment and the period to which it would apply).

#### 5.2.2 Airport Capital Structure

- After consideration of the above recommendation, Council considers the capital structure implications associated with the significant debt holdings currently held by the Airport, including potential ability to fully transfer the existing debt balance to the Corporate Entity as well as potential implications for Council's balance sheet and future borrowing capacity should Council be required to retain some of the Airport debt on its books (whilst assets transfer in full to the new Corporate Entity).

### 5.2.3 Establishment Costs

- In light of the governance and compliance costs attached to a Corporate Entity structure, that establishment costs and ongoing compliance costs be kept to a bare minimum.

### 5.2.4 Resource Sharing

- That the current practice of resource sharing between the Airport and Council for administrative overheads be retained, unless it can be proven that there is a strong business case showing a regional benefit from the duplication of such support services (e.g. there would be a considerable improvement in service levels without an impact on community affordability).
- That the Airport ensures it is being provided with services that are considered value for money at commercially competitive rates, and formal service level agreements are established with clear performance indicators and costs.

### 5.2.5 Strategic Focus and Performance Monitoring

- That Council set the strategic focus and direction of the business via the Statement of Corporate Intent, possibly including performance indicators that link to the following areas (not exhaustive):
  - financial sustainability;
  - least-cost long-term capital works planning outcomes;
  - community affordability;
  - management/administration/overhead costs as % of operating expenditure;
  - environmental outcomes; and
  - desired customer service levels.

### 5.2.6 Board Structure

- Council appoints a maximum of five (5) directors in the new Corporate Entity to ensure compliance costs are minimised. Further, Council ensures minimal Councillor representation on the board to ensure true independence of the entity to maximise available commercial opportunities.

### 5.2.7 Employee Conditions

- Employees of the Airport be made aware of changes to terms and conditions of employment to ensure that the transition process is fully transparent and employees are fully informed of the implications of the change in business structure.
- That, where possible, existing conditions in place for Airport employees be guaranteed and carried over and adopted under the Corporate Entity structure as a minimum standard.
- Accrued employee entitlements (i.e. accrued leave, years of service) are transferred to the new entity in accordance with the provisions contained under section 69 of the *Local Government (Beneficial Enterprises and Business Activities) Regulation 2010*.
- That any union concerns subsequently raised be appropriately considered to achieve the benefits identified in this PBA.

### 5.2.8 Pricing

- That a long-term financial strategy be established based on achieving business/resource sustainability, with profits reinvested back into infrastructure provision where required.
- That decisions regarding pricing levels and structures continue to appropriately consider customer impacts, industry benchmarks and economic development implications.

- Council continue to keep abreast of developments in the airport industry regarding pricing and responsibilities, particularly in light of the recommendations by both the Productivity Commission and ACCC arising from their respective inquiries into Airport pricing issues.

### 5.3 Timetable for Implementation of Reforms

If Council were to adopt the Corporate Entity reform option immediately, then the reforms must be applied to the Airport by the beginning of the financial year commencing 1 July 2012. The following table sets out a 'work-in-progress' timetable should this occur

**Table 5.1: Gladstone Airport Corporate Entity Implementation Timetable**

Description	Action	Legislative Reference	Timeframe
<p><b>Corporate Entity Recommendation</b></p> <ul style="list-style-type: none"> <li>• Council to accept PBA recommendation</li> <li>• Council to accept the recommendation that FCP reforms continue to be applied to the Airport until such time it becomes a Corporate Entity</li> </ul>	<p><b>Council Resolution</b></p>	S46(6)(b) Local Government Act 2009	Within 3 months of final PBA report being presented to Council
<p><b>Corporatisation Committee</b></p> <ul style="list-style-type: none"> <li>• Council to appoint a corporatisation committee to prepare corporatisation constitution and plan and regularly report to Council on the plans implementation</li> <li>• Total number of Councillors / Council employees must be not be more than half of corporatisation committee membership</li> </ul> <p>Note - Corporatisation committee is disbanded when Corporate Entity is established</p>	<p><b>Council Resolution</b></p> <p>Appointment of Corporate Entity Corporatisation Committee</p>	S35 Local Government (Beneficial Enterprises and Business Activities) Regulation 2010	t.b.a.
<p><b>Corporatisation Constitution and Plan</b></p> <ul style="list-style-type: none"> <li>• Council to be provided with constitution and corporatisation plan by corporatisation committee for approval</li> </ul> <p>Note - Corporatisation plan expires when Council approves the first Statement of Corporate Intent</p>	<p><b>Council Resolution</b></p> <p>Approval of constitution and corporatisation plan</p>	S37 Local Government (Beneficial Enterprises and Business Activities) Regulation 2010	t.b.a.
<p><b>Interim Entity Establishment</b></p> <ul style="list-style-type: none"> <li>• Council resolution that the Airport be established as a Interim Entity prior to becoming a Corporatised Entity</li> </ul>	<p><b>Council Resolution</b></p> <p>Establishment of Interim Entity</p>	S42 Local Government (Beneficial Enterprises and Business Activities) Regulation 2010	t.b.a.
<p><b>Interim Board of Directors</b></p> <ul style="list-style-type: none"> <li>• Council may by resolution appoint an interim board of directors to the Interim Entity prior to corporatisation</li> <li>• Total number of Councillors / Council employees must be not be more than half of Interim Board membership</li> </ul> <p>Note – Interim Board ceases to exist when Corporate Entity is established</p>	<p><b>Council Resolution</b></p> <p>Creation of Interim Board of Directors</p>	S44 Local Government (Beneficial Enterprises and Business Activities) Regulation 2010	t.b.a.

Description	Action	Legislative Reference	Timeframe
<p><b>Chief Executive Officer Appointment</b></p> <ul style="list-style-type: none"> <li>The Interim Board (or Council if the Interim Board is not in existence) must appoint a Chief Executive Officer in readiness for corporatisation</li> </ul> <p>Note – Chief Executive Officer cannot be at the same time an employee of the Local Government</p>	<p>Appointment of Corporate Entity Chief Executive Officer (CEO)</p>	<p>S62 Local Government (Beneficial Enterprises and Business Activities) Regulation 2010</p>	<p>t.b.a.</p>
<p><b>Final Resolution for Corporate Entity Status</b></p> <p>Council resolution that the Airport becomes a Corporate Entity (on sufficient implementation by the business of the corporatisation plan)</p>	<p><b>Council Resolution</b></p> <p>Creation of Corporate Entity</p>	<p>S49 Local Government (Beneficial Enterprises and Business Activities) Regulation 2010</p>	<p>30 June 2012</p>

Source: AEC Group, Local Government (Beneficial Enterprises and Business Activities) Regulation 2010

## Appendix A: Business Model Implications

### FCP Model

The FCP model involves setting prices on a commercial basis, but does not necessitate the creation of a new business unit or corporate entity – i.e. the Airport remains an integrated Council program or department. FCP is founded on the principle that, as in the private sector, the price charged for a good or service should recover sufficient revenue to cover the costs of production, funds to replace assets as they are consumed and the achievement of a reasonable return on capital invested.

The following table sets out the key requirements of FCP and notes the progress of the Airport in its implementation. The business is reasonably advanced in relation to the application of FCP requirements given the previous application of Type 3 competition reforms by the former Gladstone, Calliope and Miriam Vale Councils and the implications of adopting this model are therefore considered negligible.

