A Business Case for the Upgrade of the Kangaroo Island Airport at Kingscote

May 2013
Kangaroo Island Council has prepared this business case for an upgrade of Kangaroo Island airport in collaboration with the Government of South Australia, Kangaroo Island Futures Authority and the South Australian Tourism Commission. It draws on analysis undertaken by Pacific Aviation Consulting, Tonkin Consulting, EconSearch and KPMG.

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“Kangaroo Island is an attraction of global significance. With an abundance of wildlife, pristine beaches, a growing food and wine sector, it is highly appealing to international visitors. As an Island, however, it is constrained by access. Overcoming this constraint will be key to capitalising on its huge potential.”

Andrew McEvoy, Managing Director Tourism Australia
Executive Summary

1. Kangaroo Island – It’s one of Australians Tourism Icons

Kangaroo Island is an Australian international destination recognised worldwide for its beauty, natural landscapes and wildlife. It is identified internationally as uniquely Australian alongside Sydney Harbour, The Great Barrier Reef and Ayres Rock. Kangaroo Island is simply one of Australia’s iconic tourism destinations. It captures Australia’s connection with nature, the sea and leisure activities in a surprisingly unspoilt Australian landscape. Kangaroo Island has been developed into a critical part of the Australian international brand. And rightly so – it is uniquely Australian.

Getting people to this unique destination is critical to ensure continued exploitation of the icon. It’s good for Kangaroo Island, but it’s great for the Australian tourism economy as marketing alone does little for the economy without the sales. Getting people to Kangaroo Island and getting people to Australia allows the Australian economy to earn the benefits from the significant investment in its icons.

As such, tourist access to Australian icons such as Kangaroo Island is fundamental to the delivery of the Commonwealth strategy to take international tourism to $140 billion in the Australian economy by 2020. This is an important target for Australia’s economic prosperity, and the transport access to Kangaroo Island enables Australia to capitalise on the investment that Tourism Australia has made in promoting Australia to the world through the gateway of Kangaroo Island.

South Australia also invests in advertising Kangaroo Island supporting the Commonwealth as an iconic tourism drawcard supporting the marketing investment made by the Commonwealth. The ultimate capitalisation of the investment in marketing this extraordinary destination lies in simple and efficient transport access to the Island.

As an island, access is limited by the natural barriers that are part of its drawcard. Whilst the journeys add to its charm it also creates a hurdle, particularly for time poor tourists who have already invested a significant amount of time just getting to the Australian shores. Fast and efficient access by air to the Island complements the access by ferry services to allow time sensitive travellers access to the Island’s natural wonders, and increases the potential to extend the stay of international tourists in Australia.

1.2 Changes in airport needs

The current Kangaroo Island airport is functional, but has operational limitations due to its size and its ability to service a range of potential aircraft that would replace the current service aircraft which are likely to require changing in the medium term, or

Southern Ocean Lodge - Considered one of the Top 20 International Hideaways in Andrew Harper's Hideaway Report, 2011

May 2013
aircraft that are likely to offer services on new routes that would connect the Island to international gateways in Melbourne and Sydney.

There is a need to lengthen the runways and aprons to accommodate aircraft that are better able to exploit the potential that this drawcard brings to Australia. Particularly tourists in groups of 30 or more – which include the Chinese market worth a potential $9 billion to the Australian economy.

Upgrading the current facilities would future-proof the services and allow Australia to take advantage of the economic benefits that are driven from the tourist potential that is already knocking at our door.

1.3 The project

The Kangaroo Island Airport Upgrade project allows the Kangaroo Island Council (the Council), as operator, the capacity to:

- accept alternative aircraft to that currently operating the Adelaide - Kingscote route;
- enable the upgraded security screening of passengers to new standards; and
- accept the range of private aircraft that seek to use Kangaroo Island as a destination.

The Council therefore seeks assistance to perform an upgrade to the airport facilities that will allow new and larger aircraft to run regular passenger services to Adelaide and other destinations, and allow for a larger range of private aircraft to access the island for the higher value tourist sector who access Australian ports.

The project entails the development of an extension and hardening of the existing sealed runway, improvements to the navigational lights and other aids, and an extension to the terminal building to allow for greater passenger numbers and new airport security.

The Council has engaged consulting engineers who have identified a number of options that offer different service solutions. The Council has considered that one option, costed at approximately $17 million, offers a solution that ‘future proofs’ the island for air services access well into the next decade, and provides infrastructure that will allow the Commonwealth to achieve its economic goals in tourism, whilst providing broader economic growth for the region. The option set out in this business case provides an economical solution to achieve an upgrade in a single step that represents a cost effective investment having regard to the needs and the economies of a single stage approach.

1.4 The benefits

Upgrading the airport provides:

- a platform on which tourism growth, and in particular international tourism growth can be supported for the benefit of the nation with the aim of reaching a target of $140 billion nationally by 2020;
- local economic growth for one of the more (economically and/or socially) isolated regions in Australia;
• significant improvements to the local social and economic fabric of the community which suffers from the cost of isolation;

• economic benefits to the Island community of between $12 million and $49 million after re-establishing tourism growth by air (with flow on economic benefits to the state and nationally);

• a significant stimulus for additional associated tourism related investments on the Island targeted to the international markets, and simply waiting on improvements to the access gateway; and

• the opportunity for new air services to this extraordinary destination, and the facility to allow the current air-services operator to deploy an aircraft platform of its choosing when the current aircraft is considered for retirement.

Without the upgrade these benefits will not be realised, and the community’s access will be compromised. Further, without this investment, the significant national and international tourism marketing will not be fully capitalised on and there is a risk that Australia will miss its targets for overseas spending in Australian tourism destinations.

This project has the ability to unlock the downstream potential benefits on so many levels.

1.5 Project delivery

It is proposed that the Kangaroo Island Council, with assistance from experienced consulting engineers and other advisers already engaged through the planning stage of this project, manage the delivery of an upgrade to the airport runway and terminal building. The Council, adopting its standard procurement processes and with support from Local Government Authority Procurement and the South Australian Government Department of Planning, Transport and Infrastructure, can manage the implementation of this upgrade, and the future operation of the airport. The costs associated with project management and procurement amount to approximately $1 million.

With the introduction of heavier aircraft comes a need for improved civil aviation security standards, which introduce a new cost to the airport operations. The Council will be seeking financial assistance to manage this cost burden in the early stages, the value of which will be dependent on when new heavier aircraft begin operations and the volume of passengers passing through the terminal at that time. This cost is expected to be in the order of $1 million to $3 million over the next 10 years.

1.6 Support

The Council has the support from the community, the State Government and from the commercial investors associated with the Island in progressing with this upgrade.

This Island community is primed, ready to exploit the social and economic potential that will be delivered by this project.

The business case that follows, sets out in more detail the project needs, the economic benefits, and other matters that makes for a compelling case to support the upgrade of this vital regional airport which underpins some of the greatest potential for enhancing the economic benefits from tourism in the Australian economy.
2 Introduction

Kangaroo Island is a world recognised destination - it is a unique and famous iconic attraction that features heavily in both Tourism Australia’s and South Australia’s state tourism organisations, South Australian Tourism Commission (SATC), global marketing campaigns. Being able to offer visitors easy access to the Island through modern infrastructure is vital to Tourism Australia and the SATC being able to deliver on their goals. In particular, the national goal to increase overnight tourism expenditure to $140 billion by 2020 as outlined in the Tourism Australia Corporate Plan 2011/14.¹

Kangaroo Island Council has prepared this business case to secure grant funding from the Commonwealth and State Government which would fund the upgrade of the Kangaroo Island airport. It aims to provide decision-makers with information that describes the nature of the strategic upgrade, and the economic and social benefits that support the case for development.

This business case:

- explains the project needs;
- provides the rationale and justification for the project;
- identifies the capital works that are proposed;
- investigates the project viability;
- scopes the economic and other benefits that would be derived by the community, business and other stakeholders;
- outlines the strategic importance of the project;
- considers project delivery, including project risks; and
- includes directly relevant consultant reports that have defined and informed the project.

Kangaroo Island was ranked the best Island in the Asia Pacific region and equal fifth in the world in the National Geographic Traveller magazine, 2007.

¹Key finding from Tourism Australia’s recent international tourism research project into consumer demand. Source: Tourism Australia, 2013, 2020 New research to help Australia tourism reach its full potential. Accessed at <www.nationalachieverscongress.vom.au/au>

3 Background and context

This section provides information describing Kangaroo Island’s location and the characteristics of its economy. It also presents an overview of the current modes of passenger transport between Kangaroo Island and mainland South Australia.

3.1 Kangaroo Island

Kangaroo Island is one of Australia’s premier wildlife and wilderness destinations. It is probably best known for its natural environment, native Australian animals, clean beaches, established seal colonies and excellent local agricultural produce.

Kangaroo Island is Australia’s third largest Island and is mix of fascinating wilderness and attractive small townships. It is located 16 kilometres off the coast of South Australia, and some 112 km south-west of Adelaide, South Australia’s largest population centre. Whilst covering approximately 4,350 square kilometres, Kangaroo Island is home to only 4,600 residents.

Figure 1: Location of Kangaroo Island

Being an Island offers a significant transport barrier to the tourist, and although served by a vehicle and passenger ferry, and an air service to Adelaide, the cost of travel, and the frequency of travel services has created some difficulties for the Island community which restrict growth, and impact negatively on the ability to survive in an ever-changing world where efficient and rapid transport connections are often simply assumed. Kangaroo Island is among the most isolated Local Government Authorities in South Australia, ranked fourth most isolated based on the Accessibility/Remoteness Index of Australia (ARIA).2

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Island economy

It is estimated that there were approximately 2,400 jobs (around 2,330 full time equivalent jobs) on Kangaroo Island in 2011/12. The top five contributors to total jobs were:

- Agriculture, forestry and fishing (26 per cent);
- Accommodation and food services (12 per cent);
- Retail trade (11 per cent);
- Health care and social assistance (9 per cent);
- Education and training (6 per cent).  

Gross Regional Product (GRP) on Kangaroo Island in 2011/12 was estimated to be $217 million. The top five direct contributors to GRP were:

- Agriculture, forestry and fishing (18 per cent);
- Accommodation and food services (9 per cent);
- Transport postal and warehousing (8 per cent);
- Health care and social assistance (6 per cent);
- Public administration and safety (6 per cent).  

Analysis of the main contributors to employment and GRP on Kangaroo Island reveals that the Island is dependent of two main economic sectors: tourism and agriculture. It has been estimated that together, tourism and agriculture generate over 52% of Kangaroo Island’s GRP on a direct and indirect basis. 

What is more, tourism and agriculture will continue to be the main economic contributors on Kangaroo Island into the future. In June 2011, the South Australian Economic Development Board set goals within a five year plan to double farm-gate income and tourism numbers on the Island by 2021. To achieve this, the SAEDB established the Kangaroo Island Futures Authority (KIFA) to coordinate the South Australian Government’s response to the Island with a view to maximising the outputs from the programs that the government might initiate to reach these targets.

Tourism

Kangaroo Island has become a popular tourism destination with 21 national and conservation parks covering more than 30% of the Island, accessible wildlife, and dramatic scenery ranging from the Little Sahara to huge sculptured granite boulders, which are truly ‘Remarkable Rocks’. The Island is one of Australia’s top four tourism

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3 Econsearch, 2013, Impact of agriculture and tourism industries on the Kangaroo Island economy.
4 Ibid
icons along with the Great Barrier Reef, Ayers Rock, and Sydney’s Opera House and Bridge.\(^6\)

In recognition of Kangaroo Island’s unique tourist appeal the Island has become of significant strategic importance at both a Commonwealth and State level. At a Commonwealth level, Kangaroo Island is recognised through Tourism Australia’s prestigious National Landscapes Program with Kangaroo Island being one of only 15 national landscapes formally recognised by the program. At a State level, the Island’s tourism is recognised in all key policy, planning and program documents.

The total number of tourists visiting Kangaroo Island in 2011/12 was around 194,000 persons. The associated expenditure from these tourists on Kangaroo Island is estimated to be $123 million.\(^7\) A substantial income is also derived from the tourism sector which is currently providing the major source of employment for around 20% of the resident population.

Visitation to Kangaroo Island has continued to grow despite a high Australian dollar and recent uncertain economic conditions with the Global Financial Crisis and post crisis recession. In fact, between 2002 and 2012, Kangaroo Island has experienced 2.6% compound annual growth in visitation in spite of the downturns in other parts of the Australian and international economies.

Analysis suggests that:

- the passenger numbers being serviced by the ferry have increased, whilst the passengers taking to the Island via air services have been on a steady decline over the past decade;
- tourism is stylised by relatively short stay or day trip return tourists, dominated by the ferry business with connections to Adelaide, and with integrated tour packages;
- short stay or day trips do not fully exploit the economic potential available from tourism on the island, and may be damaging the South Australian tourism brand due to the rushed nature of the experience where a more relaxed and engaging lifestyle might be more beneficial for the national and international traveller, with obvious flow on effects to the economy.

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\(^6\) See Figure 11: Proportion of international visitation, 2011/12, p28.

\(^7\) Econsearch, 2013, Impact of agriculture and tourism industries on the Kangaroo Island economy.
3.2 Travel to the Island

With Kangaroo Island being of strategic importance to both Australia and South Australia, utmost importance must be placed on the access to the Island.

Kangaroo Island Airport (KGC) is one of only two major points of entry into Kangaroo Island, the other being ferry services.

Ferry access

A ferry service operates between Cape Jervis on the South Australian mainland approximately 100km south of Adelaide and the Island port of Penneshaw which is approximately 60 kilometres east of Kingscote by road. These ferries carry passengers, cars and freight, including large commercial vehicles carrying fuel and supplies to the Island. The ferries also carry any agricultural outputs to markets off the Island. There is no other commercial freight service servicing the Island.

Air access

Air transport to the Island is provided by a 35 minute flight from Adelaide to Kangaroo Island Airport.

The Kangaroo Island airport is located 13 kilometres from the Island’s capital, Kingscote. From a locality perspective the airport sits literally at a strategically important cross-road for the Island. It caters primarily for the commuter and tourist trade – only transporting some minor time-sensitive freight items. The airport is the only point of entry to Kangaroo Island for regular passenger transport (RPT) aerial services and is therefore serviced mainly by RPT and many charter flights. The airport occupies an area of approximately 278 hectares.

The air access is critical to time sensitive travel, delivering passengers from the central area of the Island to Adelaide within the hour. The alternative route via ferry involves a combination of coach/ferry/coach delivering passengers into Adelaide in approximately 4 ½ hours.
3.2.1 History and current state of airport

History of the airport

Kangaroo Island Airport was constructed in 1939 by the Commonwealth Government with unsealed strips which were subject to bogging in wet weather. Three runways were designed and constructed in 1941 for Lockheed 10 aircraft. The apron was sealed and a terminal constructed in 1942. Drainage was constructed to alleviate flooding and all runways were re-sheeted during the years 1942 to 1960.

In 1960 Ansett Transport Industries contributed to a 340m extension of the main runway 01/19 including sealing of runway ends. The Commonwealth Department of Transport agreed to bring the runway up to Fokker F27 standard at the same time.

In May 1983 the District Council of Kingscote resolved to enter into the Commonwealth Government’s Airport Local Ownership Plan (ALOP) and took permissive occupancy on the 16th June 1983.

In January 1985 work began on the redevelopment of the airport which was completed 16 months later. Development at this time included strengthening and sealing of runway 01/19 to specification of Fokker F27 aircraft; provision of adequate storm water drainage; construction and sealing of apron and taxiway pavement; a new terminal building; car park and access facilities.

Ownership of the airport was transferred to the Council in 1986.

In 1995 the central 14.5 metres of the main 01/19 runway was resealed for a distance of 1,100 metres from the northern end and the original apron was extended to the east and west.

In 1997 access roads, car and bus parks were resealed. The central 14m of runway 01/19 received a single coat reseal in 2001. In 2005 cold tar rejuvenator was applied to the 8m wide strip on each side of the runway, 150m at the southern end of the runway and on the intersection of runway 06/24.
Current state of the airport

The Kangaroo Island airport is owned and managed by the Kangaroo Island Council, who has successfully operated the airport since 1983.

