

DISTRICT COUNCIL OF GRANT

ORDINARY MEETING OF COUNCIL HELD – 6 AUGUST 2018

REFER ITEM NUMBER 18118.1 FILE 4.65.1/3

18118 – CONFIDENTIAL ITEMS

1. **Rex Partnership Proposal** – [4.65.1/3] Item 15.2.1

1. Moved Cr Little that:

1. Pursuant to section 90(2) of the Local Government Act 1999 the Council orders that all members of the public, except DJ Singe, Chief Executive Officer; JF Fetherstonhaugh, Deputy Chief Executive Officer; LJ McEvoy, Director Environmental Services, AA Schutz, Works Manager; DM Hutchesson, Executive Support Governance; and JA O’Hehir, Executive Support Officer, be excluded from attendance at the meeting for Agenda Item 15.2.1 - Rex Partnership Proposal.
2. The Council is satisfied that, pursuant to section 90(3)(d) of the Act, the information to be received, discussed or considered in relation to this Agenda Item is commercial information of a confidential nature (not being a trade secret) the disclosure of which could reasonably be expected to prejudice the commercial position of the person who supplied the information, or to confer a commercial advantage on a third party.
3. In addition, the disclosure of this information would, on balance, be contrary to the public interest. The public interest in public access to the meeting has been balanced against the public interest in the continued non-disclosure of the information. The benefit to the public at large resulting from withholding the information outweighs the benefit to it of disclosure of the information.

Seconded Cr Collins

CARRIED

2. Moved Cr Collins that a further report be presented to the 20 August 2018 Council Meeting in order to further investigate the impact of the introduction of “Community Fares” at the Mount Gambier Airport, including an analysis of the impact on other regional airports that have introduced the “Community Fare” Scheme.

Seconded Cr Hill

CARRIED

3. Moved Cr Kuhl that:

1. Having considered Agenda Item 15.2.1 - Rex Partnership Proposal in confidence under section 90(2) and (3)(d) of the Local Government Act 1999, the Council, pursuant to section 91(7) of that Act orders that the documents and minutes relevant to Agenda Item 15.2.1 be retained in confidence until a contract has been signed and a public announcement has been made.
2. Council delegates to the Chief Executive Officer, pursuant to Section 91(9)(c) of the Local Government Act 1999, the power, at his discretion, to revoke the order made by Council under Section 91(7) and (9) of the Act at part (1) of this resolution at any time prior to the expiration of the period of the order specified therein.

Seconded Cr Saunders

CARRIED

15.2 Rex Partnership

PURPOSE OF REPORT:

To exclude the public from attendance at so much of a meeting as it is necessary to receive, discuss or consider in confidence any information or matter listed, as per Section 90 of the Local Government Act 1999.

STAFF RECOMMENDATION:

That:

- 1. Pursuant to section 90(2) of the Local Government Act 1999 the Council orders that all members of the public, except DJ Singe, Chief Executive Officer; JF Fetherstonhaugh, Deputy Chief Executive Officer; LJ McEvoy, Director Environmental Services, AA Schutz, Works Manager; DM Hutchesson, Executive Support Governance; and JA O’Hehir, Executive Support Officer, be excluded from attendance at the meeting for Agenda Item 15.2.1 - Rex Partnership Proposal.*
- 2. The Council is satisfied that, pursuant to section 90(3)(d) of the Act, the information to be received, discussed or considered in relation to this Agenda Item is commercial information of a confidential nature (not being a trade secret) the disclosure of which could reasonably be expected to prejudice the commercial position of the person who supplied the information, or to confer a commercial advantage on a third party.*
- 3. In addition, the disclosure of this information would, on balance, be contrary to the public interest. The public interest in public access to the meeting has been balanced against the public interest in the continued non-disclosure of the information. The benefit to the public at large resulting from withholding the information outweighs the benefit to it of disclosure of the information.*

15.2.1 Rex Partnership Proposal	
MEETING DATE:	6 August 2018
AUTHOR:	Jane Fetherstonhaugh, Deputy Chief Executive Officer
RESPONSIBLE OFFICER:	David Singe, Chief Executive Officer
PREVIOUS MEETING:	Nil
REFERENCES:	Nil
FILE NO:	4.65.1/3
ATTACHMENTS:	<ul style="list-style-type: none"> • Letter from Warrick Lodge, General Manager, Network Strategy and Sales, REX • Borderwatch articles regarding Community Fares • Amended LTFP showing impact of reduced revenue
IN CONFIDENCE:	Yes
POLICY REFERENCE:	There are no known policy requirements related to this item.
LEGISLATIVE REFERENCE:	There are no known legislative requirements related to this item.
STRATEGIC MANAGEMENT PLAN REFERENCE:	Goal: Improved Community Services Delivered that Support Community Expectations
	Outcome:
	Strategy:
FINANCIAL CONSIDERATIONS:	Budget: \$
	Actual (YTD): \$
	Budget Variation Required: Yes
CONSULTATION UNDERTAKEN:	Nil

PURPOSE OF REPORT:

To consider a proposal from Regional Express (Rex) for a 5 year partnership effective from the 2018-19 financial year, to allow for the introduction of the Rex “Community Fare” scheme.