#### Implications of Adopting the FCP Model

Requirement	Features and Issues
Identify all direct costs	<ul style="list-style-type: none"> <li>All direct costs associated with the airport appear to have been identified and no change from the status quo is anticipated.</li> <li>Consideration may need to be given to ensuring depreciation charges are adequately identified as airport costs within the Council's finance and reporting structure</li> </ul>
Identify all relevant indirect costs (including a share of Council overheads/support services) and adopt a rational procedure for allocating those costs to particular activities	<ul style="list-style-type: none"> <li>Corporate overheads are allocated to the business by Council using an existing allocation methodology, although ongoing review of the methodology underpinning the charges should occur to ensure that overhead costs are allocated in an equitable manner</li> </ul>
Identify all relevant capital costs including depreciation, interest payments, debt guarantee fees, and an appropriate commercial return on capital employed	<ul style="list-style-type: none"> <li>Continual review of the full cost pricing position of the airport is required to ensure that depreciation charges are current and reflect the annual consumption of the consolidated asset base, and that a commercial return on capital is targeted</li> <li>Land values used to determine land tax and return on capital calculations should be valued in accordance with private sector pricing and only the land portion currently being utilised should be included in such calculations</li> </ul>
Identify and adjust for tax equivalent effects where relevant	<ul style="list-style-type: none"> <li>Tax equivalent calculations need to occur annually during budget preparation given ongoing changes to the tax environment (in particular State taxes such as land tax and payroll tax)</li> </ul>
Adjust for other factors to ensure costs are comparable with what would be incurred by a private entity	<ul style="list-style-type: none"> <li>Competitive neutrality adjustments should be included in the calculation of full costs for pricing purposes</li> <li>Consideration may need to be given to ensuring competitive neutrality adjustments are adequately identified as Airport costs within the Council's finance and reporting structure</li> <li>It does not appear that competitive neutrality adjustments are currently being made by the business when determining price levels, although they are being included for compliance reporting purposes</li> </ul>
Prepare a cost budget and statement of assets	<ul style="list-style-type: none"> <li>The budget for the airport business was endorsed by Council as part of the 2010/11 annual budget adoption</li> <li>Council's financial system and asset register recognises the assets of the business separately for reporting and pricing purposes</li> </ul>
Develop an appropriate pricing strategy and remove cross subsidies between customers (where possible)	<ul style="list-style-type: none"> <li>The ability for the Airport to implement a price path to full cost recovery is problematic given the current dependence on passenger charge revenues, highly competitive nature of the Airline industry and requirement for the Airport to remain price competitive to ensure the retention of current Airline customers and attract additional flights / new Airlines from competitors</li> </ul>
Identify and explicitly recognise any Community Service Obligations (CSOs) – i.e. non-commercial activities undertaken at the direction of Council	<ul style="list-style-type: none"> <li>Minimal CSOs are currently recognised by the Airport</li> <li>CSOs may need to be reviewed given the findings that there may be non-commercial activities being undertaken by the business without appropriate compensation from the general fund or customers</li> <li>CSO key performance indicators may need to be established to assess their ongoing relevance and appropriateness</li> </ul>

Requirement	Features and Issues
Prepare revenue forecasts to demonstrate revenue levels are meeting full cost pricing obligations over a reasonable time frame	<ul style="list-style-type: none"> <li>Financial forecasts are prepared for the business in accordance with Council's legislative obligations</li> <li>The ability for the Airport to implement a price path to full cost recovery is problematic given the current dependence on passenger charge revenues, highly competitive nature of the Airline industry and requirement for the Airport to remain price competitive to ensure the retention of current Airline customers and attract additional flights / new Airlines from competitors</li> </ul>
Prepare the relevant governance reports	<ul style="list-style-type: none"> <li>The required NCP reporting obligations relating to the business are currently being complied with by Council, with the relevant reporting in the annual budget and annual report</li> </ul>

### Commercialised Business Unit (CBU) Model

The intention of adopting the CBU model would be to create a more commercial operating environment for the airport. Essentially, the day-to-day operations of the airport would be controlled by the commercial business manager and the strategic direction of the business would be in accordance with established performance plans approved by Council. Instead of being directly controlled by Council on a day-to-day basis, the business unit would report its financial and non-financial performance against established targets to Council on a regular basis.

The following table summarises the additional compliance/governance activities that a CBU model would require. Under the CBU model, the business would need to prepare an Annual Performance Plan (including business and operating plans), and Council would need to comply with additional reporting requirements in its Corporate Plan and Operational Plan, as well as prepare an Annual Statement of Operations for inclusion in its Annual Report.

### Implications of Adopting the CBU Model

Requirement	Features and Issues
Business Management	<ul style="list-style-type: none"> <li>Managerial control of the business unit would need to be fully devolved to the managers within the unit</li> <li>Clearly defined objectives/targets for the business unit would need to be established by Council and agreed by the business unit</li> <li>Regulatory and policy functions would need to be separated from the business to avoid conflict between commercial and regulatory demands</li> </ul>
Financial	<ul style="list-style-type: none"> <li>The commercial business unit would be required to more formally pay notional tax and dividend equivalents to Council in accordance with full cost pricing principles</li> <li>An appropriate commercial capital structure could be established with a commercial debt to equity ratio should the Council wish to do so</li> </ul>
Corporate Plan	<ul style="list-style-type: none"> <li>Council's Corporate Plan would need to include the CBU's objectives, and the nature and extent of business undertaken</li> </ul>
Operational Plan	<ul style="list-style-type: none"> <li>The annual operational plan of Council is to include a annual performance plans of each CBU</li> </ul>
Annual Performance Plan	<ul style="list-style-type: none"> <li>An Annual Performance Plan would need to be prepared annually to set out:                             <ul style="list-style-type: none"> <li>the unit's objectives</li> <li>the nature and extent of the significant business the commercial business unit is to conduct</li> <li>the unit's financial and non-financial performance targets</li> <li>the nature and extent of the community service obligations the unit must perform</li> <li>the cost of, and funding for, the community service obligations</li> <li>the unit's notional capital structure, and treatment of surpluses</li> <li>the unit's proposed major investments</li> <li>the unit's outstanding, and proposed, borrowings</li> <li>the unit's policy on the level and quality of service which customers can expect</li> <li>the delegations necessary to allow the unit to exercise autonomy in its commercial activities</li> <li>the type of information that the unit's reports to the local government must contain</li> </ul> </li> </ul>
Annual Operations Report	<ul style="list-style-type: none"> <li>An Annual Operations Report would need to be included in Council's Annual Report that compares CBU performance with its annual performance plan</li> </ul>

## Corporate Entity Model

The principles of a Corporate Entity structure are similar to those of a CBU whereby the intention is to create a more commercial and competitive operating environment for the business. The key differences between a corporate entity and a CBU are in the structure and governance of the business, with:

- The Corporate Entity structured in a similar manner to a private sector company, with a separate legal identity, chief executive officer, independent commercial skills-based Board of Directors, and shareholder/s (i.e. Council as sole shareholder);
- The commercial and non commercial objectives and performance targets of the Corporate Entity (e.g. agreed rate of return, dividend levels, tax equivalent payments, non-financial key performance indicators/objectives) are negotiated annually with Council and set out in a Statement of Corporate Intent;
- The Corporate Entity being subject to robust performance monitoring;
- Some functions not subject to the same regulations applicable to CBUs (e.g. the Freedom of Information Act); and
- The Corporate Entity reporting publicly on its annual performance.