Kangaroo Island airport (runway, taxiway A and the apron) was designed for Fokker F27 turbo prop aircraft (approximately 50 seats) and can easily accommodate the current RPT services from Regional Express (Rex) that operate the Adelaide-Kingscote service using the smaller SAAB 340 aircraft with approximately 34 seats. The SAAB 340 has been out of production since 1998, and as the aircraft in service are at least 15 years old, there is a need to consider facilities that would replace this aircraft in the future.

The airport lounge within the terminal building was last refurbished in 1988 and is not currently set up for security screening of passengers and luggage.

The current airport is comprised of a 12 year old main runway, and a 28 year old terminal building. The facilities are workable for the current regular passenger transport services, but will not service aircraft types that would replace the SAAB 340 currently run by Rex, will not accommodate other airlines (other than Rex), will not accommodate any upgrade to airport security, and do not accommodate a range of high pressure tyred aircraft that seek access to Kangaroo Island from time to time.

3.2.2 Facilities

Aircraft Pavements

Kangaroo Island Airport has 3 existing runways comprising:

- runway 01/19 – 1402m x 30m bituminous sealed main runway aligned N-S;
- runway 06/24 – 1134m x 30 gravelled cross runway aligned ENE – WSW; and,
- runway 15/33 - 1164m x 30m gravelled cross runway aligned NNW – SSE.

The main runway, runway 01/19, was designed for use by the Fokker F27 turbo prop aircraft at a maximum weight of approximately 20 tonnes at a tyre pressure of 550kPa. That runway currently receives regular Saab 340 services in addition to general aviation charter, aerial work and private flying.

Runways 06/24 and 15/33 are unsealed and have been constructed primarily to cater for light aircraft when winds on the main runway are unsuitable for a north south approach.

The sealed apron has parking space available for 1 x BAe 146 (eastern extension); 3 x Saab and 1 x Dash8/Saab or 1 x RFDS PC 12 (main apron); and 3 x Cessna 402 or equivalent (western extension). The overall length of the apron is 300m with a depth of
57m from the edge of the passenger walkway to the centreline of the apron edge taxiway.

A grassed parking area off the western end of the main apron is available for light aircraft. A gravelled refuelling area and a grassed helicopter parking facility are provided opposite to the main apron.

**Airport Lighting**

The airport lighting consists of low intensity lighting of the 01/19 runway, taxiway edge lighting, illuminated wind indicator and an aerodrome beacon.

On landing, pilots are provided with visual slope guidance by a 2 stage Abbreviated “T” Visual Approach Slope Indicator System (AT-VASIS)\(^8\) installed at both ends of the main runway. Apron floodlighting illuminates the sealed apron. The lighting system is supplied via mains power with an emergency generator providing back up supply in the event of mains failure.

**Navigational Aids**

A non-directional beacon (NDB) provides radio frequency navigational guidance for aircraft undertaking non-precision approach to the airport. The airport also has published GPS non-precision approach to the northern end of the main runway 01/19.

**Terminal Facilities**

The existing terminal building at Kangaroo Island Airport is a single storey building approaching 30 years in age. It has an internal floor area of approximately 330 square metres. It is located central to the apron. The terminal was constructed taking into account a 2 airline operation and so it has 2 check-in areas (one at each end of the building) with the western check-in currently redundant after the cessation of Air South services, combined departure lounge/arrivals hall, toilet facilities, hire car booths, airline offices, an external baggage makeup and reclaim area.

The terminal building incorporates a single, common arrivals / departure lounge, with no means of incorporating a secure, “sterile” area necessary if departing passengers and their hand luggage are to be X-ray screened in future. Baggage handling facilities (both make-up and reclaim) do not comply with current best practice security. There are no checked-in baggage screening facilities.

The structure contains only modest toilet facilities and offices for airline operators, car hire companies, etc. There is no café or even a kiosk facility (although coffee is served from the room identified as a “store” on the plans below).

Sealed areas for parking for vehicles, both short and long term and buses, is available adjacent to the terminal.

The below figure depicts the floor plan of the existing terminal building.

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\(^8\) The AT-VASIS system is relatively old, and parts are difficult to obtain for replacements as most other airports have replaced the T-VASIS with a PAPI system which is better known internationally.
Fuel Facilities

There is no fuel provided for RPT aircraft on the main apron. An above ground tank and drum storage area servicing general aviation is located on open land south of the general aviation apron. This is used on occasions for private and emergency use. The RPT services by Rex carry sufficient fuel from Adelaide to make the return journey without the need to take fuel at Kangaroo Island.

Other Buildings

Other buildings include undercover secure parking/storage adjacent to the car park, sheds for Department of Primary Industries and Council airport equipment storage.

Current aircraft capability

At present, the RPT service to and from Kangaroo Island airport is supported by Saab 340 aircraft, a 34 seater twin engine turbo-prop plane last manufactured in 1998. Any future replacement aircraft for the current RPT services would likely be larger as aircraft manufacturers respond to fleet needs internationally that seek larger aircraft for economies of scale. Further, any new, non-Adelaide RPT services would most likely be supplied by larger aircraft which would not be adequately serviced by the current facilities offered at Kangaroo Island airport.
Aerial view of Kangaroo Island Airport identifying the main facilities, the main runway and two gravel runways, the terminal building and apron (bottom right).

Existing terminal building (view from carpark).

Aerial view of the airport runway layout indicating sealed and unsealed strips, with the apron and terminal building at the top of the image. Source: Google Earth

Aerial view of existing terminal apron and car parking area. Source: Google Earth
3.2.3 Other air travel to the Island

There are no other airstrips on the Island suitable for RPT services to any mainland airport. Kingscote represents the main facility for the Island in this regard.

There are other privately operated airstrips on the Island, none of which are sealed. These airstrips cater for general aviation, and private charter of smaller aircraft.

Other grass covered airstrips include:

- Muston Heights – American River;
- Chapman River wines – Antechamber Bay; and
- Snug Cove – used by Southern Ocean Lodge.
4 Project need

“Australia’s proximity to expanding Asian markets coupled with a worldwide and increasing demand for unique tourism destinations marks the beginning of a new era of tourism growth and investment opportunities.”

Kangaroo Island, will need efficient, reliable and flexible air access to enable Australia to be able to exploit its investment in the promotion of Australia to the world market and realise the potential of the $140 billion in overnight tourism spend in Australia.

As the only aerodrome on Kangaroo Island supporting RPT traffic, Kangaroo Island Airport is of significant strategic importance, not only as a key tourism gateway to Kangaroo Island but in its provision of essential transport services to the remote Kangaroo Island community, provision of emergency services and increasing general aviation activity. It is therefore a critical component of the community’s infrastructure needs and social and economic future.

Analysis shows that Kangaroo Island airport will face significant pressure on existing infrastructure within the near future. The lack of adequate infrastructure (including runway, terminal and security considerations) is an absolute inhibitor of commercial air travel in the future.

This section further identifies the need for the airport upgrade which cuts across a number of significant economic and social requirements in this community.

4.1 Tourism

4.1.1 Support to tourism organisations

The airport upgrade will support time sensitive tourism access for this internationally marketed and well recognised tourist destination. The Tourism strategies are promoted on multiple levels, and so it is natural to expect that fast efficient and reliable air access is taken for granted by the international travel community.

The following discussion describes the investment in marketing which is not being exploited due to a lack of quality air access.

Current marketing investment and research findings

Australia’s National Landscapes Program is a partnership between Tourism Australia and Parks Australia which promotes areas of outstanding natural beauty and cultural significance. Kangaroo Island is one of only 15 national landscapes to be promoted around the world as one of the country’s truly great nature based tourism experiences.

Tourism Australia recently undertook a major international tourism research project into how consumers view Australia and the factors most likely to motivate them to visit. A key finding of the research was that Australia’s biggest strength is its world-class nature, well regarded from all markets and core to our global tourism offering.

Research into destination appeal and the tourism potential of key Australian holiday options supports the importance of Kangaroo Island (like that of the other iconic destinations – the reef, the rock and the opera house/bridge), to Australian tourism, see Figure 5 below.

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Figure 5: Most appealing Australian attractions


Kangaroo Island delivers on the most sought after tourist destination experience

Vivonne bay was found to be Australia’s top beach by Sydney University in 2003.

Kangaroo Island has a farm gate and cellar door trail that introduces visitors to producers and products at their source. (Source: Tour Kangaroo Island)

Vogue Entertainment awarded Kangaroo Island with the top Regional produce Award in 2007 and the Island Beehive (honey production, and retail) received the top Regional Tourism Award.

Flinders Chase National Park – Home to Remarkable Rocks and Admirals Arch. 30% of Kangaroo Island is protected as national and conservation parks; it is one of the last unspoilt refuges and often called ‘Australia’s Galapagos”

Seal Bay – Visitors can walk among the nation’s third largest and most accessible colony of Australian Sea Lions. Kangaroo Island also offers the opportunity to get up close to Kangaroos, Wallabies, Goanna’s, Echidna’s, Koalas and other native animals. (Source: Tour Kangaroo Island)
Research also finds that the highest levels of intention to visit Australia come from Chinese and Indian tourists. Tourism Australia is heavily targeting these nations as part of the China 2020 and India 2020 Strategic plans.

Launched in June 2011, the China 2020 Strategic Plan\(^\text{10}\) aims to ensure Australian tourism remains competitive in the fast growing market for outbound travel from China. Australia has experienced faster international arrivals and expenditure growth from China than from any other market. A record 542,000 Chinese visited Australia during 2011, almost 20 per cent growth on 2010. Not only are Chinese visiting in record numbers, they are also spending at record levels. Current overnight expenditure from China is up 15 per cent, to more than A$3.8 billion, making it our most valuable export market. By 2020, a potential 860,000 Chinese visitors have the potential to bring in excess of between A$7 billion and A$9 billion each year into the Australian economy, more than doubling their current economic contribution. In order to seize this opportunity and achieve this level of growth Australian tourism must continue to remain relevant and competitive.

Figure 6: China potential for overnight tourism expenditure

![Figure 6: China potential for overnight tourism expenditure](Image)

Source: Tourism Australia, 2011, Summary of Tourism Australia’s China 2020 Strategic Plan.

The strategy identifies five pillars. One of the five areas pivotal to achieving China’s 2020 tourism potential and winning market share is aviation development. A healthy aviation environment is considered critical to the success of the China 2020 goal – ‘more planes, with more connections to more destinations in Australia, aligned to the Geographic strategy\(^\text{11}\) will be essential to bring the increase in economic value to Australia.’\(^\text{12}\)

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\(^{11}\) The Geographic Strategy identifies the focus for Tourism Australia’s resources to maximise the Chinese market growth opportunities and achieve the 2020 goal. In the short to medium term the focus will remain in Greater Beijing, Greater Shanghai and Guangdong to allow marketing and trade efficiencies. Tourism Australia will ultimately extend marketing into the rising wealth areas of Greater China.

The Kangaroo Island airport upgrade is one component that can deliver on that goal.

China’s growing importance will see Tourism Australia spend approximately $180 million over the next three years rolling out its There’s nothing like Australia global marketing campaign into key international markets. China’s growing importance saw this campaign launched in China, and has also seen an increase in marketing resourcing by 41 percent in 2012/13. The campaign features unique Australian attractions, including South Australia’s Kangaroo Island. Moreover, the Asia Marketing Fund announced by the Australian Government in 2012/13 delivers an additional $61 million to Tourism Australia’s budget over the next four years.

Figure 7: Kangaroo Island is a part of the “There’s nothing like Australia” campaign


Tourism goals

Tourism Australia’s 2020 goal to increase annual tourism spending by up to A$140 billion by the end of the decade is highly relevant to the Kangaroo Island destination.

The Australian tourism industry’s challenge and opportunity is to capture this demand and convert it into increased economic benefits by enhancing our competitiveness. An airport upgrade can deliver on this through the provision of fast, reliable and efficient air services that bring people, especially those who are time poor, to their destination in minimal travel time. The positive experience will have obvious multiplier effects through the overseas tourism markets.

An upgrade to the airport can help the Commonwealth deliver on these international tourism goals.

Domestic tourism visitation remains a key part of the Australian tourism industry – accounting for approximately two thirds of all overnight expenditure in Australian tourism.\textsuperscript{15} In June 2011, spending by international tourism visitors was $27 billion while domestic tourism visitors spent $43 billion.\textsuperscript{16}

An upgrade in the current infrastructure is required to allow for larger aircraft requirements (pavement, passenger and baggage security screening), and to enable operations from more distant destinations. Enhancing this point of entry/departure will increase the capacity but also provide for increased amenities at the airport and ultimately an improved ‘sense of arrival’.

An upgrade to the Kangaroo Island airport may open up new service options involving larger aircraft and opportunities for breaking the nexus of a single point of departure (Adelaide) with the potential to attract direct flights from other capital cities. This initiative should facilitate an increase in international visitation by expanding the packaging and other market options for visitors to Australian experiences, including in particular the time-poor traveller.

Kangaroo Island is recognised by Tourism Australia and the SATC as having great potential for increased visitation to Australia, see section 5. It will enable Australia to capitalise on more than a decade of marketing investment in advertising this iconic destination for Australian bound tourists.

Essential prerequisites for the success of Government lead strategies aimed at driving tourism to the Island include appropriate facilities and convenient, cost effective air services to Kangaroo Island airport.

*Air travel*

Overall visitor numbers to Kangaroo Island have enjoyed an upward trend over the last decade however, the relatively high cost and limited options for and frequency of transport services to Kangaroo Island could reduce its appeal as a holiday destination and represent inhibitors to the exploitation of the tourism potential. The efficiency of air services is crucial for future development of and growth in visitation to the Island.

To support interstate and new international market developments, such as China, Europe and North America, any new air services for connections interstate, or larger tour groups will require larger aircraft which will necessitate an airport upgrade. It has been identified that international access tends to occur through ‘gateway airports’ which include Melbourne, Sydney, Brisbane and Perth.\textsuperscript{17}

An airport upgrade will see the ability to accommodate flights directly to and from Melbourne, Sydney and Perth, increasing efficiency of air services. This would reduce the need for transit through Adelaide airport which whilst relatively efficient on current operations, fails to make time efficient connections with the existing Adelaide-Kingstown service schedules. Direct flights will add a greater level convenience for visitors potentially arriving from Melbourne and Sydney. Demand from interstate visitors would


\textit{May 2013}
likely also be accompanied by increased demand from international visitors, given the significant international connections offered at Melbourne and Sydney airports.

Increases in air travel tourism to Kangaroo Island can easily be accommodated through the vast natural landscapes of the Island, however investment in additional accommodation will be needed, and projects that respond to this opportunity have been considered further below.

Travel access

Kangaroo Island’s Tourism Destination Action Plan 2012-2014 considers ‘ease and cost of access’ to be the Island’s number one (1) issue to be addressed to grow tourism. Similarly, the South Australia’s Economic Development Board report to Government, ‘Paradise girt by sea – Sustainable economic & social development for Kangaroo Island’, states that the current state of the airport stands in the way of a doubling of tourist number to Kangaroo Island within a decade and that it is consequently critical that if the target is to be achieved, that the airport runway is lengthened and strengthened to accommodate a broader range of aircraft types and capacities, including those that might operate additional services alongside the existing Saab 340 based service, and those that would be available to replace the Saab 340 when they retire.

A move to larger sized planes is almost certainly likely to see a requirement of security checks for passengers similar to that at main Australian airports in order to comply with national security standards in civil aviation. To achieve this, there will need to be a terminal upgrade to provide such facilities.

Competition

There is only one service provider supplying commercial air services to Kangaroo Island. Kangaroo Island suffers a significant transport cost disadvantage when compared to mainland counterparts. The cost of doing business on the Island is seen as the most significant impediment to tourism, business retention and growth. In a recent study by Pacific Aviation Consulting, (PAC) they noted that air passenger demand and seat supply are linked in complex ways – in a monopoly market, incentives (in the form of higher prices and higher profits due to relatively inelastic demand) exist for airlines to provide less capacity than would otherwise be demanded in a market equilibrium situation. Similarly, the added seat supply provided by a new entrant can have a stimulatory effect on demand, pushing market equilibrium demand higher than would otherwise be the case in a single-player market. PAC suggest that without additional service providers, the current downward trend in air travel is likely to continue due to the incumbent’s higher cost base (resulting in higher fares), limited network connectivity to major source markets and monopoly position. PAC also confirmed that if competition is to occur it will most likely occur with aircraft too large and heavy for Kingscote’s current aero based infrastructure.