BACKGROUND:

The Mayor and CEO attended a meeting on 24 July with Rex Officials, Tony Pasin, Troy Bell and other community stakeholders to discuss a proposal to introduce lower fares subject to Council lowering their head tax.

COMMENT:

A written proposal by Rex was received on 25 July, detailing the offer and is attached to this report. The basis of the proposal is for Rex to make at least 25% of total seats purchased 30 days in advance and all unsold seats within one day of departure at the Community Fare price of \$129 (currently the lowest price is \$177). Rex have also committed to reinstate the 5 return services that were cut back in May as soon as the current pilot shortage eases and Rex is able to rebuild its pilot numbers.

In return for this, Rex has requested a \$2 reduction in head tax, from \$9.50 to \$7.50 (ex GST) as well as promotion of the Community Fare by both Council and other local

stakeholders. Rex has stated that any agreement would be terminated if another carrier was to provide services to either Adelaide or Melbourne.

Analysis of this “Partnership” shows that the impact on the 2018-19 Budget will be significant unless passenger numbers increase substantially.

<u>\$2/head reduction</u>			
Passenger Levies	PAX	Rate	Total
Current Budget	80,000	9.50	760,000
Proposed \$2 reduction	80,000	7.50	600,000
Difference			160,000
Annual Passenger Growth Required			21,333
Monthly growth required			1,778
Weekly growth required			410
New Passenger numbers required			101,333
New monthly passenger PAX			8,444
% Increase			27%

A \$2 reduction in the Head Tax would result in a loss of \$160,000 for council if there was no growth in passenger numbers. In order to make the reduction have a nil net impact on council, passenger numbers would need to increase by 27% or 21,333 passengers per annum. In discussions with the Airport Manager, it is very unlikely that passenger numbers would increase by that amount. Currently Rex operate 41 return flights per week to Adelaide and Melbourne. If these flights were fully booked, resulting annual passenger numbers would be 140,000, compared to the current 80,000.

A more realistic figure of 5% growth has been factored into the following calculation:

<u>\$2/head reduction - Reality</u>			
Passenger Levies	PAX	Rate	Total
Current Budget	80,000	9.50	760,000
Proposed \$2 reduction	80,000	7.50	600,000
Difference			160,000
Annual Passenger Growth estimate		5%	4,000
Monthly growth estimate			333
Weekly growth estimate			77
New Passenger numbers estimate			84,000
New monthly passenger PAX estimate			7,000
% Increase			5%
Actual revenue			630,000
Actual reduction in revenue			130,000

With a \$2 reduction in head tax and a 5% increase in passenger numbers, reduction to Councils revenue would be \$130,000.

The impact on Councils Long Term Financial Plan would be the loss of around \$650,000 over the five year period of the agreement. The attached amended statements show the impact to Council over 10 years, with the decreased revenue still resulting in a positive cash flow, albeit diminished.

One option for consideration is for Council to propose entering into a 5 year agreement with Regional Express to introduce the "Community Fare" scheme to the Mount Gambier, Adelaide and Melbourne routes, in return for a \$2 reduction in head tax; subject to REX demonstrating at least a 5% increase in passenger numbers per year for the life of the agreement, and that the agreement will be terminated if that growth is not achieved.

Subject to making a final decision, it is recommended that further analysis be carried out on the proposal, particularly on other regional airports that have introduced Community Fares and the impact this has had on passenger numbers, as well as viability of the airport.

STAFF RECOMMENDATION:

That a further report be presented to the 20 August 2018 Council Meeting in order to further investigate the impact of the introduction of "Community Fares" at the Mount Gambier Airport, including an analysis of the impact on other regional airports that have introduced the "Community Fare" Scheme.

STAFF RECOMMENDATION:

That:

1. *Having considered Agenda Item 15.2.1- Rex Partnership Proposal in confidence under section 90(2) and (3)(d) of the Local Government Act 1999, the Council, pursuant to section 91(7) of that Act orders that the documents and minutes relevant to Agenda Item 15.2.1 be retained in confidence until a contract has been signed and a public announcement has been made.*
2. *Council delegates to the Chief Executive Officer, pursuant to Section 91(9)(c) of the Local Government Act 1999, the power, at his discretion, to revoke the order made by Council under Section 91(7) and (9) of the Act at part (1) of this resolution at any time prior to the expiration of the period of the order specified therein.*