The *Local Government (Beneficial Enterprises and Business Activities) Regulation 2010* details the following key principles of corporatisation and their elements applicable to a Corporate Entity:

### Principles and Elements of Corporatisation for a Corporate Entity

Principles	Elements
Clarity of Objectives	<ul style="list-style-type: none"> <li>• Each Corporate Entity will have clear, non-conflicting objectives</li> <li>• Each Corporate Entity will be set specific financial and non-financial performance targets for its commercial activities</li> <li>• Local government policy formulation or regulatory responsibilities will be separated from the Corporate Entity (where possible)</li> <li>• Any Community Service Obligations (CSO) of the Corporate Entity will be clearly identified in the Statement of Corporate Intent and be separately costed</li> <li>• The Corporate Entity will be appropriately compensated for its CSOs and any funding will be made apparent</li> <li>• The Corporate Entity will be set performance targets for its CSOs</li> </ul>
Management Autonomy and Authority	<ul style="list-style-type: none"> <li>• The Board will be given the autonomy and authority to make commercial decisions within areas of responsibility</li> <li>• The local government's former power to make decisions on the operation of a significant business activity will be replaced with procedures for strategic monitoring of Corporate Entities</li> <li>• Local government reserve powers will be required to be exercised in an open way</li> <li>• The role of the shareholder in relation to the Corporate Entity will be clearly defined</li> <li>• The Board will be required to use its best endeavours to ensure that the Corporate Entity meets its performance targets</li> </ul>
Accountability for Performance	<ul style="list-style-type: none"> <li>• The Board of the Corporate Entity will be accountable to the shareholder for the corporation's performance</li> <li>• The Corporate Entities Statement of Corporate Intent will form the basis for accountability, with performance monitored by the shareholder against performance targets in the Statement of Corporate Intent</li> <li>• Shareholder monitoring of the Corporate Entity is intended to compensate for the absence of the wide range of monitoring to which listed corporations are subject by (e.g. the share market and Commonwealth regulatory agencies)</li> </ul>
Competitive Neutrality	<ul style="list-style-type: none"> <li>• To ensure, wherever possible, the removal of advantages and disadvantages accruing to the Corporate Entity as a result of local government ownership</li> <li>• Promoting efficiency of the use of resources, to ensure markets are not unnecessarily distorted</li> <li>• If monopoly power is evident - considering whether special monitoring is necessary to prevent any abuse of power</li> </ul>

Source: Local Government (Beneficial Enterprises and Business Activities) Regulation 2010

The table below outlines the implications for Council from adopting the Corporate Entity model. Council would also lose direct control over the Airport, which would be performed by a separate legal entity from Council subject to the performance targets outlined in the Statement of Corporate Intent for the business. A Board of Directors would need to be elected to govern the Corporate Entity.

### Implications of Adopting the Corporate Entity Model

Requirement	Features and Issues
Business Performance	<ul style="list-style-type: none"> <li>• Council is mandated to set and monitor the strategic direction of the business through the annual Statement of Corporate Intent</li> <li>• Performance objectives of the business would be clearly outlined in the Statement of Corporate Intent</li> <li>• There would be greater autonomy within the business to make timely commercial decisions in response to changes in its operating environment and to pursue business opportunities as and when they arise</li> <li>• Business efficiencies may be effectively explored and negotiated via commercial performance incentives with staff and formal service level agreements with Council</li> <li>• Whilst operating within the corporatisation framework, business decisions may conflict with Council's agenda (although influence on strategic direction is retained through the Statement of Corporate Intent)</li> <li>• There may be potential implications for Council's support services if the business decides to replace them with its own resources or via the external market</li> <li>• A greater focus may be placed on financial performance and profitability, which could be achieved by the Corporate Entity at the expense of longer-term sustainability</li> </ul>
Governance	<ul style="list-style-type: none"> <li>• Appropriately qualified Board members would need to be appointed to make strategic decisions</li> <li>• Formal governance arrangements are mandated rather than being an optional requirement for the business</li> <li>• Additional governance costs associated with the need for a Board of Directors are unavoidable, but there may be an offsetting time/productivity saving from less frequent reporting to Council management and Councillors</li> <li>• Council would no longer have the ability to influence operational issues associated with the business (budgeting, employees, policy) but would retain some control over strategic direction via the Statement of Corporate Intent</li> </ul>
Human Resources	<ul style="list-style-type: none"> <li>• Employment agreements may be aligned with the business' strategic direction and objectives</li> <li>• More flexible recruitment practices and remuneration packages may be adopted by the Corporation to attract/retain key staff</li> <li>• There may be a potential creation of inequities between similar positions in Council and the business due to differing enterprise agreements and negotiated pay scales</li> <li>• Employees would be subject to the Federal industrial relations regime rather than state awards as a result of the adoption of a Corporate Entity structure for the business</li> </ul>
Pricing	<ul style="list-style-type: none"> <li>• Council may lose some control over the price-setting process of the business, but still has final say on what prices are actually implemented</li> </ul>

Source: AEC Group

## Appendix B: Fees and Charges 2010/11

Description	Amount (inc. GST)
<b>Regular Public Transport Operators and Charter Operators from 1 July 2010</b>	
<b><u>Aircraft</u></b>	
Passengers Embarking or Disembarking (per passenger)	\$27.50
Half Fare Passengers (per passenger)	\$13.75
<b><u>PLUS</u></b>	
Landing Fee Based on Maximum Take-Off Weight of Aircraft (per 1,000kg or part thereof), however, test flights logged from Gladstone to return to Gladstone without landing at any other airport shall not attract the charge. If a regular public transport operator and charter operator maintains records and submits payments for all charges within 21 days of the end of the month to which the charge applies a 5% discount (net of GST) will be allowed. Council will charge on seat capacity if the above records are not received within the above 21 days.	\$6.80
<b><u>Helicopters</u></b>	
1-4 Passengers (per landing)	\$19.30
>6 passengers (per landing)	\$23.55
<b><u>Parking Fees for Aircraft and Helicopters Based at Gladstone</u></b>	
Annual Parking Fee	\$410.00
<b>Landing Charges Itinerant Aircraft &amp; Helicopters</b>	
<b><u>Aircraft with Maximum Take-Off Weight &lt; 2000kg</u></b>	
Landing Fee	Nil
Parking Fee	
(a) Parking for less than a total of 10 days in any financial year	Nil
(b) Parking for a total period of >10 days in any financial year (per 30 days of part thereof)	\$70.00
i.e	
10 days	\$70.00
28 days	\$70.00
31 days	\$135.00
59 days	\$135.00
61 days	\$195.00
<b><u>Aircraft with Maximum Take-Off Weight &gt; 2,000kg</u></b>	
Landing Fee Based on Maximum Take-Off Weight of Aircraft (per 1,000kg or part thereof)	\$10.00
<b>Carparking</b>	
<b><u>Long-Term Parking</u></b>	
<2 hours	Free
2-24 hours	\$10.00
>24 hours, per 24 hours or part thereof	\$10.00
<b><u>Short-Term Parking</u></b>	
<2 hours	Free
2-24 hours	\$20.00
>24 hours, per 24 hours or part thereof	\$20.00
<b><u>Other</u></b>	
Lost Parking Tickets	\$50.00
<b>Other</b>	
ASIC Application Fee (per application)	\$170.00