The Council also considers that if a new Kangaroo Island service from Melbourne or Sydney were to be introduced, the carrier may consider a regional approach to the


market and potentially expand or link into other destinations other than Kangaroo Island, and include Kangaroo Island/Adelaide and other regional centres (e.g. Port Lincoln) as part of a package or a newly defined operational sector. This may further stimulate competition in air travel on the Kangaroo Island/Adelaide sector, resulting in a positive impact on customer numbers. Until the airport can accommodate the larger aircraft, these options cannot be considered by other carriers.

Private aircraft and other aviation

Supporting the tourism market at the high end is private jet and private charter aircraft. Currently, Executive (private/corporate) jets operate on an occasional basis into Kangaroo Island airport, primarily servicing the high end resort market which is serviced by a small number of high end accommodation facilities on the Island. Larger executive jets with their increased loads and tyre pressures represent an issue for the current airport runways and require stronger pavements and greater runway lengths than are currently provided at the airport. In February there were some 12 private charter flights into Kingscote. There is opportunity and capacity for more flights if the facilities are appropriate for a broader range of aircraft.

The need for aircraft capability from alternate destinations, the potential for larger aircraft in the future to replace the aging Saab’s, new security requirements that come with larger aircraft and best practice air traveller security, combined with private jet capability represent the drivers for a Kangaroo Island airport upgrade now, to future-proof this facility, and enable the local and national economies to exploit the substantial investment made in bringing the Kangaroo Island awareness to the world.

4.2 Other air transport needs

Kangaroo Island airport not only plays a vital role in tourism but it also critical in providing essential services to the community (including the provision of Royal Flying Doctor Service and other emergency services) and regional businesses. Air access enables vital business, trade, medical, education, government and emergency services links between Kangaroo Island’s residents and the world. The provision of more timely and cost effective travel options for locals to access the mainland for health, education and other services is critical for such a remote community

Royal Flying Doctor Service

Kangaroo Island Airport provides a vital access point to the Kangaroo Island region for Royal Flying Doctor Service (RFDS). RFDS provides the primary medical evacuation service for the region as well as post-care patient return transfers.

South Australian Police and Royal Australian Air Force

South Australian Police (SAPOL) and Royal Australian Air Force (RAAF) movements make up a small amount of landings at Kangaroo Island airport and whilst SAPOL activity is generally restricted to light aircraft, the RAAF equipment may have higher tyre pressures and greater landing weights which would be better accommodated with an airport upgrade.
The airport provides an important training purpose which ensures continued and sustainable development of skilled pilots.

**Air freight**

Given the geographical nature of the region, a significant freight industry exists on Kangaroo Island including high value fresh foods. Freight generally cannot be transported by air due to the size and weight constraints of the airplanes used by Rex. There exists a demand for additional air freight services by Island businesses.

**Social inclusion and isolation**

Airports play an important social role in connecting individuals, families and communities with the rest of the country and indeed the world.

The Island’s isolation not only imposes an economic disadvantage, there is also a social cost as a result of a lack of opportunities for residents, businesses and other organisations to engage, collaborate and exchange ideas with nearby communities and in Adelaide and beyond. The creation of economic initiatives and employment opportunities is sought to establish a robust and sustainable economic environment that contributes to the wellbeing of the local community.

Improving access to Kangaroo Island will also assist in population growth; business attraction and expansion.

The potential for increased visitation, particularly by overseas and interstate tourists, has been recognised as a major component for growth in local economic activity.

*Kangaroo Island is a remote community, relying on ferry and air transport movements to deliver an acceptable level of socio-economic outcomes. Services in medical support through the RFDS, future airfreight, access to commercial and business travel, and government services are important to the Island community, and taken for granted in many mainland Australian communities.*

### 4.3 Risk of not proceeding

As previously stated in this document - the airport represents a vital link to the mainland. It is used for time sensitive travel, and if the costs could be reduced it would be used more often for islanders accessing specialist medical services, educational, business and other needs.

As the current air services are supplied by a relatively small SAAB 340 which has been out of production for more than 15 years, and all other commercial airlines use larger aircraft, there is a high risk that without the airport upgrade, regular passenger services to the Island could be interrupted in the future for a significant period of time, leaving the Kangaroo Island Community effectively isolated from RPT air services. Small aircraft (<20 seat) charters operating out of Adelaide peri-urban airports (e.g. Parafield) might still continue to use the Airport but would be unlikely to provide a mainstream RPT service into Adelaide Airport. Small aircraft size and operational restrictions also impact on the ability to move numbers of tourist visitors, their greater luggage needs as well as again failing to link into a seamless booking system with international / domestic visibility.
Medical services
The alternative service to Adelaide for travel by road and ferry requires an investment in approximately 4 to 5 hours for a Kingscote to Adelaide service via Penneshaw and Cape Jervis, and requires the passenger to endure a sea crossing.

Whilst Kangaroo Island based acute medical emergencies may be dealt with through Adelaide based MedStar rotary wing and fixed wing retrievals, other non-life threatening services, including cancer treatments for example may be put at risk if the patient cannot accommodate the ferry/coach based alternative, or ferry/private car option.

Connection with tourism markets
Currently, there is a high degree of international tourists visiting the Island via air travel, or a combination and air and ferry travel. Without access via air at competitive rates, suitably sized aircraft and reasonable connections with inbound and outbound ports, Kangaroo Island air passenger numbers are likely to continue to fall. The tourism economy will be put at risk, and there will be little growth in the sophisticated traveller market. Without a suitable airport, the forecasts for the economic output of the Island are grim.

There is a risk of further isolation of the Kangaroo Island community from the mainland if the airport upgrade does not proceed in the short term. This includes the risk that RPT air services may be interrupted in the future if a replacement for the Saab cannot be accommodated on the Island.
5 Demand analysis

Kangaroo Island is promoted internationally as a premier eco-tourism destination and trades on its ‘clean and green’ image and unique nature-based experiences. Based on research conducted by Tourism Australia in 2010, ‘nature’ motivates people to travel to Australia more than any other concept. Kangaroo Island’s unspoilt beauty and teeming wildlife subsequently provides a sound foundation for it to be recognised as one of Australia’s great tourism icons.

It is likely that growth of tourism on Kangaroo Island will continue to occur. Analysis suggests that an upgrade of Kangaroo Island airport has the potential to support tourism growth targets but also substantially increase growth in airline passengers. Information in this section provides analysis of the potential for this growth.

5.1 Historical analysis

5.1.1 Total visitation to Kangaroo Island

Visitation to Kangaroo Island continues to remain stable or experience growth despite a high Australian dollar and recent uncertain economic conditions. Between 2002 and 2012 a 2.6% compound annual growth in visitation occurred and in 2012, Kangaroo Island attracted approximately 194,000 visitors. This represents approximately a 30% increase in visitation to Kangaroo Island over the last decade, or approximately 44,000 visitors.

Figure 8: Visitors to Kangaroo Island, 2002-2012


In contrast to Kangaroo Island’s visitation rates, total visitation to South Australia has decreased over the last decade. Kangaroo Island is undoubtedly a destination with significant appeal and demand which can result in benefits to both South Australia and Australia. Government assistance in increasing the tourism capacity (access and product) of Kangaroo Island is consequently warranted.

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20 Tourism Australia, 2013, Australia’s National Landscapes: A partnership between conservation and tourism.
5.1.2 Visitor origin

Many of the visitors to the Island are from interstate (42%) and overseas (26%), the remainder originating from South Australia (33%). The below figure illustrates that for the last 4 years the majority of visitors have originated from interstate.

**Figure 10: Visitor origin, 2000/01 - 2011/12**

Interstate visitors tend to originate from Victoria and New South Wales. It is estimated that for 2011-12, 71% of all interstate visitors came from Victoria (36%) and New South Wales (35%). One should note that this trend has been observed for the last 10 years, see below table.

Being a strategically important tourist destination with such a large percentage of visitors originating from interstate; it makes sense that any airport upgrade at Kangaroo Island should be able to accommodate direct flights from other jurisdictions, particularly Victoria (Melbourne) and New South Wales (Sydney). Melbourne and Sydney airports are also key access gate ways for international visitors so the access benefits achieved for interstate visitors would also likely extend to international visitation.
Table 1: Interstate visitor origin, 2000/01 - 2011/12

<table>
<thead>
<tr>
<th>Year</th>
<th>VIC</th>
<th>NSW</th>
<th>QLD</th>
<th>WA</th>
<th>ACT</th>
<th>TAS</th>
<th>NT</th>
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<td>11%</td>
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<td>2%</td>
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<td>2001/02</td>
<td>44%</td>
<td>43%</td>
<td>7%</td>
<td>8%</td>
<td>3%</td>
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<td>2002/03</td>
<td>39%</td>
<td>43%</td>
<td>11%</td>
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<td>2%</td>
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<td>8%</td>
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<td>2011/12</td>
<td>36%</td>
<td>35%</td>
<td>13%</td>
<td>8%</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
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</table>

Source: Colmar Brunton, 2012

International visitors

Kangaroo Island has high appeal among the international audience, with the fourth highest proportion of international visitation in Australia. Figure 11 below demonstrates Kangaroo Island as one of Australia’s top four icons, alongside Ayers Rock (Uluru / Alice Springs), the Great Barrier Reef (tropical north Queensland) and Sydney’s Opera house and bridge (Sydney).

Figure 11: Proportion of international visitation, 2011/12

Overseas visitors to Kangaroo Island largely have originated from Europe. Strong visitation has also come from the USA and Canada in the past. The table below illustrates these observed trends over the last decade and also highlights how in 2011/12 there was a significant increase in percentage of international visitors from Asia. With targeted campaigns into Asia from Tourism Australia, SATC and other Kangaroo Island agencies further growth in visitors from Asia is likely to occur.
Table 2: International visitor origin, 2000/01 - 2011/12

<table>
<thead>
<tr>
<th>Year</th>
<th>US/Canada</th>
<th>Other Europe</th>
<th>UK</th>
<th>Germany</th>
<th>Asia</th>
<th>NZ</th>
<th>Other Country</th>
<th>Japan</th>
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<tr>
<td>2000</td>
<td>33%</td>
<td>23%</td>
<td>24%</td>
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<td>4%</td>
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<td>1%</td>
</tr>
<tr>
<td>2001</td>
<td>36%</td>
<td>30%</td>
<td>17%</td>
<td>6%</td>
<td>1%</td>
<td>1%</td>
<td>3%</td>
<td>6%</td>
</tr>
<tr>
<td>2002</td>
<td>35%</td>
<td>24%</td>
<td>25%</td>
<td>8%</td>
<td>3%</td>
<td>1%</td>
<td>3%</td>
<td>3%</td>
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<tr>
<td>2003</td>
<td>35%</td>
<td>34%</td>
<td>15%</td>
<td>15%</td>
<td>5%</td>
<td>1%</td>
<td>3%</td>
<td>2%</td>
</tr>
<tr>
<td>2004</td>
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<td>18%</td>
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<td>4%</td>
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<td>1%</td>
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<td>2005</td>
<td>45%</td>
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<td>2007</td>
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<td>1%</td>
<td>2%</td>
</tr>
<tr>
<td>2008</td>
<td>29%</td>
<td>36%</td>
<td>19%</td>
<td>12%</td>
<td>1%</td>
<td>3%</td>
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</tr>
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<tr>
<td>2011</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td></td>
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<td></td>
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<td></td>
</tr>
</tbody>
</table>

Source: Colmar Brunton, 2012

5.1.3 Modes of transport

As previously stated, the water gap that separates Kangaroo Island from the mainland means that the two main ways to access the Island are by air or ferry.

Air passenger movement trends

Whilst Kangaroo Island has seen an increase in visitation over the last decade, the corresponding period has seen a decline in air passengers at Kangaroo Island airport and visitors are choosing to travel via the ferry.

Passenger movements between Adelaide and Kangaroo Island airport peaked in 1999 where just over 90,000 passenger movements (or approximately 45,000 visitors by air) were recorded. Since this time air passenger numbers have trended downward. Passenger movements in 2012 were 39,511 which represented a passenger load factor (utilisation of total capacity) of 53.5%.

The following figures illustrate the contrasting trends of ferry (operated by SeaLink) and airline passengers, with the ferry capturing a larger proportion of total visitors.

Figure 12: Airline and ferry passenger numbers, 1998-2010

Source: SeaLink, 2012, Customer service and pricing strategy

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21 Passenger movement data provided by Department of Planning, Transport and Infrastructure, 2013.
Figure 13: Air passengers as a percentage share of total visitor movements, 1998 - 2011

Source: Kangaroo Island Council; PAC

There are likely to be various reasons for a decline in air passenger movements over the last decade, including the fact that the improved quality of Kangaroo Island ferry services has likely had a negative impact on demand for air services. The figure below illustrates other events that may have contributed to (or occurred as a result of) the decline in air passenger movements. The figure also shows that the existing air services operator now operates in a monopoly market.

PAC suggest that without air competition, the current downward trend in air travel is likely to continue due to the incumbent’s higher cost base (resulting in higher fares\(^{22}\)), limited network connectivity to major source markets and monopoly position. PAC also suggests that if competition is to occur it will likely occur with aircraft too large and heavy for Kangaroo Island airport’s current infrastructure.

Figure 14: Air passenger movements, 1985 - 2011

Source: BITRE data

\(^{22}\) The most cost effective method of transportation to Kangaroo Island (Kingscote) from Adelaide is a combined coach and ferry service, as provided by SeaLink, however like flying to the Island this option does not provide for transport once on the Island.

May 2013
5.2 Forecast passenger numbers

Tourism on Kangaroo Island will continue to grow into the future. Strong historical trend data and the Island’s strategic importance at both a Commonwealth and State Government level imply that this will almost certainly be the case. This growth, in combination with an upgrade of airport facilities and other supporting strategies (marketing, booking arrangements and other promotions - section 9.4 and 9.5), provides enormous potential for not only a reversal in air passenger trends but a return to volumes above the levels seen in 1999 where 90,000 air passenger movements occurred.

An upgrade of Kangaroo Island airport with supporting strategies would unlock tourism potential and more specifically would be more likely to result in a material increase in airline passenger numbers. As mentioned earlier in project need (section 4) an upgrade would:

- support the Commonwealth and State Government strategies of boosting tourism activity on Kangaroo Island;
- allow direct access from interstate airports – Melbourne, Sydney and Perth;
- assist Kangaroo Island convert ‘consideration to visitation’ through ease of access;
- support demand from private passenger jets with higher tyre pressure for ‘high-value tourism’;
- increase the amenities for air travel passengers;
- ‘Future proof’ the airport such that it can accommodate changes to aircraft type in the future and provide security screening for passengers on larger aircraft; and
- provide the ability to accommodate refuelling if future (longer) routes require this.

5.2.1 Pacific Aviation Consulting

Pacific Aviation Consulting (PAC) recently conducted an assessment of likely future air passenger demand at Kangaroo Island Airport, see Appendix A. PAC’s modelling has assumed that Kangaroo Island can continue its strong performance in visitor growth, and turn around the decline in air passenger demand.

To forecast total air visitor movements over the next 20 years, PAC first considered total visitor movements (by all modes of access) and then considered what proportion of total visitor movements would likely travel by air (share of total visitor movements).

Total visitor to Kangaroo Island

PAC has assumed visitor growth under a variety of scenarios, using a ‘low-medium-high’ scenario set:

- Low-growth scenario: PAC considered low-growth to be between 1.1-1.3% per year between 2012 and 2030. This was based on Tourism Forecasting Committee forecast growth and the origins of Kangaroo Island’s visitor mix, provided by SATC.

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23 BDA Marketing Planning found that interstate consideration for Kangaroo Island was high (15%) when compared to other Australian regional areas.
24 Pacific Aviation Consulting Pty Ltd is a specialist management consultancy with a focus on the aviation industry.