## Appendix C: 2010/11 Council Operational Plan Airport Outcomes and Strategies (and Progress to December 2010)

Corporate Plan Outcome	Corporate Plan Strategy	Program Output	Performance Measure	Target
<b>AIRPORT SERVICES</b>				
<i>A strong, effective and sustainable organization, providing excellence and innovation in custodianship of the community's resources</i>	GOVERNANCE - Manage Council's financial and physical resources to the most beneficial and sustainable effect	Operation within budget	<ul style="list-style-type: none"> <li>Actual operating expenditure as a percentage of the budget <i>Progress December 2010 : On Track</i></li> </ul>	<ul style="list-style-type: none"> <li>Not Exceeding 100%</li> </ul>
<i>Sustainable and equitable levels of services and infrastructure across the region which meet the reasonable aspirations of local communities</i>	INFRASTRUCTURE - Provide Gladstone Region with an efficient and effective airport facility	Maintain and upgrade Gladstone Airport on a commercial basis as an essential hub of the regional economy	<ul style="list-style-type: none"> <li>Improvement to passenger circulation and access to lower aircraft apron through installation of stairs, escalator and lift <i>Progress December 2010 : Amendment: installed into extension of terminal. Delay due to rain</i></li> <li>Expansion and refurbishment of the existing departure halls to accommodate projected passenger growth <i>Progress December 2010 : Amendment: installed into extension of terminal. Delay due to rain</i></li> <li>Modifications to check-in areas completed <i>Progress December 2010 : Amendment: installed into extension of terminal. Delay due to rain</i></li> <li>Common user check-in counters combines with Flight Information Display Systems (FIDS) and online check-in <i>Progress December 2010 : Amendment: installed into extension of terminal. Delay due to rain</i></li> <li>Modification to baggage make-up completed to provide checked baggage screening equipment to meet aviation security regulations <i>Progress December 2010 : Amendment: installed into extension of terminal. Delay due to rain</i></li> <li>Number of passengers through the Gladstone Airport <i>Progress December 2010 : On Track</i></li> </ul>	<ul style="list-style-type: none"> <li>January 2011</li> <li>January 2011</li> <li>January 2011</li> <li>January 2011</li> <li>January 2011</li> <li>Recorded monthly, reported quarterly</li> </ul>
		Gladstone Airport is operated in compliance with aviation security requirements as set by the Office of Transport Security (OTS)	<ul style="list-style-type: none"> <li>Compliant transport security program in place <i>Progress December 2010 : On Track</i></li> <li>Gladstone Airport is an approved Domestic Screening Authority <i>Progress December 2010 : On Track</i></li> </ul>	<ul style="list-style-type: none"> <li>Current compliance</li> <li>January 2011</li> </ul>
		Gladstone Airport is operated in compliance with Civil Aviation Safety Authority (CASA) requirements, with long-term aircraft operations catered for	<ul style="list-style-type: none"> <li>Runway reconstruction completed <i>Progress December 2010 : Complete</i></li> <li>Aerodrome Compliance Certificate issued by CASA <i>Progress December 2010 : Complete</i></li> </ul>	<ul style="list-style-type: none"> <li>September 2010</li> <li>September 2010</li> </ul>
		Continue to operate a commercial aircraft refuelling operation in accordance with Shell Aviation and Dangerous Goods Safety Management standards	<ul style="list-style-type: none"> <li>Compliant workplace health and safety (WHS) audits <i>Progress December 2010 : On Track</i></li> <li>Compliant Shell Aviation and Qantaslink audits <i>Progress December 2010 : On Track</i></li> </ul>	<ul style="list-style-type: none"> <li>100% Compliance</li> <li>100% Compliance</li> </ul>



# Appendix D: Financial Modelling Outputs

## Full Cost Pricing Business Model

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>GROWTH</b>											
Passenger Growth	n.a.	53.7%	24.4%	-5.3%	3.6%	10.8%	-10.8%	3.6%	3.0%	4.5%	-0.2%
Passenger Service Charge Growth (real)	n.a.	0.0%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
<b>REVENUE</b>											
Passenger Fees	\$ 4,750,000	\$ 7,302,691	\$ 9,310,277	\$ 9,034,978	\$ 9,598,668	\$ 10,904,090	\$ 9,969,387	\$ 10,589,976	\$ 11,182,046	\$ 11,977,900	\$ 12,251,445
Landing Fees	\$ 451,500	\$ 711,493	\$ 884,966	\$ 858,798	\$ 912,379	\$ 1,036,462	\$ 947,616	\$ 1,006,605	\$ 1,062,883	\$ 1,138,531	\$ 1,164,532
Carpark Fees	\$ 175,000	\$ 205,000	\$ 261,357	\$ 253,629	\$ 269,452	\$ 306,098	\$ 279,859	\$ 297,280	\$ 313,901	\$ 336,242	\$ 343,921
Lease and Tenancy Revenue	\$ 110,000	\$ 150,244	\$ 266,382	\$ 279,080	\$ 294,991	\$ 310,317	\$ 334,980	\$ 352,479	\$ 370,923	\$ 390,366	\$ 410,862
Agency Fees	\$ 120,000	\$ 148,625	\$ 152,341	\$ 156,149	\$ 160,053	\$ 164,054	\$ 168,156	\$ 172,359	\$ 176,668	\$ 181,085	\$ 185,612
Other	\$ 81,000	\$ 10,837,325	\$ 78,230	\$ 81,789	\$ 85,510	\$ 89,401	\$ 93,469	\$ 97,722	\$ 102,168	\$ 106,817	\$ 111,677
<b>Total Revenue Received</b>	<b>\$ 5,687,500</b>	<b>\$ 19,355,379</b>	<b>\$ 10,953,552</b>	<b>\$ 10,664,423</b>	<b>\$ 11,321,053</b>	<b>\$ 12,810,423</b>	<b>\$ 11,793,467</b>	<b>\$ 12,516,421</b>	<b>\$ 13,208,589</b>	<b>\$ 14,130,940</b>	<b>\$ 14,468,048</b>
<b>OPERATING EXPENSES</b>											
Salaries and Wages	\$ 1,219,330	\$ 3,027,462	\$ 3,180,727	\$ 3,390,655	\$ 3,614,438	\$ 3,852,991	\$ 4,107,289	\$ 4,378,370	\$ 4,667,342	\$ 4,975,387	\$ 5,303,762
Other Operating Expenses	\$ 1,393,000	\$ 348,000	\$ 374,532	\$ 381,851	\$ 392,825	\$ 407,006	\$ 412,675	\$ 424,529	\$ 436,455	\$ 449,381	\$ 460,519
Other Maintenance Expenses	\$ 267,000	\$ 135,000	\$ 145,293	\$ 148,132	\$ 152,389	\$ 157,890	\$ 160,089	\$ 164,688	\$ 169,314	\$ 174,329	\$ 178,649
Competitive Neutrality Adjustments	\$ 498,591	\$ 509,461	\$ 523,091	\$ 537,094	\$ 550,235	\$ 563,756	\$ 578,576	\$ 592,543	\$ 607,379	\$ 622,509	\$ 638,247
Efficiency Gains	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Corporate Overheads	\$ 160,489	\$ 238,741	\$ 273,120	\$ 284,044	\$ 295,406	\$ 307,222	\$ 319,511	\$ 332,292	\$ 345,583	\$ 359,407	\$ 373,783
<b>Total Operating Expenses</b>	<b>\$ 3,538,410</b>	<b>\$ 4,258,664</b>	<b>\$ 4,496,762</b>	<b>\$ 4,741,777</b>	<b>\$ 5,005,294</b>	<b>\$ 5,288,866</b>	<b>\$ 5,578,140</b>	<b>\$ 5,892,422</b>	<b>\$ 6,226,073</b>	<b>\$ 6,581,013</b>	<b>\$ 6,954,960</b>
<b>RETURN OF CAPITAL</b>											
Depreciation - Existing Assets (nominal values)	\$ 227,884	\$ 233,581	\$ 239,421	\$ 245,406	\$ 251,541	\$ 257,830	\$ 264,276	\$ 270,882	\$ 277,655	\$ 284,596	\$ 291,711
Depreciation - New Assets (nominal values) Pricing	\$ 636,667	\$ 1,303,136	\$ 1,373,319	\$ 1,450,822	\$ 1,511,527	\$ 1,559,408	\$ 1,608,738	\$ 1,659,560	\$ 1,711,918	\$ 1,765,857	\$ 1,821,422
<b>Return of Capital</b>	<b>\$ 864,551</b>	<b>\$ 1,536,717</b>	<b>\$ 1,612,739</b>	<b>\$ 1,696,228</b>	<b>\$ 1,763,068</b>	<b>\$ 1,817,237</b>	<b>\$ 1,873,014</b>	<b>\$ 1,930,443</b>	<b>\$ 1,989,573</b>	<b>\$ 2,050,453</b>	<b>\$ 2,113,133</b>
<b>OPERATING PROFITABILITY</b>											
Revenue	\$ 5,687,500	\$ 19,355,379	\$ 10,953,552	\$ 10,664,423	\$ 11,321,053	\$ 12,810,423	\$ 11,793,467	\$ 12,516,421	\$ 13,208,589	\$ 14,130,940	\$ 14,468,048
Expenses	\$ 8,736,796	\$ 10,225,075	\$ 10,173,432	\$ 10,369,210	\$ 10,558,559	\$ 10,756,050	\$ 10,932,790	\$ 11,135,109	\$ 11,347,682	\$ 11,579,453	\$ 11,804,787
<b>Net Profit / (Loss)</b>	<b>-\$ 3,049,296</b>	<b>\$ 9,130,304</b>	<b>\$ 780,120</b>	<b>\$ 295,212</b>	<b>\$ 762,494</b>	<b>\$ 2,054,373</b>	<b>\$ 860,677</b>	<b>\$ 1,381,313</b>	<b>\$ 1,860,908</b>	<b>\$ 2,551,487</b>	<b>\$ 2,663,262</b>
<b>Return on Capital Achieved</b>	<b>4.38%</b>	<b>5.44%</b>	<b>7.01%</b>	<b>6.30%</b>	<b>6.48%</b>	<b>7.39%</b>	<b>6.16%</b>	<b>6.38%</b>	<b>6.55%</b>	<b>6.88%</b>	<b>6.72%</b>
<b>Return on Capital Target</b>	<b>12.44%</b>										
<b>PROFIT DISTRIBUTION</b>											
Income Tax Equivalents	\$ -	\$ -	\$ 234,036	\$ 88,564	\$ 228,748	\$ 616,312	\$ 258,203	\$ 414,394	\$ 558,272	\$ 765,446	\$ 798,979
Debt Repayments	\$ 1,720,109	\$ 12,437,756	\$ 2,073,208	\$ 2,205,933	\$ 2,346,941	\$ 2,487,191	\$ 2,655,502	\$ 2,824,894	\$ 3,005,102	\$ 3,189,150	\$ 3,400,444
Dividends	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Required Equity Injection	<b>\$ 4,769,405</b>	<b>\$ 3,307,452</b>	<b>\$ 1,527,124</b>	<b>\$ 1,999,284</b>	<b>\$ 1,813,195</b>	<b>\$ 1,049,130</b>	<b>\$ 2,053,028</b>	<b>\$ 1,857,975</b>	<b>\$ 1,702,467</b>	<b>\$ 1,403,110</b>	<b>\$ 1,536,161</b>
<b>RETURN ON CAPITAL</b>											
Gross Commercial Return on Capital Required	\$ 8,481,604	\$ 12,945,594	\$ 13,352,759	\$ 13,852,907	\$ 14,230,034	\$ 14,513,049	\$ 14,783,132	\$ 15,066,618	\$ 15,352,396	\$ 15,641,991	\$ 15,930,221
less Assumed Revaluation Gain	\$ 1,696,730	\$ 2,576,401	\$ 2,668,697	\$ 2,769,531	\$ 2,844,470	\$ 2,899,462	\$ 2,954,989	\$ 3,011,034	\$ 3,067,578	\$ 3,124,601	\$ 3,182,081
<b>Net Return on Capital Required from Operations</b>	<b>\$ 6,784,874</b>	<b>\$ 10,369,193</b>	<b>\$ 10,684,062</b>	<b>\$ 11,083,376</b>	<b>\$ 11,385,564</b>	<b>\$ 11,613,587</b>	<b>\$ 11,828,142</b>	<b>\$ 12,055,583</b>	<b>\$ 12,284,818</b>	<b>\$ 12,517,391</b>	<b>\$ 12,748,140</b>
<b>CURRENT REVENUE vs FULL COST</b>											
Actual Revenue Received	\$ 5,687,500	\$ 19,355,379	\$ 10,953,552	\$ 10,664,423	\$ 11,321,053	\$ 12,810,423	\$ 11,793,467	\$ 12,516,421	\$ 13,208,589	\$ 14,130,940	\$ 14,468,048
Estimated Full Cost	\$ 11,187,835	\$ 16,164,575	\$ 16,793,564	\$ 17,521,381	\$ 18,153,926	\$ 18,719,691	\$ 19,279,296	\$ 19,878,448	\$ 20,500,464	\$ 21,148,856	\$ 21,816,234
<b>Surplus/(Shortfall) from Full Cost - \$</b>	<b>-\$ 5,500,335</b>	<b>\$ 3,190,804</b>	<b>-\$ 5,840,012</b>	<b>-\$ 6,856,958</b>	<b>-\$ 6,832,872</b>	<b>-\$ 5,909,267</b>	<b>-\$ 7,485,829</b>	<b>-\$ 7,362,027</b>	<b>-\$ 7,291,875</b>	<b>-\$ 7,017,916</b>	<b>-\$ 7,348,185</b>
<b>Price (Increase)/Decrease Required to Meet Full Cost - %</b>	<b>-115.8%</b>	<b>43.7%</b>	<b>-62.7%</b>	<b>-75.9%</b>	<b>-71.2%</b>	<b>-54.2%</b>	<b>-75.1%</b>	<b>-69.5%</b>	<b>-65.2%</b>	<b>-58.6%</b>	<b>-60.0%</b>
<b>DEBT REPAYMENT SCHEDULE</b>											
Closing Loan Balance	\$ 67,992,927	\$ 61,685,172	\$ 63,981,964	\$ 61,776,031	\$ 59,429,091	\$ 56,941,899	\$ 54,286,398	\$ 51,461,503	\$ 48,456,401	\$ 45,267,251	\$ 41,866,806
Interest	\$ 4,333,835	\$ 4,429,693	\$ 4,063,930	\$ 3,931,205	\$ 3,790,197	\$ 3,649,946	\$ 3,481,636	\$ 3,312,034	\$ 3,132,036	\$ 2,947,988	\$ 2,736,693
Redemption	\$ 1,720,109	\$ 12,437,756	\$ 2,073,208	\$ 2,205,933	\$ 2,346,941	\$ 2,487,191	\$ 2,655,502	\$ 2,824,894	\$ 3,005,102	\$ 3,189,150	\$ 3,400,444
<b>Total I&amp;R</b>	<b>\$ 6,053,944</b>	<b>\$ 16,867,449</b>	<b>\$ 6,137,138</b>								