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• Medium-growth scenario: PAC has assumed a continuation of the visitor demand it observed between 2001 and 2011 - a compound annual growth rate of 2.9% between 2012-2030. This scenario sees visitor demand to Kangaroo Island increase to 250,000 visitors by 2021, and to 300,000 visitors by 2027. This scenario was used in further modelling.

• High-growth scenario: Australian domestic passenger growth for the past 10 years has shown a compound annual growth rate of 5.2%. A high-growth scenario would see growth rising from the current 2.9% p.a. to 5.2% p.a. by 2020, and returning to 2.9% by 2030.

Figure 15: Forecast visitors to Kangaroo Island, 2001 - 2030

Total visitor movements by air

PAC has assumed air passenger growth under a variety of scenarios, using a ‘low-medium-high’ scenario set:

• Low–growth scenario: maintain air travel’s current proportion of total visitor movements – 12%.

• Medium-growth scenario: a recovery in air travel demand from 12% to 30% of total visitor movements by 2030.

• High-growth scenario: a rise in air travel demand to 50% of total visitor movements by 2030; a proportion observed at King Island, Lord Howe Island and Norfolk Island.

Figure 16 below shows the three air travel demand scenarios under the medium growth scenario for total visitors to Kangaroo Island (Figure 15).
Conclusions of PAC modelling

PAC consider a scenario of medium growth in total visitor numbers (2.9% compound annual growth between 2012-2030) and medium growth in total proportion of visitors travelling by air (12% to 30% of total visitor movements by 2030) to form the basis of assessments of likely demand for future air services. This is represented by the ‘medium’ forecast in Figure 16.

From this ‘medium’ forecast, PAC has assessed the likely demand for air services based on aircraft currently and likely to be in operation, both under monopoly operator as well as competitive entry scenarios. It found that there will be likely demand for a 70-seater operator (i.e. ATR 72) by 2018-2019, either as a competitor to existing services to Adelaide or with a new service to Melbourne. The following figure depicts the potential air travel demand from Melbourne.

PAC suggest that based on the modelling and other background information, Kangaroo Island faces a critical infrastructure ‘crunch’ in the next five to ten years. PAC notes that the incumbent operator is likely to consider airframe replacement for Saab 340.

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25 It is possible that new services to Sydney / Perth would also be possible, however the Melbourne service has been considered in the following analysis as more likely due to existing Q400 aircraft coming from Melbourne to Adelaide and Port Lincoln.
aircraft in the modelled 20 year horizon. It is not known what aircraft are likely to be considered as replacement airframes, however there are no aircraft in the 30-50 seat size range currently being manufactured – therefore, it is likely that the operator will need to consider larger aircraft than its existing Saab 340 aircraft.

There is no guarantee that any operator will necessarily allocate aircraft for this opportunity should the demand exist, however the Kangaroo Island airport’s current inability to cater for this aircraft would certainly close the opportunity of either a Melbourne service or competition on the Adelaide route.

5.3 Investigations with Airlines and Inbound Tourist Operators

5.3.1 Airlines discussion

KPMG and SATC in February 2013 consulted with representatives from the incumbent airline operator and three of the other major airlines (Virgin, Jetstar and QantasLink). Key findings from airline interviews are presented in the below.

*Key finding #1 from KPMG analysis*

<table>
<thead>
<tr>
<th>Key finding</th>
<th>Supporting analysis</th>
</tr>
</thead>
</table>
| An airport upgrade is required to attract additional airlines to service Kangaroo Island as is an increase in accommodation supply to generate the passenger volumes needed by the airlines. | Airlines with a greater focus on leisure routes (Virgin and Jetstar) require large passenger volumes … consequently they doubted that MEL-KGC or SYD-KGC routes would be viable.  
Jetstar doesn’t operate any aircraft with an appropriate capacity to service Kangaroo Island … whereas Virgin and QantasLink operate turbo prop aircraft that could potentially service Kangaroo Island.  
QantasLink may consider trialling an ADL-KGC service with its Q400 that sits idle at ADL for five (5) hours each day between services … they are less likely to trial a MEL-KGC service.  
Virgin and QantasLink indicated that they would not fly to KGC, given current facilities. |

*Comments*

Clearly, the short to medium term likelihood of Virgin or Jetstar servicing KGC is very low. However, QantasLink “may” introduce Q400 services in the future, post the KGC upgrade.
Key finding #2 from KPMG analysis

<table>
<thead>
<tr>
<th>Key finding</th>
<th>Supporting analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>It appears that Rex is unlikely to make any material changes to its Kangaroo Island airport (KGC) services or marketing in the immediate future while it maintains its monopoly position and low load factors.</td>
<td>The international leisure market dominates Rex’s KGC services. Rex intends to operate its existing SAAB 340s for some time. Accordingly, the airport upgrade will not benefit them. Rex’s ADL-KGC fares have not changed materially. There didn’t appear to be any perceived need to address the limitations of Rex’s booking system.</td>
</tr>
</tbody>
</table>

Comments | There appears an immediate opportunity for the government, SATC and industry to work with Rex to increase passenger traffic on the ADL-KGC route by considering cooperative marketing, addressing booking system issues, etc. |

5.3.2 Inbound Tour Operators (ITO's) discussion

A significant proportion of international visitors (30%-35%) arrive on Kangaroo Island as part of a tour group or on a tour package. Inbound tour operators provide travel agencies internationally with information regarding Kangaroo Island and book flights, ferries, accommodation and tours for international visitors to Kangaroo Island. KPMG in March 2013 consulted with three of the leading inbound tour operators bringing international visitors to Kangaroo Island – ATS Pacific, AOT Group and Goway. The findings from these consultations are presented below.

Key finding #3 from KPMG analysis

<table>
<thead>
<tr>
<th>Key finding</th>
<th>Supporting analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>International visitation to Kangaroo Island should increase if air access and fare pricing is improved.</td>
<td>ITO’s believed visitors are reasonably happy with the current mix of ferry and air access options to Kangaroo Island. In general, ITOs indicated that if air access to Kangaroo Island was improved (including potential flights from Melbourne) and pricing associated with this mode of transport was more competitive, the number of visitors to Kangaroo Island should increase. However, the tour operators did not foresee significant increases in international visitors to Kangaroo Island in the short term due to subdued tourism levels generally. Similar to the airlines, the ITO’s noted that consideration would need to be given to more mid-range accommodation if there was to be an increase in visitation to Kangaroo Island.</td>
</tr>
</tbody>
</table>

---

26 Colmar Brunton, 2012, TOMM Kangaroo Island Committee: Visitor Exit Survey
5.3.3 Uluru experience

Comparisons to Uluru

Uluru is considered a broadly comparable tourist destination to Kangaroo Island in terms of providing an iconic Australian experience with significant access issues. Similarities include:

- international visitors view Uluru and Kangaroo Island as iconic Australian experiences;
- international visitors represent a significant proportion of visitors to both destinations; and
- transport timing and costs are important considerations for visitors to both destinations.

Uluru air passenger numbers

The Uluru airport was significantly upgraded to accept commercial aircraft from 1985 resulting in strong growth in passenger numbers over the next 10 years, as outlined in below figure.

Figure 18: Uluru airline passengers,1985/86 - 1995/96 & 2010/11

From 1985/86 to 1995/96, passenger movements at Uluru airport increased by an average of 23,000 per annum, which equates to approximately 11,500 additional air visitors to Uluru per annum over this period.

May 2013
The strong growth in visitors to Uluru by air was during a period of significant marketing of Australia to international visitors, with many packaged tours including a trip to Uluru by air. The current international tourist market for Uluru is slightly less buoyant, as demonstrated in the preceding figure, with Uluru attracting 309,000 air passengers (or about 155,000 visitors by air) in 2010/11, lower than air visitors in 1995/96.

In total approximately 318,000 overnight visitors were attracted to Uluru (including domestic and international visitors) in 2010/11, with 49% arriving by air. In comparison, Kangaroo Island with its currently facilities attracted approximately 150,000 overnight visitors in 2011/12, with approximately 23,000 visitors (46,000 passenger movements) or 15% arriving by air.

Implications of an upgraded airport

The significant growth in visitors to Uluru due to the major upgrade of the airport demonstrates how important air access is to relatively isolated tourist destinations.

It is not anticipated that an upgrade of the Kangaroo Island airport will have as strong an impact as the Uluru experience, given the current subdued tourism market and the greater dependence of Uluru on air transport. However, the upgrade of the Kangaroo Island airport, similar to the Uluru experience, is likely to have a positive impact on visitor numbers to Kangaroo Island.

Modelling conducted by SATC, using Uluru as a benchmark, demonstrated that a lack of direct interstate air access is limiting visitation to the Island by between 40,000 and 80,000 interstate and international visitors per year.

Uluru is considered a broadly comparable tourist destination to Kangaroo Island in terms of providing an iconic Australian experience with significant access issues.

With the significant upgrade to the Uluru airport in 1985, passenger movements increased by an average of 23,000 per annum, equating to an additional 11,500 air visitors to Uluru per annum.

It is not anticipated that the upgrade of the Kangaroo Island airport will have as strong an impact as the Uluru experience, given the current subdued tourism outlook and the greater dependence of Uluru on air transport. However, the upgrade of the Kangaroo Island airport, similar to the Uluru experience, is likely to have a positive impact on air travel visitor numbers to Kangaroo Island.
5.3.4 Broome experience

Experiences observed at Broome Western Australia airport can also be applied to Kangaroo Island. Broome is a tourist town and the gateway for many tourists into the popular but isolated Kimberley region. Following upgrades to Broome’s airport in the early 2000’s, Broome now has regular flights from all major Australian cities. The below table illustrates the entry of additional services following airport upgrades.

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>November 2002</td>
<td>Runway extension and repair work completed</td>
</tr>
<tr>
<td>March 2003</td>
<td>Qantas start direct Melbourne-Broome services</td>
</tr>
<tr>
<td>April 2003</td>
<td>Virgin Blue start direct flights from Adelaide</td>
</tr>
<tr>
<td>February 2004</td>
<td>Terminal upgrade and car park work completed</td>
</tr>
<tr>
<td>July 2004</td>
<td>Qantas commences direct Sydney–Broome services</td>
</tr>
</tbody>
</table>

Source: Broome International Airport, 2013

Like the Uluru experience discussed above, Broome’s air passenger numbers significantly increased following the upgrade of the airport. Between 2002 and 2007 the compound annual growth of air passenger numbers at Broome airport was approximately 15%, see below figure for an illustration of the growth.

Figure 19: Broome air passengers, 2002 – 2007


Between 1999/2001 and 2005/2007 it was noticed that total visitors increased in the Shire of Broome from 222,100 (annual average 1999-2001) to 237,200 (annual
average 2005/07). The recent tourist market for Broome has been slightly less buoyant with the average annual visitors to Broome Shire in 2009/10/11 being 209,600 with estimated visitor nights of 1,244,400.

It is not anticipated that the upgrade of the Kangaroo Island airport will have as strong an impact as the Broome experience, given the current subdued tourism outlook, the influence of mining and the greater dependence of Broome on air transport. However, the upgrade of the Kangaroo Island airport, similar to parts of the Broome experience, will encourage air passengers from other Australian capital cities and is likely to have a positive impact on air travel visitor numbers to Kangaroo Island.

5.4 Market demand summary and its impact on financial estimates

Market demand analysis suggests that growth in visitation numbers to Kangaroo Island is likely to continue and an upgrade of Kangaroo Island airport would likely see a conservative increase in the proportion of airline travellers. Moreover, consideration of the Island's strategic importance to Tourism Australia only further supports the suggestion that visitation will increase.

PAC used in their future modelling of visitor numbers, the compound annual growth between 2001 and 2011, which was in the order 2.9%. Market demand analysis reveals nothing to suggest that this level of growth in visitor numbers to Kangaroo Island would not continue.

An upgrade of the Kangaroo Island airport, similar to the Uluru experience, is likely to have a positive impact on both visitor numbers and air travel to Kangaroo Island.

The medium-growth scenario of air travel passengers considered to be appropriate by PAC could therefore be considered a reasonable assumption.

5.4.1 Impact on financial analysis

Financial analysis undertaken by Kangaroo Island Council (see Section 7) - like the PAC modelling considers total visitation to Kangaroo Island as well as demand for air travel services to determine anticipated passenger numbers.

The following figure shows the overall forecast air passenger numbers considered in the PAC model against those in the financial model undertaken by the Kangaroo Island Council. The Council model uses the same estimates over the initial 10 years, after which time its estimates are more conservative. Year 8-9 in both models see forecast passenger numbers reach the former historical peak air passenger numbers (approximately 90,000 air passenger movements).

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Figure 20: Forecast airline passenger numbers in PAC and Kangaroo Island Council demand models

Note: Model results are considered from year 2 as the beginning year (year 1) of the PAC model and Council model differ due to the PAC model being undertaken one year prior to Council model development.


Figure 21, isolates the air passenger movements as proposed in the Council's financial analysis and shows how a turnaround in air passenger numbers is assumed.

Figure 21: Air passenger movements as proposed in Kangaroo Island Council financial analysis

Source: SATC; Kangaroo Island Council
6 Scope of works and options analysis

The upgrade of Kangaroo Island airport is a major infrastructure investment which has the potential to bring significant benefits to social, economic and tourism. The scope of works and level of capital investment required for various upgrade options are set out below. The engineering assessments have been conducted by Tonkin Consulting (Adelaide) in accordance with instructions from the Kangaroo Island Council as owner and operator of the airport. The scope of works represents the assessment of needs conducted in 2012/13.

6.1 Outline of the project

The forecast air passenger movements and likely future aircraft require an upgrade to accommodate:

- Heavier aircraft (and aircraft with higher tyre pressures)
- Increased numbers of passengers (following larger aircraft)
- The need for sterile areas within the terminal to accommodate screened passengers and baggage.
- Potential for handling more than one aircraft.
- Potential for refuelling aircraft which have come from or intend to return to destinations other than Adelaide.

Therefore the project incorporates:

- Upgrade to the main runway surface – strengthening and lengthening
- Upgrade to the terminal
- Upgrade to associated facilities including refuelling etc

6.2 Summary of options

To achieve the requirements set out above, a number of options were developed. Each option addresses the requirements to differing levels which allow for different types of aircraft to be accommodated in the plans.

Tonkin Consulting examined the infrastructure requirements for four (4) possible future development options. A set of ‘Design aircraft’ were selected for each option to describe what was capable of being accommodated within the option; these options were as outlined below:

- Option 1: The level of investment required to maintain Kangaroo Island Airport on an as-is basis assuming continued use of Saab 340 aircraft for RPT services, with occasional use by larger aircraft with individual permits. Effectively no upgrade.
- Option 2: The level of investment required to accommodate ATR72 & Q400 aircraft operating sectors (at full passenger and cargo payload) as far as Melbourne. This is a turbo-prop aircraft solution using currently operated aircraft in Australia.
- Option 3: The level of investment required to accommodate regional jet services (up to Code 3C) operating sectors from Sydney, and as far as Perth. Again this was defined based on regional jet aircraft currently operating in Australia.
Some general comments regarding the options considered are set out below.

Aircraft movements and runway needs
It was accepted that a single main runway will cope with the forecast in RPT traffic for the foreseeable future. However:

- the pavements will require strengthening to cater for heavier aircraft through the application of additional layers of crushed gravels and bituminous/asphalt resurfacing of Runway 01/19, the taxiway A, and apron in front of the terminal;
- options considered will require an extension to Runway 01/19 to accommodate different aircraft including option 3 which will require a runway length of 2100m – an extension of 698m over the existing sealed runway. It will also require that in addition to the 30m width a 3m wide compacted and erosion resistant gravel shoulders be constructed;
- options considered widening the taxiway A and for example Option 3 requires a 3 metre wide compacted and erosion resistant shoulder to be provided on the existing 15m taxiway; and
- the options considered widening the apron from 68m to 71m.