## Commercialised Business Unit Model

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>GROWTH</b>											
Passenger Growth	n.a.	53.7%	24.4%	-5.3%	3.6%	10.8%	-10.8%	3.6%	3.0%	4.5%	-0.2%
Passenger Service Charge Growth (real)	n.a.	0.0%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
<b>REVENUE</b>											
Passenger Fees	\$ 4,750,000	\$ 7,302,691	\$ 9,310,277	\$ 9,034,978	\$ 9,598,668	\$ 10,904,090	\$ 9,969,387	\$ 10,589,976	\$ 11,182,046	\$ 11,977,900	\$ 12,251,445
Landing Fees	\$ 451,500	\$ 711,493	\$ 884,966	\$ 858,798	\$ 912,379	\$ 1,036,462	\$ 947,616	\$ 1,006,605	\$ 1,062,883	\$ 1,138,531	\$ 1,164,532
Carpark Fees	\$ 175,000	\$ 205,000	\$ 261,357	\$ 253,629	\$ 269,452	\$ 306,098	\$ 279,859	\$ 297,280	\$ 313,901	\$ 336,242	\$ 343,921
Lease and Tenancy Revenue	\$ 110,000	\$ 271,626	\$ 469,912	\$ 558,571	\$ 1,208,199	\$ 1,450,936	\$ 1,539,188	\$ 1,623,821	\$ 1,713,143	\$ 1,807,415	\$ 1,906,911
Agency Fees	\$ 120,000	\$ 148,625	\$ 152,341	\$ 156,149	\$ 160,053	\$ 164,054	\$ 168,156	\$ 172,359	\$ 176,668	\$ 181,085	\$ 185,612
Other	\$ 81,000	\$ 10,837,325	\$ 78,230	\$ 81,789	\$ 85,510	\$ 89,401	\$ 93,469	\$ 97,722	\$ 102,168	\$ 106,817	\$ 111,677
<b>Total Revenue Received</b>	<b>\$ 5,687,500</b>	<b>\$ 19,476,760</b>	<b>\$ 11,157,083</b>	<b>\$ 10,943,914</b>	<b>\$ 12,234,261</b>	<b>\$ 13,951,042</b>	<b>\$ 12,997,675</b>	<b>\$ 13,787,764</b>	<b>\$ 14,550,810</b>	<b>\$ 15,547,989</b>	<b>\$ 15,964,098</b>
<b>OPERATING EXPENSES</b>											
Salaries and Wages	\$ 1,219,330	\$ 3,127,462	\$ 3,285,790	\$ 3,502,652	\$ 3,733,827	\$ 3,980,259	\$ 4,242,957	\$ 4,522,992	\$ 4,821,509	\$ 5,139,729	\$ 5,478,951
Other Operating Expenses	\$ 1,393,000	\$ 398,000	\$ 428,344	\$ 436,715	\$ 449,266	\$ 465,484	\$ 471,968	\$ 485,525	\$ 499,164	\$ 513,948	\$ 526,685
Other Maintenance Expenses	\$ 267,000	\$ 135,000	\$ 145,293	\$ 148,132	\$ 152,389	\$ 157,890	\$ 160,089	\$ 164,688	\$ 169,314	\$ 174,329	\$ 178,649
Competitive Neutrality Adjustments	\$ 498,591	\$ 509,461	\$ 523,094	\$ 537,094	\$ 550,235	\$ 563,756	\$ 578,576	\$ 592,543	\$ 607,379	\$ 622,509	\$ 638,247
Efficiency Gains	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Corporate Overheads	\$ 160,489	\$ 238,741	\$ 273,120	\$ 284,044	\$ 295,406	\$ 307,222	\$ 319,511	\$ 332,292	\$ 345,583	\$ 359,407	\$ 373,783
<b>Total Operating Expenses</b>	<b>\$ 3,538,410</b>	<b>\$ 4,408,664</b>	<b>\$ 4,655,637</b>	<b>\$ 4,908,638</b>	<b>\$ 5,181,123</b>	<b>\$ 5,474,612</b>	<b>\$ 5,773,101</b>	<b>\$ 6,098,040</b>	<b>\$ 6,442,949</b>	<b>\$ 6,809,921</b>	<b>\$ 7,196,315</b>
<b>RETURN OF CAPITAL</b>											
Depreciation - Existing Assets (nominal values)	\$ 227,884	\$ 233,581	\$ 239,421	\$ 245,406	\$ 251,541	\$ 257,830	\$ 264,276	\$ 270,882	\$ 277,655	\$ 284,596	\$ 291,711
Depreciation - New Assets (nominal values) Pricing	\$ 636,667	\$ 1,303,136	\$ 1,373,319	\$ 1,450,822	\$ 1,511,527	\$ 1,559,408	\$ 1,608,738	\$ 1,659,560	\$ 1,711,918	\$ 1,765,857	\$ 1,821,422
<b>Return of Capital</b>	<b>\$ 864,551</b>	<b>\$ 1,536,717</b>	<b>\$ 1,612,739</b>	<b>\$ 1,696,228</b>	<b>\$ 1,763,068</b>	<b>\$ 1,817,237</b>	<b>\$ 1,873,014</b>	<b>\$ 1,930,443</b>	<b>\$ 1,989,573</b>	<b>\$ 2,050,453</b>	<b>\$ 2,113,133</b>
<b>OPERATING PROFITABILITY</b>											
Revenue	\$ 5,687,500	\$ 19,476,760	\$ 11,157,083	\$ 10,943,914	\$ 12,234,261	\$ 13,951,042	\$ 12,997,675	\$ 13,787,764	\$ 14,550,810	\$ 15,547,989	\$ 15,964,098
Expenses	\$ 8,736,796	\$ 10,375,075	\$ 10,332,306	\$ 10,536,071	\$ 10,734,388	\$ 10,941,796	\$ 11,127,750	\$ 11,340,726	\$ 11,564,557	\$ 11,808,361	\$ 12,046,142
<b>Net Profit / (Loss)</b>	<b>-\$ 3,049,296</b>	<b>\$ 9,101,685</b>	<b>\$ 824,777</b>	<b>\$ 407,843</b>	<b>\$ 1,499,873</b>	<b>\$ 3,009,246</b>	<b>\$ 1,869,925</b>	<b>\$ 2,447,038</b>	<b>\$ 2,986,252</b>	<b>\$ 3,739,628</b>	<b>\$ 3,917,956</b>
Return on Capital Achieved	4.38%	5.41%	7.04%	6.11%	6.78%	7.79%	6.67%	6.90%	7.08%	7.41%	7.30%
Return on Capital Target	12.44%	12.44%	12.44%	12.44%	12.44%	12.44%	12.44%	12.44%	12.44%	12.44%	12.44%
<b>PROFIT DISTRIBUTION</b>											
Income Tax Equivalents	\$ -	\$ -	\$ 247,433	\$ 122,353	\$ 449,962	\$ 902,774	\$ 560,978	\$ 734,111	\$ 895,876	\$ 1,121,888	\$ 1,175,387
Debt Repayments	\$ 1,720,109	\$ 12,437,756	\$ 2,073,208	\$ 2,205,933	\$ 2,346,941	\$ 2,487,191	\$ 2,655,502	\$ 2,824,894	\$ 3,005,102	\$ 3,189,150	\$ 3,400,444
Dividends	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Required Equity Injection	<b>\$ 4,769,405</b>	<b>\$ 3,336,070</b>	<b>\$ 1,495,864</b>	<b>\$ 1,920,442</b>	<b>\$ 1,297,029</b>	<b>\$ 380,719</b>	<b>\$ 1,346,554</b>	<b>\$ 1,111,968</b>	<b>\$ 914,726</b>	<b>\$ 571,411</b>	<b>\$ 657,875</b>
<b>RETURN ON CAPITAL</b>											
Gross Commercial Return on Capital Required	\$ 8,481,604	\$ 12,946,349	\$ 13,407,770	\$ 14,952,874	\$ 15,364,179	\$ 15,679,678	\$ 15,982,079	\$ 16,298,785	\$ 16,618,710	\$ 16,943,404	\$ 17,267,712
less Assumed Revaluation Gain	\$ 1,696,730	\$ 2,576,401	\$ 2,679,493	\$ 2,990,150	\$ 3,071,163	\$ 3,132,396	\$ 3,194,336	\$ 3,256,971	\$ 3,320,286	\$ 3,384,266	\$ 3,448,895
<b>Net Return on Capital Required from Operations</b>	<b>\$ 6,784,874</b>	<b>\$ 10,369,949</b>	<b>\$ 10,728,277</b>	<b>\$ 11,962,723</b>	<b>\$ 12,293,016</b>	<b>\$ 12,547,281</b>	<b>\$ 12,787,743</b>	<b>\$ 13,041,814</b>	<b>\$ 13,298,425</b>	<b>\$ 13,559,139</b>	<b>\$ 13,818,818</b>
<b>CURRENT REVENUE vs FULL COST</b>											
Actual Revenue Received	\$ 5,687,500	\$ 19,476,760	\$ 11,157,083	\$ 10,943,914	\$ 12,234,261	\$ 13,951,042	\$ 12,997,675	\$ 13,787,764	\$ 14,550,810	\$ 15,547,989	\$ 15,964,098
Estimated Full Cost	\$ 11,187,835	\$ 16,315,330	\$ 16,996,653	\$ 18,567,589	\$ 19,237,207	\$ 19,839,131	\$ 20,433,857	\$ 21,070,297	\$ 21,730,946	\$ 22,419,512	\$ 23,128,266
<b>Surplus/(Shortfall) from Full Cost - \$</b>	<b>-\$ 5,500,335</b>	<b>\$ 3,161,430</b>	<b>-\$ 5,839,570</b>	<b>-\$ 7,623,675</b>	<b>-\$ 7,002,946</b>	<b>-\$ 5,888,089</b>	<b>-\$ 7,436,181</b>	<b>-\$ 7,282,533</b>	<b>-\$ 7,180,137</b>	<b>-\$ 6,871,523</b>	<b>-\$ 7,164,168</b>
<b>Price (Increase)/Decrease Required to Meet Full Cost - %</b>	<b>-115.8%</b>	<b>43.3%</b>	<b>-62.7%</b>	<b>-84.4%</b>	<b>-73.0%</b>	<b>-54.0%</b>	<b>-74.6%</b>	<b>-68.8%</b>	<b>-64.2%</b>	<b>-57.4%</b>	<b>-58.5%</b>
<b>DEBT REPAYMENT SCHEDULE</b>											
Closing Loan Balance	\$ 67,992,927	\$ 61,685,172	\$ 63,981,964	\$ 61,776,031	\$ 59,429,091	\$ 56,941,899	\$ 54,286,398	\$ 51,461,503	\$ 48,456,401	\$ 45,267,251	\$ 41,866,806
Interest	\$ 4,333,835	\$ 4,429,693	\$ 4,063,930	\$ 3,931,205	\$ 3,790,197	\$ 3,649,946	\$ 3,481,636	\$ 3,312,244	\$ 3,132,036	\$ 2,947,988	\$ 2,736,693
Redemption	\$ 1,720,109	\$ 12,437,756	\$ 2,073,208	\$ 2,205,933	\$ 2,346,941	\$ 2,487,191	\$ 2,655,502	\$ 2,824,894	\$ 3,005,102	\$ 3,189,150	\$ 3,400,444
<b>Total I&amp;R</b>	<b>\$ 6,053,944</b>	<b>\$ 16,867,449</b>	<b>\$ 6,137,138</b>								



## Corporate Entity Business Model

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>GROWTH</b>											
Passenger Growth	n.a.	53.7%	24.4%	-5.3%	3.6%	10.8%	-10.8%	3.6%	3.0%	4.5%	-0.2%
Passenger Service Charge Growth (real)	n.a.	0.0%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
<b>REVENUE</b>											
Passenger Fees	\$ 4,750,000	\$ 7,302,691	\$ 9,310,277	\$ 9,034,978	\$ 9,598,668	\$ 10,904,090	\$ 9,969,387	\$ 10,589,976	\$ 11,182,046	\$ 11,977,900	\$ 12,251,445
Landing Fees	\$ 451,500	\$ 711,493	\$ 884,966	\$ 858,798	\$ 912,379	\$ 1,036,462	\$ 947,616	\$ 1,006,605	\$ 1,062,883	\$ 1,138,531	\$ 1,164,532
Carpark Fees	\$ 175,000	\$ 205,000	\$ 261,357	\$ 253,629	\$ 269,452	\$ 306,098	\$ 279,859	\$ 297,280	\$ 313,901	\$ 336,242	\$ 343,921
Lease and Tenancy Revenue	\$ 110,000	\$ 271,626	\$ 560,266	\$ 1,440,092	\$ 2,160,941	\$ 2,598,219	\$ 2,750,433	\$ 2,902,593	\$ 3,063,207	\$ 3,388,852	\$ 3,576,513
Agency Fees	\$ 120,000	\$ 148,625	\$ 152,341	\$ 156,149	\$ 160,053	\$ 164,054	\$ 168,156	\$ 172,359	\$ 176,668	\$ 181,085	\$ 185,612
Other	\$ 81,000	\$ 10,837,325	\$ 78,230	\$ 81,789	\$ 85,510	\$ 89,401	\$ 93,469	\$ 97,722	\$ 102,168	\$ 106,817	\$ 111,677
<b>Total Revenue Received</b>	<b>\$ 5,687,500</b>	<b>\$ 19,476,760</b>	<b>\$ 11,247,436</b>	<b>\$ 11,825,435</b>	<b>\$ 13,187,003</b>	<b>\$ 15,098,325</b>	<b>\$ 14,208,920</b>	<b>\$ 15,066,535</b>	<b>\$ 15,900,873</b>	<b>\$ 17,129,426</b>	<b>\$ 17,633,700</b>
<b>OPERATING EXPENSES</b>											
Salaries and Wages	\$ 1,219,330	\$ 3,377,462	\$ 3,548,446	\$ 3,782,643	\$ 4,032,298	\$ 4,298,429	\$ 4,582,126	\$ 4,884,546	\$ 5,206,926	\$ 5,550,583	\$ 5,916,922
Other Operating Expenses	\$ 1,393,000	\$ 448,000	\$ 482,156	\$ 491,579	\$ 505,706	\$ 523,962	\$ 531,260	\$ 546,520	\$ 561,873	\$ 578,514	\$ 592,852
Other Maintenance Expenses	\$ 267,000	\$ 135,000	\$ 145,293	\$ 148,132	\$ 152,389	\$ 157,890	\$ 160,089	\$ 164,688	\$ 169,314	\$ 174,329	\$ 178,649
Competitive Neutrality Adjustments	\$ 498,591	\$ 509,461	\$ 523,091	\$ 537,094	\$ 550,235	\$ 563,756	\$ 578,576	\$ 592,543	\$ 607,379	\$ 622,509	\$ 638,247
Efficiency Gains	\$ -	\$ -	\$ 59,026	\$ 121,004	\$ 183,018	\$ 246,583	\$ 311,737	\$ 361,519	\$ 429,733	\$ 523,588	\$ 653,890
Corporate Overheads	\$ 160,489	\$ 238,741	\$ 273,120	\$ 284,044	\$ 295,406	\$ 307,222	\$ 319,511	\$ 332,292	\$ 345,583	\$ 359,407	\$ 373,783
<b>Total Operating Expenses</b>	<b>\$ 3,538,410</b>	<b>\$ 4,708,664</b>	<b>\$ 4,913,079</b>	<b>\$ 5,122,489</b>	<b>\$ 5,353,016</b>	<b>\$ 5,604,677</b>	<b>\$ 5,859,825</b>	<b>\$ 6,159,070</b>	<b>\$ 6,461,342</b>	<b>\$ 6,761,754</b>	<b>\$ 7,046,563</b>
<b>RETURN OF CAPITAL</b>											
Depreciation - Existing Assets (nominal values)	\$ 227,884	\$ 233,581	\$ 239,421	\$ 245,406	\$ 251,541	\$ 257,830	\$ 264,276	\$ 270,882	\$ 277,655	\$ 284,596	\$ 291,711
Depreciation - New Assets (nominal values) Pricing	\$ 636,667	\$ 1,303,136	\$ 1,373,319	\$ 1,450,822	\$ 1,511,527	\$ 1,559,408	\$ 1,608,738	\$ 1,659,560	\$ 1,711,918	\$ 1,765,857	\$ 1,821,422
<b>Return of Capital</b>	<b>\$ 864,551</b>	<b>\$ 1,536,717</b>	<b>\$ 1,612,739</b>	<b>\$ 1,696,228</b>	<b>\$ 1,763,068</b>	<b>\$ 1,817,237</b>	<b>\$ 1,873,014</b>	<b>\$ 1,930,443</b>	<b>\$ 1,989,573</b>	<b>\$ 2,050,453</b>	<b>\$ 2,113,133</b>
<b>OPERATING PROFITABILITY</b>											
Revenue	\$ 5,687,500	\$ 19,476,760	\$ 11,247,436	\$ 11,825,435	\$ 13,187,003	\$ 15,098,325	\$ 14,208,920	\$ 15,066,535	\$ 15,900,873	\$ 17,129,426	\$ 17,633,700
Expenses	\$ 8,736,796	\$ 10,675,075	\$ 10,589,748	\$ 10,749,922	\$ 10,906,281	\$ 11,071,861	\$ 11,214,475	\$ 11,401,756	\$ 11,582,950	\$ 11,760,194	\$ 11,896,389
<b>Net Profit / (Loss)</b>	<b>-\$ 3,049,296</b>	<b>\$ 8,801,685</b>	<b>\$ 657,688</b>	<b>\$ 1,075,513</b>	<b>\$ 2,280,722</b>	<b>\$ 4,026,465</b>	<b>\$ 2,994,445</b>	<b>\$ 3,664,779</b>	<b>\$ 4,317,922</b>	<b>\$ 5,369,232</b>	<b>\$ 5,737,311</b>