Terminal
A new terminal layout is proposed to deal with the increased internal needs of passenger numbers and security, which can be seen in the below figure. The layout aims to retain as much of the existing terminal as possible to minimise costs. The majority of the existing terminal becoming the arrivals lounge and the existing hire vehicle desks, offices and toilets can all be maintained. The expansion largely occurs on the western side of the existing terminal.

The new area will comprise of:
- A kiosk;
- A check-in area;
- Passenger and baggage screening area;
- A secure departure lounge with a set of toilets; and
- A baggage reclaim area.
Other facilities

Other airside facility works would include:

- Navigational aids and lighting;
- Upgrade of re-fuelling facilities; and
- Detailed design fees.

The introduction of RPT flights from Melbourne and Sydney would likely see a requirement for refuelling facilities. Consequently, the capital cost of establishing a fuel storage and dispensing facility have been included in the costing estimates.

6.3 Costing methodology for the options considered

Tonkin Consulting has prepared a report on the engineering investigations that have been undertaken into the infrastructure requirements and associated estimated capital costs to upgrade Kangaroo Island Airport based on their understanding of the current facilities and the condition of those facilities.

The methodology adopted for future development options included:

- undertaking preliminary geometric design work and indicative pavement design for the required airside extensions;
- determining terminal building spatial requirements at the element level; and
- deriving estimates of capital costs that would deliver the outcomes required for each option.

A site investigation was undertaken by Tonkin Consulting on 8th October, 2012 to assess the underlying structures and civil engineering qualities which would form the basis of what additional costs were necessary to achieve the required outcomes. Details of the site and engineering investigation and associated capital costs to an upgrade are attached in Appendix B.
The costing includes an amount for contingency, and includes allowances for the shipment of equipment, labour and services on to the Island, therefore recognising the cost penalties for construction work in an isolated community.

### 6.4 Recommended option

In considering the options, a set of simple assessment criteria were developed to guide the Council into the option that best suited the long term needs for airport services on the Island. The table below compares the four options considered. Option three (3) is considered to be the most appropriate upgrade option, providing the most flexibility, and creating an option that works for a significant period of time to the future.

<table>
<thead>
<tr>
<th>Ability to cater for future aircraft requirements</th>
<th>Interstate access</th>
<th>New potential operators</th>
</tr>
</thead>
<tbody>
<tr>
<td>Option 1</td>
<td>×</td>
<td>No</td>
</tr>
<tr>
<td>Option 2</td>
<td>✓</td>
<td>ATR Q400 Limited</td>
</tr>
<tr>
<td>Option 3</td>
<td>✓ ✓</td>
<td>Regional Jet</td>
</tr>
<tr>
<td>Option 4</td>
<td>✓ ✓ ✓</td>
<td>737 A320 Passenger Jet</td>
</tr>
</tbody>
</table>

Option 3 is considered the most appropriate airport upgrade option for the Kangaroo Island airport as it allows greater flexibility for delivery of future air access options, accommodating the widest range of potential aircraft that would service the Island (excluding the single isle passenger jets such as the Boeing 737 which are unlikely to service this route).

It is noted that option 2 would deliver a significant upgrade over existing facilities, but may limit options in the future, and there would be efficiencies in having one upgrade option now which would deal with the air services issues for at least the next 20 years. Option 3 would involve building new facilities to accommodate regional jet services (up to Civil Aviation Code 3C – allowing for EMB 170 and the Fokker F 100/70 services), capable of operating sectors as far as Perth. Option 2 in comparison would only accommodate for the turbo-prop aircraft such as the ATR72 and Q400 aircraft which allow operations from Melbourne.

Sydney and Melbourne are key access airports or gateways for international visitors. Option three (3) allows for the passengers to fly directly from Sydney, Melbourne and as far Perth non-stop to Kangaroo Island. Option two (2) would only allow access from Melbourne.

The following information provides a summary of why Option 1, 2 and 4 are considered inappropriate or less desirable and further reaffirm why Option 3 represents the most efficient upgrade option for Kangaroo Island services.
• Option 1 - Option 1 is essentially a ‘do nothing’ option and provides no certainty that the airport will be able to manage aircraft beyond the Saab 340 going forward and therefore in no way future proofs the airport. This option puts the airport at risk of stranding if Rex changes to a larger aircraft at some time in the future. This option also provides for no direct access into interstate airports.

• Option 2 - Whilst accommodating for turbo prop type aircraft larger than currently used for RPT to Kangaroo Island it is still limiting Kangaroo Island’s access options due to the number of aircraft operating in Australia of this type, and the number of operators. The larger turbo prop aircraft would be capable of operating between Kangaroo Island and Melbourne but would not facilitate operations between the Island and Sydney or Perth. This would potentially limit the number of international tourists. The inability to accommodate jet aircraft may also affect the demand for services between Melbourne and Kangaroo Island. Major airlines and current charter service providers have access to larger fleets of aircraft that would not be serviced by Option 2.

If Option 2 was chosen over Option 3, it is likely that there would be a need for a further upgrade in the near future if larger aircraft options were deployed to this sector. This would be inefficient and disruptive to the services, and result in a total cost substantially in excess of Option 3, particularly when one considers the additional costs attributable to construction on the Island.

• Option 4 - This option is beyond the identified requirements of Kangaroo Island for the foreseeable future and at more than twice the cost of Option 3, does not represent an economic solution. Moreover, the required infrastructure proposed in this option does not fit within the current confines of the airport and would subsequently have an environmental impact. This option has been included for completeness of the options consideration process.

The four options considered are represented by the following costs of delivery (based on engineering estimates prepared by Tonkin Consulting – and do not represent firm quotes to complete the work). Prices are subject to final design and public tendering.

<table>
<thead>
<tr>
<th>Option</th>
<th>Grand total cost including GST and CITB levy ($’000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Option 1:</td>
<td>No capital works/expenditure</td>
</tr>
<tr>
<td>Option 2:</td>
<td>$9,848</td>
</tr>
<tr>
<td>Option 3:</td>
<td>$16,689</td>
</tr>
<tr>
<td>Option 4:</td>
<td>$37,125</td>
</tr>
</tbody>
</table>

Source: Tonkin Consulting 2012

The total capital cost associated with an upgrade of Kangaroo Island airport to Option 3 requirements is approximately $16,689,000. This is the cash cost, and includes
allowances for construction on the Island. The below table provides a breakdown of the costs and demonstrates that the major cost items are pavement upgrade and terminal upgrade. A contingency of 12.5% has also been included as part of the calculation. Whilst a contingency is included, and highly appropriate for this exercise, the cost estimates have been prepared after site inspection, and onsite engineering assessments of the drainage culverts running under the runway. Therefore the costs are reflective of the known engineering issues at the Kangaroo Island Airport. For a more detailed break-down of the costs see Appendix D of the Tonkin Consulting report.

<table>
<thead>
<tr>
<th>Cost description</th>
<th>Option 3 Cost Estimate ($’000)</th>
<th>Option 2 Cost Estimate ($’000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Civil Works</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Preliminaries</td>
<td>930</td>
<td>615</td>
</tr>
<tr>
<td>- Site preparation and earthworks</td>
<td>402</td>
<td>72</td>
</tr>
<tr>
<td>- Stormwater</td>
<td>634</td>
<td>135</td>
</tr>
<tr>
<td>- Pavements (runway and apron)</td>
<td>5,850</td>
<td>2,436</td>
</tr>
<tr>
<td>- Lighting (runway, apron and taxiway)</td>
<td>544</td>
<td>363</td>
</tr>
<tr>
<td>- Building (terminal and upgrade of refuelling facility)</td>
<td>4,492</td>
<td>3,917</td>
</tr>
<tr>
<td>- Detailed design fees</td>
<td>600</td>
<td>400</td>
</tr>
<tr>
<td><strong>Total civil works (ex GST)</strong></td>
<td><strong>13,453</strong></td>
<td><strong>7,938</strong></td>
</tr>
<tr>
<td>Contingencies (12.5%)</td>
<td>1,682</td>
<td>992</td>
</tr>
<tr>
<td><strong>Total civil works inc Contingencies (ex GST)</strong></td>
<td><strong>15,134</strong></td>
<td><strong>8,931</strong></td>
</tr>
<tr>
<td>GST (10%)</td>
<td>1,513</td>
<td>893</td>
</tr>
<tr>
<td>Construction Industry Training Board (CITB) levy (0.25%)</td>
<td>42</td>
<td>25</td>
</tr>
<tr>
<td><strong>Grand total (inc GST and CITB levy)</strong></td>
<td><strong>16,689</strong></td>
<td><strong>9,848</strong></td>
</tr>
</tbody>
</table>

Source: Tonkin Consulting 2012

In developing the cost estimates, the Council has estimated the costs associated with project management, tendering, risk management and associated Council activities as set out below.
<table>
<thead>
<tr>
<th>Council – management costs and other</th>
<th>Option 3 Cost Estimate ($'000)</th>
<th>Option 2 Cost Estimate ($'000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project management, Council engineering and approvals</td>
<td>850</td>
<td>500</td>
</tr>
<tr>
<td>Acquisition of adjoining land</td>
<td>100</td>
<td>-</td>
</tr>
<tr>
<td>Procurement and tendering</td>
<td>150</td>
<td>100</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,100</strong></td>
<td><strong>700</strong></td>
</tr>
</tbody>
</table>

Source: Kangaroo Island Council
7 Project financials

This section outlines the financial viability of the recommended upgrade Option 3. It outlines the impact the construction phase of the airport will have on project financials; and also models the estimated future financial results of the upgrade based upon current revenue and costs as determined by the Kangaroo Island Council and on air passenger demand forecast by PAC.

7.1 Construction phase

As mentioned early the cost of upgrading the airport to Option 3 specifications will cost in the order of $16.7 million plus management and other costs of approximately $1.1 million.

Tonkin’s Engineering have suggested a conservative estimate of construction time to be 12 months. During this period Tonkin’s Engineering suggest that a closure of the runway for a period of approximately 6 weeks will be required to construct the additional pavement requirements of option 3.

To minimise the impact of the closure, the closure period will occur during a quieter period which still presents favourable weather conditions for construction to be undertaken. Impacts will be further mitigated by the concurrent construction of the terminal building with the airside facilities (runway, taxiway and aprons, navigational aids etc). It is anticipated that outside of the 6 week closure period that no other impacts will be experienced by construction activities with the current schedule of air services being able to be maintained.

Indicative project delivery times for the various upgrades are as follows:

- Terminal building – approximately 6 months.
- Runway, taxiway and aprons, navigation aids etc – approximately 6 months.
- Refuelling facilities - approximately 6 months with no interruptions expected to result.

Given the minimal interruptions presented as a result of the upgrade there is no material impact expected on air passenger forecasts and subsequently on the financial viability of the airport during the construction phase.

7.2 Airport operations

7.2.1 Historical operations

Kangaroo Island airport’s historical annual operating position is set out in the following table. It shows that with declining air passenger numbers, airport revenues are declining and have created a net operating deficit that continues to increase. This is consistent with a relatively fixed cost business operating with variable volumes.

The airport receives its principal revenues in the form of aviation passenger levies, accounting for 92% of operating revenue in 2011/12. Non-aviation revenues are derived from rental areas inside the terminal for car rental companies, and also the leased areas external to the terminal.

Annual operating costs consist of both the cost of maintaining the airport infrastructure, the depreciation value of the assets that make up the airport, and other on-going costs.
that apply to the running of the airport. In 2011/12, depreciation accounted for 41% of operating costs while labour expenditure was the next most dominant category making up 25% of operating costs. The operation is slightly cash flow positive with the removal of depreciation.

Table 3: Kangaroo Island airport operational revenue and costs, 2008/09 – 2011/12

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating income - Adelaide RPT</td>
<td>$441,557</td>
<td>$476,661</td>
<td>$414,209</td>
<td>$384,049</td>
</tr>
<tr>
<td>Other revenue</td>
<td>$60,060</td>
<td>$33,217</td>
<td>$31,912</td>
<td>$33,015</td>
</tr>
<tr>
<td>Total Revenue</td>
<td>$501,617</td>
<td>$509,878</td>
<td>$446,121</td>
<td>$417,064</td>
</tr>
<tr>
<td>Operating costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maintenance on supporting infrastructure</td>
<td>$29,362</td>
<td>$17,537</td>
<td>$27,839</td>
<td>$11,005</td>
</tr>
<tr>
<td>Maintenace of roads and carparks</td>
<td>$2,559</td>
<td>$8,193</td>
<td>$4,880</td>
<td>$10,207</td>
</tr>
<tr>
<td>Runways, aprons , taxiways</td>
<td>$16,293</td>
<td>$6,209</td>
<td>$8,690</td>
<td>$6,476</td>
</tr>
<tr>
<td>Air services maintenance</td>
<td>$76,988</td>
<td>$29,134</td>
<td>$40,726</td>
<td>$49,428</td>
</tr>
<tr>
<td>General</td>
<td>$122,173</td>
<td>$106,043</td>
<td>$62,586</td>
<td>$122,322</td>
</tr>
<tr>
<td>Labour, training and related</td>
<td>$89,487</td>
<td>$152,663</td>
<td>$143,484</td>
<td>$149,985</td>
</tr>
<tr>
<td>Depreciation</td>
<td>$216,290</td>
<td>$246,938</td>
<td>$246,938</td>
<td>$246,762</td>
</tr>
<tr>
<td>Total operating costs</td>
<td>$553,152</td>
<td>$566,717</td>
<td>$535,144</td>
<td>$596,185</td>
</tr>
<tr>
<td>Net operating result</td>
<td>($51,535)</td>
<td>($56,838)</td>
<td>($89,023)</td>
<td>($179,121)</td>
</tr>
</tbody>
</table>

Source: Kangaroo Island Council, 2013

7.2.2 Forecast operations

An upgrade of the airport, in combination with the supportive strategies outlined in Section 9.4, is projected to deliver a net operating cash surplus within ten years of the upgrade (excluding the capital costs of the upgrade).

In the period following the airport upgrade, the revenues will change with the introduction of new aircraft able to fly to and from destinations other than Adelaide, and the operating costs will change with new procedures around security.

Two potential future financial cash flow scenarios are presented below. Both scenarios assume construction of the airport will occur in 2013/14, however they consider the introduction of new RPT services to begin at different times.

- The first scenario, the base case, assumes an early introduction (2014/15) of new RPT services following the upgrade that results in an increase in numbers of non-Adelaide RPT passengers and new services requiring new security screening. (See section 7.2.2.1)
- The second scenario, the alternative case, recognises that the introduction of new RPT services may be delayed and has a new service beginning in 2016/17. (See section 7.2.2.2)

The total number of air passengers over time are the same in both scenario's and have been taken from modelling undertaken by PAC (see Section 5.2).

7.2.2.1 Base case scenario – Upgrade Option 3

This case assumes an early introduction (2014/15) of new RPT services following the upgrade that result in an increase in numbers of non-Adelaide RPT passengers and
new services requiring new security screening. The following table represents the cash flow analysis of the base case scenario.

Table 4: Financial analysis of base case - early activation of other RPT service

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<td>Cumulative cash shortfall (Operating funding)</td>
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<td>(370)</td>
<td>(709)</td>
<td>(1,073)</td>
<td>(1,494)</td>
<td>(1,965)</td>
<td>(2,396)</td>
<td>(2,725)</td>
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</table>

Note: Passenger levy for Adelaide RPT (year 1-9) = $8.50; Passenger levy for Adelaide RPT (year 10) = $11.82; Passenger levy for non-Adelaide RPT (year 1-10) = $11.82. [GST exclusive]

Source: Kangaroo Island Council, 2013

Key outcomes – base case on Upgrade Option 3

Key outcomes of the base case scenario include:

- Revenue increases from historical levels after the upgrade primarily as a result of increased passenger numbers and in part from higher passenger levies from non-Adelaide RPT passengers;

- Operational expenditure will increase from historical levels as a result of the increased maintenance and running costs associated with the increased level of airport infrastructure and the increase in air passenger numbers, respectively. The most significant change relate to the costs associated with security screening of passengers and hand luggage. It is estimated that upgraded security screening would increase from 2013/14 (with training and establishment) up to a steady state of $716,000 by year 8 (2020/21);

- It is anticipated that a positive cash flow will occur in year 11 (2023/24) as air passenger numbers increase to a level that supplies sufficient operating income to support the security costs and other costs; and

- An accumulated cash deficit from years 1 to 10 is approximately $3million.
Assumptions in Base Case Scenario – Upgrade Option 3

Assumptions in modelling forecasts

<table>
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<tr>
<td>Air passenger numbers increase in line with PAC estimates</td>
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<tr>
<td>Airport up-grade to Option 3 specifications</td>
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<tr>
<td>Airport upgrade occurs in year 1 (2013/14)</td>
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<tr>
<td>New RPT services occur in year 2 (2014/15)</td>
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<tr>
<td>Passenger levy for Adelaide RPT passengers is $8.50 in years 1-9 (2013/14 – 2021/21) and $11.82 from year 10 (2022/23) [Prices exclude GST]</td>
</tr>
<tr>
<td>Passenger levy for non-Adelaide RPT passengers is $11.82. [excluding GST]</td>
</tr>
<tr>
<td>Security operation costs begin in year 1 (2013/14). Year 1 costs are the provision of training and establishment.</td>
</tr>
</tbody>
</table>

Source: Kangaroo Island Council

7.2.2.2 Alternative case scenario: delay in passenger number take up – Upgrade Option 3

As Option 3 involves upgrades that allow for future services from alternative airports and larger aircraft, it is recognised that these may not initiate immediately after the airport upgrade. As part of the risk mitigation strategies, the increased revenue that is generated as a result of new RPT services can be somewhat aligned with increased costs associated principally with the change in security screening. Therefore in the scenario below, the change in the level of passenger numbers from non-Adelaide RPT services has been delayed, along with a delay in the introduction of the security screening costs.

The following table represents the cash flow analysis of the alternative case scenario.
Table 5: Financial analysis of alternate case - late activation of other RPT service

### Option 3 upgrade - late activation

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Key outcomes – delay in passenger take up on Upgrade Option 3

Key outcomes of the alternate case scenario include:

- Airport revenue increases from historical levels after the upgrade primarily as a result of increased passenger numbers and in part from higher passenger levies. Compared to the base case the amount of revenue is less in years 2 and 3 as a result of delayed passenger take up of non-Adelaide RPT services.

- Operational expenditure will increase from historical levels as a result of the increased maintenance and running costs associated with the increased level of airport infrastructure and the increase in air passenger numbers, respectively. An important change to the operating costs relates to security screening of passengers and hand luggage but this will only be required when new aircraft trigger the need for security measures to be actioned. It is estimated that upgraded security screening would contribute an additional operating cost of $716,000 by year 8 (2020/21) but the delayed start would not require these costs to commence until year 3.

- It is anticipated that a positive cash flow will occur in year 10 (2022/23) as air passenger numbers increase to a level that supplies sufficient operating income to support the security costs and other costs;

- An accumulated cash deficit from years 1 to 10 is approximately $2.2 million.
The alternate case model illustrates that even in the event that larger aircraft which trigger security screening requirements aren’t immediately attracted to Kangaroo Island airport following the upgrade, the project is still viable in the longer term and in fact results in a smaller cumulative cash shortfall. The reason for this is largely due to the fact that security screening costs only need to be incurred once it is confirmed larger aircraft will be landing at Kangaroo Island airport. The ability to delay security screening costs is subsequently a risk mitigation strategy, see section 10.1-Risks to be dealt with during the project.

**Assumptions in delay in passenger take up – Upgrade Option 3**

### Assumptions in modelling forecasts

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<th>Description</th>
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<td>Air passenger numbers increase in line with PAC estimates and in the earlier years is assumed to be supported through increased smaller aircraft (Saab 340 for example) traffic</td>
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<td>Airport up-grade to Option 3 specifications</td>
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<tr>
<td>Airport upgrade occurs in year 1 (2013/14)</td>
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<tr>
<td>New RPT services occur in year 4 (2016/17). Model assumes that passenger number will be built with smaller aircraft (Saab 340 for example) in years 1-3.</td>
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<tr>
<td>Passenger levy for Adelaide RPT passengers is $8.50 in years 1-9 (2013/14 – 2021/21) and $11.82 from year 10 (2022/23) [excluding GST]</td>
</tr>
<tr>
<td>Passenger levy for non-Adelaide RPT passengers is $11.82. [excluding GST]</td>
</tr>
<tr>
<td>Security operation costs begin in year 3 (2016/17). Year 3 costs are the provision of training.</td>
</tr>
</tbody>
</table>

Source: Kangaroo Island Council

### 7.3 Funding requirement

Analysis suggests that a major upgrade of Kangaroo Island airport is viable and there are distinct benefits to Australia’s tourism industry and the social and economic fabric of Kangaroo Island.

The capital costs of upgrading the airport to option 3 specifications are in the order $16.7 million for capital construction and approximately $1.1 million for Council related project management and procurement costs. A conservative estimate of the accumulated operational deficit associated with this upgrade is $3 million (base case – early take up of non-Adelaide RPT services).
8 Economic benefits

An airport upgrade at Kingscote offers a strategy to provide increased economic activity to the Island in addition to future proofing air services for the community. In this section we have considered the economic impacts on the local economy. The benefits to the Island include direct and indirect benefits, and benefits from the construction phase as well as the ongoing operations. These are discussed below.

8.1 Direct and indirect benefits

The direct (initial)\(^{29}\) and indirect (flow on)\(^{30}\) benefits of the airport upgrade options were calculated by EconSearch following a methodology which is outlined in their final report (Appendix C). This methodology uses an Input/Output model constructed by EconSearch for measuring benefits calculated in the regions within South Australia, and presents these benefits by the sector of the economy that generated these benefits using multiplier effects.

Indicators of economic impact include Gross Regional Product (GRP) / Gross State Product (GSP) and employment.

8.1.1 Construction phase of airport upgrade

The economic impact of the construction of the airport upgrade was determined by the extent of local labour and raw materials, the level of expenditure associated with the specialised contractors and equipment that will occur off Kangaroo Island.

As suggested by Tonkin Consulting, it is likely that the construction activity associated with the airport upgrade would be undertaken by a major civil contractor from the mainland and that therefore the majority of wages and other economic benefits would not be retained on the Island. However, the Kangaroo Island economy may be able to contribute to the supply of sand and pavement materials and also to the supply of contractor employee accommodation and meals. Direct benefits from the construction phase are presented in the table below for each of the upgrade options considered by Tonkin Consulting.

<table>
<thead>
<tr>
<th>Expenditure Categories</th>
<th>Scenario 2</th>
<th>Scenario 3</th>
<th>Scenario 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preliminaries</td>
<td>$199,000</td>
<td>$199,000</td>
<td>$341,500</td>
</tr>
<tr>
<td>Site Preparation and Earthworks</td>
<td>$0</td>
<td>$22,822</td>
<td>$0</td>
</tr>
<tr>
<td>Stormwater</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Pavement</td>
<td>$211,562</td>
<td>$1,900,901</td>
<td>$5,663,957</td>
</tr>
<tr>
<td>Lighting</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Building</td>
<td>$135,600</td>
<td>$163,350</td>
<td>$377,200</td>
</tr>
<tr>
<td>Design Fees</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td><strong>Total Expenditure on Kangaroo Island</strong> (^{b})</td>
<td><strong>$546,162</strong></td>
<td><strong>$2,286,073</strong></td>
<td><strong>$6,382,657</strong></td>
</tr>
<tr>
<td>Mainland Expenditure</td>
<td>$7,392,166</td>
<td>$11,016,612</td>
<td>$23,876,610</td>
</tr>
<tr>
<td>Contingencies, GST &amp; Levies</td>
<td>$1,909,912</td>
<td>$3,386,632</td>
<td>$6,865,460</td>
</tr>
<tr>
<td><strong>Total Cost of Construction</strong></td>
<td><strong>$9,848,241</strong></td>
<td><strong>$16,689,317</strong></td>
<td><strong>$37,124,727</strong></td>
</tr>
</tbody>
</table>

\(^{29}\) Direct (or initial) impacts are an estimate of the change in final demand or level of economic activity that is the stimulus for the total impacts.

\(^{30}\) Indirect (or flow-on) impacts are the sum of production-induced impacts, consumption-induced impacts and offsetting consumption effects.
a Option 1 is not shown as there are no construction costs associated with this option.
b Excluded contingencies, taxes and levies.

Source: Tonkin Consulting 2012
Option numbers match the Scenario numbers in the EconSearch report (Scenario 2 economic outputs relate to Option 2 costing etc)

Gross regional product (GRP)

GRP is a measure of the net contribution of an activity or industry to the regional economy. It represents payments to the primary inputs of production (labour, capital and land) and is a regional level equivalent of gross domestic product. Estimates for the 1-year construction period are provided in the table below for Options 2 to 4. The total contribution to GRP as a result of the construction expenditure to upgrade the Kangaroo Island Airport was almost $270,000 for Option 2, $1.4 million for Option 3 and almost $3.9 million for Option 4.

In 2011/12 Kangaroo Island GRP was approximately $217 million. On this basis, the projected GRP total impact would boost the region’s total by around 0.1 per cent for Option 2, 0.7 per cent for Option 3 and 1.8 per cent for Option 4. Whilst the percentages are modest, the benefits are adding real value to the local economy.

Table 7: Economic Impact of the Kangaroo Island Airport upgrade options, construction phase

<table>
<thead>
<tr>
<th>GRP ($m)</th>
<th>Scenario 2</th>
<th>Scenario 3</th>
<th>Scenario 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct</td>
<td>0.152</td>
<td>0.716</td>
<td>1.922</td>
</tr>
<tr>
<td>Flow-on</td>
<td>0.118</td>
<td>0.697</td>
<td>1.953</td>
</tr>
<tr>
<td>Total</td>
<td>0.270</td>
<td>1.413</td>
<td>3.875</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Employment (fte)</th>
<th>Scenario 2</th>
<th>Scenario 3</th>
<th>Scenario 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct</td>
<td>2</td>
<td>11</td>
<td>32</td>
</tr>
<tr>
<td>Flow-on</td>
<td>1</td>
<td>6</td>
<td>16</td>
</tr>
<tr>
<td>Total</td>
<td>3</td>
<td>17</td>
<td>47</td>
</tr>
</tbody>
</table>

Source: EconSearch, 2013

Employment

The EconSearch report states full time equivalent (FTE) employment in the region was 2,330 in 2011/12. The projected employment impact (direct and flow-on) during the construction phase of an airport upgrade would boost the region’s total by around 0.1 per cent (3 FTE) for Option 2, 0.7 per cent (17 FTE) for Option 3 and 2.0 per cent (47 FTE) for Option 4, see above table.

The construction impacts of an airport upgrade will be relatively small given the limited capacity of business on the Island to provide the required products and services at the scale demanded. Option 3 is expected to result in $2.3 million in local (Kangaroo Island) expenditure; a contribution to GRP of $1.4m; and employment of approximately 17 fte from the region.

8.1.2 Operating phase

The annual operating and maintenance expenditure, as estimated by Tonkin Consulting, for each upgrade option is detailed in the below table. The estimates for Option 3 are largely reflected in the financial analysis estimates presented in section 7. The total operating costs included in the financial models actually exceed the below estimates by year 4 or 5. Consequently, the following economic analysis is a
conservative estimate of the likely operational impacts. The reason for the differences are due to escalating costs over time in the financial models and the estimated security screening costs in the financial analysis being slightly lower than what has been estimated by Tonkin Consulting; these differences are the result of the Council undertaking further detailed analysis of likely operational costs.

Option 1 maintenance costs represent the current budget to maintain the airport on an “as-is basis” without any deterioration in runway or pavement grade. Operating and maintenance costs for the other 3 options were estimated by Tonkin Consulting. It has been assumed that all of these costs will incur expenditure and therefore economic benefit to the Island economy.

Table 8: Kangaroo Island Airport upgrade annual operating and maintenance expenditure

<table>
<thead>
<tr>
<th>Maintenance</th>
<th>Scenario 1</th>
<th>Scenario 2</th>
<th>Scenario 3</th>
<th>Scenario 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Runway Pavements</td>
<td>11,500</td>
<td>12,800</td>
<td>16,200</td>
<td>26,300</td>
</tr>
<tr>
<td>Apron Pavements</td>
<td>2,500</td>
<td>2,700</td>
<td>2,700</td>
<td>3,000</td>
</tr>
<tr>
<td>Stormwater</td>
<td>2,000</td>
<td>3,000</td>
<td>3,000</td>
<td>3,000</td>
</tr>
<tr>
<td>Terminal</td>
<td>37,500</td>
<td>151,000</td>
<td>162,500</td>
<td>306,900</td>
</tr>
<tr>
<td>Lighting</td>
<td>0</td>
<td>5,000</td>
<td>6,800</td>
<td>8,100</td>
</tr>
<tr>
<td>Security Screening</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personnel</td>
<td>0</td>
<td>700,000</td>
<td>700,000</td>
<td>700,000</td>
</tr>
<tr>
<td>Equipment servicing</td>
<td>0</td>
<td>100,000</td>
<td>100,000</td>
<td>100,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>53,500</td>
<td>974,500</td>
<td>991,200</td>
<td>1,147,300</td>
</tr>
</tbody>
</table>

Source: Tonkin Consulting, 2012

Gross regional product (GRP)

Based on the above mentioned airport operating requirements, estimates of GRP for the operating phase are provided in the table below, for all options. The total annual contribution to GRP as a result of the operation of the Kangaroo Island Airport was $37,000 for Option 1, $620,000 for Option 2, $631,000 for Option 3 and $731,000 for Option 4.

In 2011/12 Kangaroo Island GRP was approximately $217m. On this basis, the projected GRP total impact would boost the region’s total by a minimal amount under Option 1 and approximately 0.3 per cent for options 2, 3 and 4. This is ongoing and sustained whilst there is a continued airport operation and security screening.

Table 9: Economic Impact of the Kangaroo Island Airport upgrade options, operation phase

<table>
<thead>
<tr>
<th>GRP ($m)</th>
<th>Scenario 1</th>
<th>Scenario 2</th>
<th>Scenario 3</th>
<th>Scenario 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct</td>
<td>0.019</td>
<td>0.404</td>
<td>0.410</td>
<td>0.464</td>
</tr>
<tr>
<td>Flow-on</td>
<td>0.018</td>
<td>0.216</td>
<td>0.221</td>
<td>0.267</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>0.037</strong></td>
<td><strong>0.620</strong></td>
<td><strong>0.631</strong></td>
<td><strong>0.731</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Employment (fte)</th>
<th>Scenario 1</th>
<th>Scenario 2</th>
<th>Scenario 3</th>
<th>Scenario 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct</td>
<td>0</td>
<td>7</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>Flow-on</td>
<td>0</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>0</strong></td>
<td><strong>8</strong></td>
<td><strong>9</strong></td>
<td><strong>9</strong></td>
</tr>
</tbody>
</table>

Source: EconSearch analysis

May 2013
Employment

EconSearch have identified that the FTE employment in the region was 2,330 in 2011/12. The projected employment impact (direct and flow-on) during the operation phase of an upgraded airport would boost the region’s total by a minimal amount under Option 1 and 0.4 per cent (8-9 fte) for options 2, 3 and 4.

On an annual basis the operational impacts of an airport upgrade will be less than what is achieved in the construction phase of the airport upgrade however these operational impacts are on-going, whilst construction impacts will likely be over a one year period only.

100 per cent of operational expenditure is likely to remain on the Island. The annual operation of Kangaroo Island airport to an Option 3 fit out was expected to cost approximately $1 million according to Tonkin Consulting (financial analysis suggests that this figure may be even higher). This is expected to result in a total annual contribution to GRP of $631,000 and boost the regions total fte by 9.

8.1.3 Economic benefits from increased tourism

The upgrade of the Kangaroo Island Airport can be considered a milestone investment for development in other industries and in particular for tourism on Kangaroo Island. The economic impact of potential future scenarios for Kangaroo Island tourism that include growth in visitation linked to the availability and cost of access to the Island need to also be taken into account when considering the economic and social impacts of an upgrade to the Kangaroo Island airport.