<b>Return on Capital Achieved</b>	<b>4.38%</b>	<b>5.13%</b>	<b>6.88%</b>	<b>6.67%</b>	<b>7.42%</b>	<b>8.59%</b>	<b>7.54%</b>	<b>7.82%</b>	<b>8.08%</b>	<b>8.61%</b>	<b>8.60%</b>
<b>Return on Capital Target</b>	<b>12.44%</b>										
<b>PROFIT DISTRIBUTION</b>											
Income Tax Equivalents	\$ -	\$ -	\$ 197,306	\$ 322,654	\$ 684,217	\$ 1,207,939	\$ 898,334	\$ 1,099,434	\$ 1,295,377	\$ 1,610,770	\$ 1,721,193
Debt Repayments	\$ 1,720,109	\$ 12,437,756	\$ 2,073,208	\$ 2,205,933	\$ 2,346,941	\$ 2,487,191	\$ 2,655,502	\$ 2,824,894	\$ 3,005,102	\$ 3,189,150	\$ 3,400,444
Dividends	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 331,334	\$ -	\$ -	\$ 17,443	\$ 569,312	\$ 615,673
Required Equity Injection	\$ 4,769,405	\$ 3,636,070	\$ 1,612,826	\$ 1,453,074	\$ 750,435	\$ -	\$ 559,390	\$ 259,549	\$ -	\$ -	\$ -
<b>RETURN ON CAPITAL</b>											
Gross Commercial Return on Capital Required	\$ 8,481,604	\$ 12,946,349	\$ 13,408,332	\$ 14,958,359	\$ 15,370,108	\$ 15,686,817	\$ 15,989,616	\$ 16,306,742	\$ 16,627,111	\$ 16,953,245	\$ 17,278,101
less Assumed Revaluation Gain	\$ 1,696,730	\$ 2,576,401	\$ 2,679,493	\$ 2,990,150	\$ 3,071,163	\$ 3,132,396	\$ 3,194,336	\$ 3,256,971	\$ 3,320,286	\$ 3,384,266	\$ 3,448,895
<b>Net Return on Capital Required from Operations</b>	<b>\$ 6,784,874</b>	<b>\$ 10,369,949</b>	<b>\$ 10,728,839</b>	<b>\$ 11,968,209</b>	<b>\$ 12,298,945</b>	<b>\$ 12,554,420</b>	<b>\$ 12,795,280</b>	<b>\$ 13,049,771</b>	<b>\$ 13,306,825</b>	<b>\$ 13,568,979</b>	<b>\$ 13,829,207</b>
<b>CURRENT REVENUE vs FULL COST</b>											
Actual Revenue Received	\$ 5,687,500	\$ 19,476,760	\$ 11,247,436	\$ 11,825,435	\$ 13,187,003	\$ 15,098,325	\$ 14,208,920	\$ 15,066,535	\$ 15,900,873	\$ 17,129,426	\$ 17,633,700
Estimated Full Cost	\$ 11,187,835	\$ 16,615,330	\$ 17,254,657	\$ 18,786,925	\$ 19,415,029	\$ 19,976,335	\$ 20,528,118	\$ 21,139,284	\$ 21,757,740	\$ 22,381,186	\$ 22,988,903
<b>Surplus/(Shortfall) from Full Cost - \$</b>	<b>-\$ 5,500,335</b>	<b>\$ 2,861,430</b>	<b>-\$ 6,007,220</b>	<b>-\$ 6,961,491</b>	<b>-\$ 6,228,025</b>	<b>-\$ 4,878,009</b>	<b>-\$ 6,319,198</b>	<b>-\$ 6,072,749</b>	<b>-\$ 5,856,868</b>	<b>-\$ 5,251,760</b>	<b>-\$ 5,355,203</b>
<b>Price (Increase)/Decrease Required to Meet Full Cost - %</b>	<b>-115.8%</b>	<b>39.2%</b>	<b>-64.5%</b>	<b>-77.1%</b>	<b>-64.9%</b>	<b>-44.7%</b>	<b>-63.4%</b>	<b>-57.3%</b>	<b>-52.4%</b>	<b>-43.8%</b>	<b>-43.7%</b>
<b>DEBT REPAYMENT SCHEDULE</b>											
Closing Loan Balance	\$ 67,992,927	\$ 61,685,172	\$ 63,981,964	\$ 61,776,031	\$ 59,429,091	\$ 56,941,899	\$ 54,286,398	\$ 51,461,503	\$ 48,456,401	\$ 45,267,251	\$ 41,866,806
Interest	\$ 4,333,835	\$ 4,429,693	\$ 4,063,930	\$ 3,931,205	\$ 3,790,197	\$ 3,649,946	\$ 3,481,636	\$ 3,312,244	\$ 3,142,036	\$ 2,947,988	\$ 2,736,693
Redemption	\$ 1,720,109	\$ 12,437,756	\$ 2,073,208	\$ 2,205,933	\$ 2,346,941	\$ 2,487,191	\$ 2,655,502	\$ 2,824,894	\$ 3,005,102	\$ 3,189,150	\$ 3,400,444
<b>Total I&amp;R</b>	<b>\$ 6,053,944</b>	<b>\$ 16,867,449</b>	<b>\$ 6,137,138</b>								



PAGE LEFT INTENTIONALLY BLANK





<b>Brisbane</b>	Level 5, 131 Leichhardt Street Spring Hill QLD 4000	PO Box 942 Spring Hill QLD 4004	T F	+61 7 3831 0577 +61 7 3831 3899
<b>Melbourne</b>	Level 27, 101 Collins Street Melbourne VIC 3000	PO Box 1092 Hawthorn VIC 3122	T F	+61 3 9653 9312 +61 3 9653 9307
<b>Sydney</b>	Level 3, 507 Kent Street Sydney NSW 2000	PO Box Q569, QVB Sydney NSW 1230	T F	+61 2 9283 8400 +61 2 9264 9254
<b>Townsville</b>	233 Flinders Street East Townsville QLD 4810	PO Box 5804MC Townsville QLD 4810	T F	+61 7 4771 5550 +61 7 4771 5152
<b>Perth</b>	Level 18, Central Park 152 - 158 St Georges Terrace Perth WA 6000		T F	+61 8 9288 4456 +61 8 9288 4457