There is no doubt that an increase in tourism will have significant economic benefit for Kangaroo Island. The labour intensive nature of tourism as a service industry also means that investment in the sector will provide additional job opportunities for many residents of Kangaroo Island.

The following information presents the economic benefits of tourism growth as found by EconSearch. Low, medium and high growth scenario’s have been utilised to represent the possible range of benefits over an 8 year period from 2011/12 to 2019/20. Further information, including detailed assumptions, relating to these scenario’s can be found in the EconSearch report in Appendix C. It should be noted that the scenario’s include a requirement to lift the capacity of air transport to accommodate the modelled growth, particularly in international visitors.

The low growth scenario reflects the average annual growth rate for tourism in South Australia of 2.6%, this equates to $151 million of tourism expenditure on Kangaroo Island. It is estimated that this scenario would generate an additional $12 million in GRP and 107 FTE for Kangaroo Island, compared to the baseline.

The moderate growth scenario is consistent with the target of $180 million of ‘visitor worth’ by 2020 set by the South Australian Government in the South Australia Strategic Plan. The level of latent demand considered in this scenario is also consistent with that found for Uluru (as determined by SATC). It is estimated that this scenario would generate an additional $23 million in GRP and 198 FTE for Kangaroo Island, compared to the baseline.

The high growth scenario is in line with the SA Economic Development Board’s target of doubling visitor expenditure over the eight-year period. It simply builds on the moderate growth scenario by introducing a longer stay factor. It is estimated that
visitor expenditure of $225 million under this scenario would generate an additional $49 million in GRP and 383 FTE for Kangaroo Island, compared to the baseline.

Table 10: Economic impact of tourism expenditure growth (low, medium and high-growth scenarios)

<table>
<thead>
<tr>
<th></th>
<th>Base</th>
<th>Low growth</th>
<th>Medium growth</th>
<th>High growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>GRP increase %</td>
<td></td>
<td>6%</td>
<td>11%</td>
<td>23%</td>
</tr>
<tr>
<td>Base and increase</td>
<td>$217 million</td>
<td>$12 million</td>
<td>$23 million</td>
<td>$49 million</td>
</tr>
<tr>
<td>FTE jobs increase</td>
<td></td>
<td>5%</td>
<td>9%</td>
<td>16%</td>
</tr>
<tr>
<td>Base and increase</td>
<td>2,330 FTE</td>
<td>107 FTE</td>
<td>198 FTE</td>
<td>382 FTE</td>
</tr>
</tbody>
</table>

Summary of assumptions*

| Total visitors p.a. | 194,000 | 234,000 | 275,000 | 275,000 |
| Total visitor nights p.a. | 658,000 | 807,000 | 955,000 | 1,191,000 |
| Average length of stay (nights) | 3.4 | 3.4 | 3.4 | 4.2 |
| Total visitor expenditure p.a. | $123 million | $151 million | $180 million | $225 million |
| Annual tourism expenditure growth over 8 years | 2.6% | 4.9% | 7.9% |

*See EconSearch report for full details of assumptions (Appendix C)

Source: EconSearch, 2013

The economic impact of the upgrade to the airport will be modest on state and Commonwealth measures, but very significant on local impacts. It will be a key driver of economic growth both directly through local employment and GRP, but also indirectly through the potential of tourism spend which is unlocked by greater options in air related travel to the Island.
8.2 Local economic development

Supporting the economic benefits from tourism as mentioned in section 8.1.3 above are commercial investments in the tourism industry that not only support ongoing tourism economic activity, but also boost local construction and development activity (albeit to a lesser amount).

The business case for the airport upgrade is supported by a large investment proposal that is dependent on future reliable air access to the Island. It has been stated by the proposed developer that without the access to new markets, and larger aircraft, investment in accommodation-based tourism infrastructure on the Island will not proceed. Having quality accommodation and experiences will be critical to meet the demands of growing international visitor numbers and to offer a compelling value proposition to Australians.

To date, the Council has been advised of the following development opportunity that is waiting for an airport upgrade in order to be able to develop or complete full financial feasibilities. Appendix D provides an illustrative representation of the project.

<table>
<thead>
<tr>
<th>Development Project</th>
<th>Current status</th>
<th>Value</th>
<th>Timing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aurora Ozone Hotel</td>
<td>Development</td>
<td>$11 million</td>
<td>Possible to proceed after airport upgrade committed</td>
</tr>
<tr>
<td>extension- 45 new 4</td>
<td>application</td>
<td></td>
<td></td>
</tr>
<tr>
<td>star rooms at</td>
<td>submitted and</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kingscote</td>
<td>approved by</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Council in 2010.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Has since</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>lapsed. With</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>the knowledge</td>
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<tr>
<td></td>
<td>that the</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>developer does</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>not intend to</td>
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<tr>
<td></td>
<td>materially</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>change the</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>design of the</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>hotel from the</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>original</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>submission,</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Council</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>approval is</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>likely.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Awaiting</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>financial</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>feasibility</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Tourism Australia in May 2012 released its Australian Tourism Investment Guide. The guide identifies a nation-wide list of ‘investment ready’ opportunities and proposed tourism projects. It aims to assist Australia and overseas investors to become a part of Australia’s tourism industry. A proposed ‘investment ready’ opportunity in this guide includes a redevelopment of Kingscote Wharf on Kangaroo Island with the potential for new visitor and accommodation product and community facilities. An upgrade of the airport facilities would likely make this proposed investment a great deal more attractive to an investor.

Increased access and tourism is likely to provide an opportunity for local and external investment opportunities. The airport upgrade will be a catalyst for the growth and capital investment into hire car companies, tour operators and accommodation.

These projects support the same strategic tourism plans that support Kangaroo Island’s economic future. For example, they provide increased opportunities for visitors to stay overnight.
8.3 **Strategic importance**

South Australia’s Economic Development Board (SAEDB) report to Government, ‘Paradise girt by sea – Sustainable economic & social development for Kangaroo Island’, states that the current state of the airport stands in the way of a doubling of tourist number to Kangaroo Island within a decade and that it is consequently critical that if the target is to be achieved, that the airport runway is lengthened and strengthened to accommodate a broader range of aircraft types and capacities. This business case is consistent with the SAEDB’s recommendations to lengthen and strengthen the runway and refurbish the terminal. The proposed upgrade of the airport also aligns with other local, regional, state and commonwealth policy, planning and programs.

The alignment of the following strategies support the case for developing the airport and also demonstrate the support for the growth targets in visitor numbers estimated. It is consistent with a number of growth strategies on a state and national basis that recognise Kangaroo Island’s status in these plans.

8.3.1 **Commonwealth government**

*Consistency with Tourism Australia plans*

The Commonwealth government is clearly committed to growing the nation’s tourism sector as a key economic driver of the regional, state and national economies. In addition to partnerships with airlines, distributors and the Australian tourism industry, the Australian Government spends approximately $135 million each year marketing and promoting Australia as one of the world’s great visitor destinations.

Australia’s national long-term tourism strategy is ‘Tourism 2020’. Tourism 2020 is a joint industry-government strategy to increase Australia’s overnight visitor expenditure from approximately $70 billion in 2012 to between A$115 billion and up to A$140 billion by 2020.

One of Tourism 2020’s six strategic areas is to ensure the tourism transport environment supports growth, see below table. Development of the Kangaroo Island airport is therefore inextricably linked to Tourism Australia’s strategy.

---


May 2013
Tourism 2020

| Ensure tourism transport environment supports growth | Tourism transport capacity and infrastructure needs to allow increasing numbers of visitors to travel to, from and within Australia. Governments will work in partnership with industry to ensure the supply of transport capacity and infrastructure continues to move ahead of demand and facilitates, rather than hinders, tourism traffic. |

Tourism Australia recognises Kangaroo Island through many of its campaigns and programs, including its role in the National Landscapes Program, with Kangaroo Island being one of only 15 national landscapes formally recognised by the program. The program commenced in 2005 and its aims include to:

- Promote Australia’s world class, high quality visitor experience; and
- Increase the value of tourism to regional economies.  

The Kangaroo Island airport upgrade is entirely consistent with Commonwealth tourism strategies, and improves access to one of Australian 15 Natural Landscapes promoted by the Commonwealth.

8.3.2 State government

The South Australian Government has recognised the significance of Kangaroo Island as a destination for international and interstate visitors, and is of the belief that there is great potential for increased visitation. It is therefore committed to growing Kangaroo Island’s tourism industry as a key economic driver of the Kangaroo Island and state economy. In 2012, the South Australian government launched one of the state’s largest domestic marketing campaigns; $5 million was invested in a campaign and a further $3 million is budgeted to continue to promote Kangaroo Island in 2012/2013.

Infrastructure priorities that can facilitate increased visitation to Kangaroo Island map closely to the policies and planning of South Australian government agencies, who consider that an essential prerequisites for the success of those strategies aimed at driving up visitation to the Island would be appropriate facilities and convenient air services to Kangaroo Island airport.

South Australian Strategic Plan

South Australia’s Strategic Plan (SASP) is the key strategic planning instrument for South Australia. It provides an important blueprint for the state; it identifies the aspirations for our future success.

The SASP outlines the headline goals for the tourism industry in the state and is aligned to Australia’s ‘Tourism 2020’ strategy. The SASP sets a potential growth target for tourism in the state of $8 billion in tourism expenditure by 2020, and for Kangaroo Island, $180 million in tourism expenditure by 2020. Other targets within the SA Strategic Plan are also relevant for growth opportunities delivered by the airport upgrade and are included in the below table.

---


35 SATC, 2013.
SA Strategic Plan

Goal: We are known world-wide as a great place to live and visit.
Target 4: Tourism industry - Increase visitor expenditure in South Australia’s total tourism industry to $8 billion and on Kangaroo Island to $180 million by 2020 (baseline: 2002 for South Australia, 2008 for Kangaroo Island). Milestone of $6.3 billion total industry by 2014.

Goal: South Australia has a resilient, innovative economy
Target 35: Economic growth – Exceed the national economic growth rate over the period to 2020 (baseline: 2002-03)

Goal: South Australia has a sustainable population
Target 45: Regional population levels – Increase regional populations, outside of Greater Adelaide, by 20,000 to 320,000 or more by 2020 (baseline: 2010)

South Australian infrastructure plan
Relevant priorities for Kangaroo Island identified in the regional overview of the Strategic Infrastructure Plan for South Australia are:

- The extension of the Kangaroo Island airport runway and upgrade the terminal to cater for increased freight and tourist flights, if demand and a viable carrier are identified.36

The upgrade to the Kangaroo Island airport is consistent with the state infrastructure plans.

State infrastructure plans

Kangaroo Island airport capacity
Extend the Kangaroo Island airport runway and upgrade the terminal to cater for increased freight and tourist flights, if demand and a viable carrier are identified.

South Australian Tourism Plan 2009-2014
The South Australian Tourism Plan 2009-2014 maps out key strategies for growing the value of the state’s tourism sector. The South Australian Tourism Plan priorities are reflective of the growth strategies included in this business case. The below table identifies some of the relevant priorities of the plan.37

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May 2013
### South Australian Tourism Plan

| Develop new signature experiences | Attract investment capital into South Australia and grow/attract events. South Australia needs ‘new news’ and to further develop areas of raw appeal to change our target consumer’s perception of SA. This includes an accent on the word ‘tourism’ in the food and wine tourism offering, higher profile of its natural heritage and cultural strengths, links to SA products and services; and further development of areas of appeal including Kangaroo Island, the Murray River and Eyre Peninsula, among others |
| Improve distribution channels | Cooperatively market with airlines and significant tourism operators and optimise new technology |
| Improve air access | Particularly direct inbound flights |

### SA Tourism Commission Plan 2013

The lead state government agency for tourism is the South Australian Tourism Commission (SATC). The SATC is committed to achieving the $8 billion in tourism expenditure potential by 2020.

The SATC productively markets the state’s tourism product intrastate, interstate and internationally to ensure that South Australia is a compelling part of any Australian holiday. SATC plans to continue to invest in traditional markets but will also expand its activity into China while working closely with Tourism Australia to increase SA content in any new brand campaigns.

SATC is committed to continuing its focus on selling Kangaroo Island and converting those targeted by Kangaroo Island specific campaigns like phase two of the ‘Let yourself go’ campaign, and other state based campaigns featuring Kangaroo Island – ‘Best Backyard campaign’.

#### 8.3.3 Local government

Support for growing the Kangaroo Island tourism industry as one of the two main economic drivers of the Kangaroo Island economy is obvious from the Kangaroo Island Council (local government) and regional industry bodies alike. The vital role of airports are also strongly recognised at the regional planning level.

Kangaroo Island airport is identified by local government to be strategic to the social and community needs as well as to business and tourism.

The upgrade of the Kangaroo Island airport is consistent with a significant number of state and commonwealth plans for tourism growth and the development of regions in South Australia and Australia.

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8.4 Net benefits to the community

As demonstrated in the economic modelling above, the investment of some $17 million dollars in an airport upgrade for this regional economy will result in the following benefits:

- **Local**
  - Between $12 – 49 million per annum for the local economy
  - Between 107 and 382 new jobs in the local economy

- **National**
  - Additional tourism numbers for the nation where Australia can leverage from the Kangaroo Island icon status, to help achieve the tourism targets of $140 billion by 2020.

*The benefits exceed the costs at a local level, and therefore represents a sound investment. However, the benefits are also realised at a national level, particularly to the extent that investment in Kangaroo Island offers a new attraction to international tourism as new visitors to Kangaroo Island will not detract from other Australian destinations and are more likely to develop a broader Australian package with high appeal internationally.*
9 Capability and project delivery

The project proponent is the Kangaroo Island Council as owner and current operator of the Kingscote Airport.

The Kangaroo Island Council currently employs 62 people to deliver local government services to the community including operation of the airport.

Whilst not a significant council by South Australian or National standards, the Kangaroo Island Council has the capacity to deliver a project of the size of the Option 3 upgrade and has plans to coordinate the specialist resources necessary to deliver on the project outcomes.

9.1 Delivery of projects

Kangaroo Island Council is experienced in the delivery of capital projects and has delivered two major projects in recent years together with an annual Capital Works program of circa $2.5M and project manages all aspects of a further $2M Roads Upgrade program for the Department of Planning, Transport & Infrastructure. They are currently delivering a $500K Solar / Electric Vehicle Installation Project funded by Renewables SA.

The Camping & Day Visitor Infrastructure Project was a $2.8M project funded under the Commonwealth Infrastructure Employment Projects Funds and it provided significant upgrades to Kangaroo Island – Community Camping & Day Visitor Sites at 15 diverse, mostly coastal, locations around the Island. The project provided upgrades at each site with the following: site works and equipment; limited earthworks / landscaping; wind powered dry toilets; gas powered BBQs; solar lighting; recycling waste options; shaded shelters with water tanks; organised parking & camping areas; environmentally sensitive fencing and / or control barriers.

This project was managed in house by Council and comprised of careful planning and consultation with the Community on how existing, mostly dilapidated, infrastructure could be replaced sensitively and practically to enhance the facilities now expected by residents and visitors. It was also necessary to address the many liabilities that this aging infrastructure presented to Council. The facilities were planned to be sympathetic to the Island environment, drawing from facilities design elsewhere throughout the National and Conservation Parks that dominate the Kangaroo Island environment (33% of total Island). Detailed project costing, final design (civils & built infrastructure), a formal tender process for the various elements of built infrastructure were keys to successful delivery. After delivering the original schedule of works under budget, a request for additional works was submitted, approved and delivered within the original timeframe. The project created 30 jobs during the 8 months of delivery and ensured 4 permanent jobs remained after project completion. The infrastructure was inspected by Minister Albanese personally in September 2011 and has been acclaimed highly successful by residents and visitors alike.

The Stokes Bay Road Project – totalling $4.5M was funded 66/33 between Local Government Advisory Panel – Special Local Roads Program and Council between financial years 2005-06 to 2011-12. Stokes Bay Road is 18km long and joins the Playford Highway to the small township on the North Coast of the Island. It is recognised as a route of importance (P1) for community by the S&HLGA Transport Plan; South Australian Strategic Plan and the Council’s Regional Transport Strategy.
The scope of works includes replacing an unsealed rural road with a fully designed carriageway with improved drainage, pavement strength and sealed road surface.

The initial stage of 1.8Km was reconstructed in 2005/06 with funds from the Special Local Roads Program. In 2008/2009 the project continued with completion of an additional 4.0 km section – this was completed as Stage 1 (total of 5.8km). In 2009/2010 the project continued with near completion of a further 4.0km including the widening of a bridge over the Cygnet River. These Stage 2 works were unable to be completed (3.4km only) due to unforeseen items encountered including 3500m2 of hard rock; 11,000 m2 of defective sub-grade replacement, an industry cost increase in widening of the bridge over the Cygnet River and additional works related to Native Vegetation clearance. Kangaroo Island Council funded the cost over run in 2010 of $421,773. Stage 3 (4.0 km) of the project was completed in 2010/2011 at a cost of $900,000 and Stage 4 (4.8km) at a cost of $970,000 is now nearing completion. The road length of 18km will have been completed for an anticipated cost of $4,530,772 of which Council contributed $1,791,792. With the exception of 2009/10 the project work has run to budget and specification. The resulting road has seen a decline in accidents, native fauna road kill and an increase in traffic flow from both the community and visitors. The project has been monitored by Dept Planning, Transport & Infrastructure and has resulted in them retaining Council as Project Managers for a recurrent $2M rural unsealed roads remediation program.

The Council receives Financial Assistance Grants in the order of $1.7 million per annum and manages these with a limited local workforce, whilst responsible for the local government areas on an Island of over 4,000 square kilometres. It maintains roads, and community infrastructure to the value of approximately $926 million and operates a budget of $11.9 million per annum. In addition to this, Council also acts as Project Managers for an annual $2M program for the upgrade of Rural Unsealed Roads on the Island funded by Department of Planning, Transport & Infrastructure.

9.2 Operation of the airport

The Kangaroo Island Council has successfully operated the Kangaroo Island airport to appropriate civil aviation standards since 1983. Over this period the Council has managed a number of airport specific projects, including:

• Resealing of the central part of main 01/19 runway on several occasions;
• Extension of the original apron;
• Resealing of access roads, car and bus parks;
• Refurbishment of navigational aids and maintenance of a night landing capability; and
• Refurbishment of the airport lounge within the terminal building.

The Council has always managed the Kangaroo Island airport strategically and with appropriate financial due diligence. The following plans have been developed and assist the Council in determining the strategic direction for the airport:

• Airport strategic plan;
• Airport master plan;

May 2013
• Airport civil infrastructure management plan (undertaken by Tonkin Consulting);
• Airport asset management plan (undertaken by Institute of Public Works Engineering Australia, Jeff Roorda & Associates, and Skilmar Systems); and
• Airport long-term financial plan.

The airport is managed by a small team of staff who have specific training and experience in managing the airport to the appropriate standards. The airport is fully compliant in all respects and staff also access specialised Service Providers for operational advice and guidance throughout the Year. The airport comprises a single sealed runway strip and two alternate unsealed runways – the main sealed runway is rated 12C with maximum take-off weight permitted of 20,000kg and tyre pressures of 580kpa. A concession service is utilised to accommodate larger, heavier aircraft running higher tyre pressures (common with modern aircraft / business jets) and airport staff, in conjunction with our external Technical Inspector, have built a matrix of approved plane types / configurations that can operate with concession.

Currently Council is managing a project to install 50KW of tracking solar panels together with grid / building connection and the installation of an electric vehicle charge point at the airport. A smaller fixed panel service is being installed at Council Offices in Kingscote together with another electric vehicle charge point and there will be a fully-electric minibus leased to the local transit operator to enhance current services between the Airport and the principal Townships. This project is funded through Renewables SA and it is expected that the airport will become 80% self-sufficient in power generation saving approximately $20,000 in annual power costs. The aim of the project is to establish a basic network of charge points with a subsequent project (potentially funded through Regional Development Australia Fund) to expand the network Island-wide, running a fleet of vehicles to foster adoptions and to reduce operating costs / environmental impact.

As a key access point for the Island now and for the future, the airport is central to our strategies to develop tourist visitation and provided social and economic growth whilst looking at ways of offsetting the environmental impact that growth in visitation, may create.

9.3 Delivery of this project

The Kangaroo Island Council will be able to deliver this project through the use of a dedicated construction project manager with strong active involvement by the Chief Executive, supported by the Airport manager who has extensive experience in operating the existing airport.

For a project of this size it is likely that Kangaroo Island Council will work in conjunction with the Local Government Association (South Australia) Procurement (LGAP) service who would assist with the Procurement process. A fee for service operation the LGAP is well placed to provide independent guidance, advice and provenance for the procurement process and allow Council to focus on the implementation aspects of the project.

It will be important to maintain the availability of the infrastructure for existing services as much as possible during the upgrade process and the effective coordination of this level of activity in a relatively small area will be key to continued safe operations of the facilities.
9.4 Support for the upgrade

9.4.1 Direct support for the delivery of the project

In the development of the upgrade, the Kangaroo Island Council has the support of the following organisations and departments who are committed to the development of this very important regional airport.

<table>
<thead>
<tr>
<th>Party or organisation</th>
<th>Support to the Project</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Australian Tourism Commission</td>
<td>Support with marketing and advertising of tourism related connections with Kangaroo Island.</td>
</tr>
<tr>
<td>Department of Planning, Transport and Infrastructure (DPTI)</td>
<td>DPTI are able to provide advice on any project delivery matters. DPTI are well regarded for their ability to deliver major infrastructure projects and also possess aviation expertise.</td>
</tr>
<tr>
<td>Local Government Authority</td>
<td>LGA Procurement (LGAP) is a commercial entity owned by the Local Government of South Australia. The LGAP will assist the Kangaroo Island Council deliver the project through contract administration and other best-practice procurement activities, as well as its ability to generate economies of scale.</td>
</tr>
<tr>
<td>Kangaroo Island Futures Authority</td>
<td>Provision and coordination of resources, from Government and non-government organisations.</td>
</tr>
<tr>
<td>Tourism Kangaroo Island</td>
<td>Work closely with the SATC, local government and industry to ensure the region is promoted to target markets in an effective manner.</td>
</tr>
<tr>
<td>Adelaide Airport Limited</td>
<td>Adelaide Airport has already offered the provision of technical assistance in the development of necessary documentation and other airport operational matters in support of the airport upgrade, and can be used in a technical advisory panel to the upgrade contract.</td>
</tr>
<tr>
<td>Private investors</td>
<td>Progress development planning for accommodation to support increase in visitor numbers.</td>
</tr>
</tbody>
</table>

9.4.2 Organisations contracted as part of the upgrade project

In addition to the support for the proponents offered above, the following organisations have been contracted on commercial terms for the provision of technical and commercial assistance in the development of this project.
<table>
<thead>
<tr>
<th>Party or organisation</th>
<th>Support to the Project</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tonkin Consulting</td>
<td>Engineering assessments of current civil engineering status and upgrade needs.</td>
</tr>
<tr>
<td>EconSearch</td>
<td>Assessment of the economic impacts of the airport upgrade and tourism generally on the Island</td>
</tr>
<tr>
<td>Pacific Aviation Consulting</td>
<td>Forecasting of air passenger numbers based on various growth scenarios.</td>
</tr>
<tr>
<td>KPMG</td>
<td>Consultation with airlines and inbound tour operators.</td>
</tr>
</tbody>
</table>

The Kangaroo Island Council has the capacity and the capability to deliver a Commonwealth funded airport upgrade project utilising internal resources supported by external consultants and expertise.

9.5 Strategies that support increases in air travel

As part of the overall economic development of the Island community, KIFA, the Council, SATC and other parties are committed to the development of strategies that will enhance tourism and air travel opportunities for the Island. The alignment of all parties will ensure a co-ordinated, holistic approach.

Strategies underway include:

- Continued marketing of Kangaroo Island in partnership with booking agencies with a flight focus. This type of tactical marketing is currently occurring through the partnership of SATC and Flight Centre;

- KIFA will engage a consultant to review the Tourism Kangaroo Island’s website with a view to turning it into a commercial / revenue-generation vehicle. The site receives the most hits for Kangaroo Island related searches ahead of any other Kangaroo Island site and has the potential to support air travel further;

- Further consultation with airlines including Regional Express and QantasLink to explore new services and prepare for new aircraft types;

- Consultation with tour operators regarding expansion of “approved private jets” for access to the Island to increase the opportunities for alternative aircraft. SATC and KIFA are currently pursuing the several stakeholders to develop charter opportunities for Kangaroo Island airport; and

- Consultation with Tourism Australia regarding promotion of the Island as an “air travel” destination.

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40 Tourism Kangaroo Island is Kangaroo Island’s local tourism authority. It is responsible for marketing Kangaroo Island as a tourism destination and works closely with SATC, local government and industry.
The below figure summarises the key stakeholders, the collaboration, and some of the responsibilities of respective stakeholders in access development.

These activities are specifically designed to increase air travel to the Island to improve direct access from Adelaide, and improve the opportunities for alternative RPT routes from non-Adelaide destinations. These actions will assist in underwriting the forecasts growth in air transport passengers.
10 Risk analysis

High level risk analysis identified the following risks and strategies for mitigation of those risks. Development of a full risk matrix will be further advanced after project funding has been approved in principle.

10.1 Risks to be dealt with during the project

<table>
<thead>
<tr>
<th>Risk</th>
<th>Likelihood</th>
<th>Value</th>
<th>Mitigation strategies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Delivery of capital project within budget</td>
<td>Medium</td>
<td>High</td>
<td>Tight project management with dedicated project manager, use of fixed price contracts with procurement support from LGAP and State Government (DPTI).</td>
</tr>
<tr>
<td>Operating costs exceed budget</td>
<td>Medium</td>
<td>Medium</td>
<td>Experience in operating the existing airport, and the ability to minimise additional costs relating to security until such time it is required by larger aircraft.</td>
</tr>
<tr>
<td>Volumes don’t reach forecast demands</td>
<td>Medium</td>
<td>High</td>
<td>Ability to market for air travel with access to marketing partners in Tourism Kangaroo Island, SA Tourism Commission, Tourism Australia and booking agencies. Reviewing the Tourism Kangaroo Island’s website with a view to turning it into a commercial / revenue-generation vehicle that can further support air travel. Further consultation with airlines including Regional Express and QantasLink to explore new services. Consultation with tour operators regarding expansion of “approved private jets” for access to the Island to increase the opportunities for alternative aircraft.</td>
</tr>
<tr>
<td>Withdrawal of aircraft operator</td>
<td>Low</td>
<td>High</td>
<td>Continued collaboration and support for Rex. Passenger levy is to remain at current rate during and following the project for years 1-9.</td>
</tr>
<tr>
<td>Failure of construction contractor to deliver project. (Financial failure of the contractor for example)</td>
<td>Medium</td>
<td>High</td>
<td>Use of standard contracts, with due diligence assessments, and provision of security and insurance instruments as part of the contract. LGAP and DPTI to assist in this matter.</td>
</tr>
</tbody>
</table>

The risk mitigation strategies will be developed into the project management, contract management and operational management of the new airport facilities.
10.2 Risks to be dealt with if the project does not proceed

There is a risk to the Kangaroo Island community if the project does not proceed. Without access to an appropriate airport facility, RPT air access may eventually be withdrawn, further isolating the community from the rest of the state.

The existing facilities may deteriorate and negatively impact on services for the Island. In the event of the upgrade not taking place, it is possible that the aircraft that would replace the SAAB 340 would be smaller (in the 20 seat range). Whilst this would likely result in a more frequent service the aircraft service will suffer due to its inability to link to international flights and marketing and support the luggage requirements of such travellers. The shift to a smaller aircraft could also see a shift from Adelaide airport, where interstate and international flights depart and land, to a smaller airport such as Parafield airport reducing the convenience and increasing cost in Adelaide for Community and visitors alike.

The impact on the social and economic outcomes of the Island will be significantly negative if the airport upgrade does not proceed. Whilst difficult to quantify exactly the level of social disadvantage if an upgrade was not to go ahead it would be significant due to the community being an Island. Economic activity foregone could include:

- GRP in the order of $1.4 million and 17 FTE from the construction phase of the airport upgrade;
- GRP in the order of $631,000 annually and 9 FTE from the operational impacts of the airport; and
- Unrealised GRP and FTE due to constrained tourism growth. GRP of between $12M–$49M and FTE numbers of between 107-382 may be foregone if the undeveloped airport impacts on the tourism growth scenarios modelled by EconSearch.

If there is an interruption to air services in the future, the Council has communication channels through to state Government to assist in the development of alternative air services providers, and through assistance from KIFA and the SAEDB, has access to a range of government connections which will assist in whatever is possible to re-establish the services to some form, but this is unlikely to achieve the volumes that would deliver on the broader economic developments in the region and the state.
Glossary

The following terms have been used in this document

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>ADL</td>
<td>Adelaide airport</td>
</tr>
<tr>
<td>ARIA</td>
<td>Accessibility / Remoteness Index of Australia</td>
</tr>
<tr>
<td>ATR 72</td>
<td>Turbo-prop aircraft operated by Skywest and Virgin in Australia, approximately 72 passengers</td>
</tr>
<tr>
<td>BITRE</td>
<td>Bureau of Infrastructure, Transport and Regional Economics</td>
</tr>
<tr>
<td>CITB</td>
<td>Construction Industry Training Board</td>
</tr>
<tr>
<td>DPTI</td>
<td>Department of Planning Transport and Infrastructure</td>
</tr>
<tr>
<td>FTE</td>
<td>Full Time Equivalent</td>
</tr>
<tr>
<td>KIFA</td>
<td>Kangaroo Island Futures Authority – established by the Economic Development Board within the Department for Planning Transport and Infrastructure</td>
</tr>
<tr>
<td>LGAP</td>
<td>Local Government Association Procurement</td>
</tr>
<tr>
<td>GRP</td>
<td>Gross Regional Product</td>
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<tr>
<td>GSP</td>
<td>Gross State Product</td>
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<td>ITO</td>
<td>Inbound Tour Operator</td>
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<tr>
<td>IVS</td>
<td>International Visitor Survey</td>
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<tr>
<td>KGC</td>
<td>Kangaroo Island airport at Kingscote</td>
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<td>MEL</td>
<td>Melbourne airport</td>
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<tr>
<td>NDB</td>
<td>Non-directional beacon</td>
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<tr>
<td>NVS</td>
<td>National Visitor Survey</td>
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<tr>
<td>PAC</td>
<td>Pacific Aviation Consulting</td>
</tr>
<tr>
<td>Q400</td>
<td>Turbo-prop aircraft operated by QantasLink – approx 78 passengers</td>
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<tr>
<td>RAAF</td>
<td>Royal Australian Air Force</td>
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<tr>
<td>Rex</td>
<td>Regional Express Airlines</td>
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<tr>
<td>Abbreviation</td>
<td>Description</td>
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<tr>
<td>RFDS</td>
<td>Royal Flying Doctor Service</td>
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<td>RPT</td>
<td>Regular Public Transport</td>
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<td>SA</td>
<td>South Australia</td>
</tr>
<tr>
<td>SAAB 340</td>
<td>A twin engine turboprop aircraft carrying 33 passengers, two pilots and 1 crew member.</td>
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<tr>
<td>SAEDB</td>
<td>South Australian Economic Development Board</td>
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<tr>
<td>SAPOL</td>
<td>South Australian Police</td>
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<tr>
<td>SAPS</td>
<td>South Australian Strategic Plan</td>
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<td>SATC</td>
<td>South Australian Tourism Commission</td>
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<tr>
<td>SYD</td>
<td>Sydney airport</td>
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<tr>
<td>TOMM</td>
<td>Tourism Optimisation Management Model</td>
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<tr>
<td>The Council</td>
<td>Kangaroo Island Council – the Local Government organisation responsible for the entire Island community and infrastructure</td>
</tr>
</tbody>
</table>
A Appendix - Pacific Aviation Consulting Report

Refer to separate attachment.
Appendix - Tonkin Consulting Report
Refer to separate attachment.
C  Appendix - EconSearch Report

Refer to separate attachment.
Appendix - Development Plans

Refer to separate attachment.