

**Submission
No 45**

INQUIRY INTO REGIONAL AVIATION SERVICES

Organisation: Broken Hill City Council

Date received: 14/03/2014



Broken Hill City Council

...a safe, vibrant, prosperous and culturally rich City achieved through community leadership and sustainable management.

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PD:RF

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March 14, 2014

The Director
Standing Committee on State Development
Legislative Council, Parliament House
Macquarie Street
Sydney NSW 2000

Email: statedevelopment@parliament.nsw.gov.au

To The Director,

Inquiry into Regional Aviation Services

Council thank you for the opportunity to provide comment in regards to the Inquiry into Regional Aviation Services.

Background

The City

The City of Broken Hill (area 179sq km) is the largest regional centre in the western half of New South Wales. It lies in the centre of the sparsely settled New South Wales Outback, close to the South Australian border and midway between the Queensland and Victorian borders. The closest large population centre is Mildura in Victoria, 300 kms to the south on the Murray River. The closest large city is Adelaide, approximately 500kms to the southwest. Due to its location Broken Hill has strong cultural and historical connections with South Australia. The city area is surrounded by and is a regional service centre to the Unincorporated Area of NSW and adjoining shire and district communities within NSW, South Australia and Queensland.

The 2011 Census records the population of Broken as 18,777. Whilst this represents a decline over recent years (mainly related to the decline in the local mining industry), the population has stabilised somewhat and the rate of decline has slowed. Mining development and exploration activity both in the city and surrounding region continue and whilst there are a number of promising mining prospects, future mining activity will continue to reflect commodity price cycles.

Tourism is widely regarded as a strong performer and not subject to the impacts of the mining industry and a range of proactive initiatives have helped to increase visitor numbers to Broken Hill and region over recent years.

"Broken Hill - the Hill that changed a Nation"

Broken Hill City Council

Broken Hill City Council is an award winning organisation recognised by the local government industry and other levels of government and industry sectors in NSW, nationally and internationally with a range of impressive achievements over many years.

Council currently employs 278 full time, part time and casual employees, giving a total of 232 equivalent full time employees.

Council provides a significant range of services to the city and regional community. Council operates a broad "services to property and people" portfolio of community business and invests heavily in social capital.

Council presently owns or manages infrastructure assets of \$243m and faces juggling competing community needs and priorities within a limited financial resource base.

Council's annual operating budget is approximately \$40M (2014). Income from rates and annual charges is in the order of \$14M or 35% of its total annual revenue. The balance of income is primarily from Commonwealth and State Government operating grants and contributions (\$10.3 M) and user charges and fees (\$5.3M).

This collectively means that service provision and asset management in particular within this environment is a major challenge for the organisation.

Council's challenge is to continue to adjust to change after years of population decline and effectively manage its community assets - in a demanding environment for provision of services with increasing government and community accountability.

Broken Hill in 2033

The community aims that Broken Hill in 2033 will be a community that will be a "self reliant, strong regional community with services and facilities to support an active, vibrant residential population, valuing and sharing the region's unique natural and built environment with regional, national and international visitors" (Broken Hill 2033 Community Strategic Plan).

A key strategy to the desired outcome of "high quality facilities, services and infrastructure" (*Objective 4.1, BH2033 CSP*) is to "provide equitable and appropriate access to public transport within Broken Hill City and regionally" (*Strategy 4.1.7 BH2033, CSP*). The continued operation of the Broken Hill Airport in accordance with the Airport Master Plan is a vital component of this strategy.

Council's Vision and Mission

Council's vision is that *"Broken Hill will be a safe, vibrant, prosperous and culturally rich City achieved through community leadership and sustainable management"*. This vision is complemented by Council's Mission *"to provide responsive community leadership and high quality services in a Sustainable manner to maintain and enhance Broken Hill's lifestyle"*.

Community Strategic Plan Goals and Management Plan Objectives

A key objective in Council's Operational Plan 2013/2014 is *"To maintain the Broken Hill Airport facilities to the level of service outlined in the Broken Hill Airport Master Plan to attract and enable Regular Passenger Transport operators to provide air transport services to destinations valued by the community and to facilitate the operation of air freight transport services, recreational and charter flight services and the Royal Flying Doctor Service."* (Key Direction 4, Objective 3).

Council's action to realise this outcome is to advocate for equitable and appropriate transport services for Broken Hill, and operate the Broken Hill Airport in accordance with CASA and other legislative requirements. Council also aims to ensure that the Broken Hill community remains informed in relation to aviation matters. A brief profile of the Broken Hill Airport is included with this submission.

Thank you again for the opportunity to assist the Inquiry by providing information and comments relevant to the Inquiry into Regional Aviation Services.

If you have any questions, please do not hesitate to contact Council's Infrastructure Department

Yours faithfully,

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PAUL DELISIO
GROUP MANAGER INFRASTRUCTURE

BROKEN HILL AIRPORT: PROFILE March, 2014

OWNERSHIP AND MANAGEMENT

Owned, operated and managed by Broken Hill City Council.

Location: Broken Hill, NSW

Airport Reporting Officers on duty and on call.

RUNWAYS

05/23 047 83a PCN 15 /F /A /690 (100PSI) /T 30m wide 2515m long WID 30 RWS 150
14/32 134 33c Unrated, brown sand, 40(131) sealed each end WID 30 RWS 90

Radio activated lighting.

Note: It is anticipated that the runway PCN will be increased to around 25 in the near future.

TERMINAL FACILITIES

The terminal has two airline service desks and so is able to cater for two simultaneous RPT departures.

A meeting room is available.

Kiosk/Cafe is open for all RPT arrivals/departures.

AIR SERVICES/LINKS

Regular Passenger Transport (RPT) Operations:

Broken Hill has established RPT services to:

- Adelaide both direct and via Mildura
- Sydney [licensed route] via Dubbo and limited direct
- Mildura
- Melbourne (via Mildura)

All routes are operated by Regional Express using 34 seat SAAB 340B aircraft. Actual RPT Passenger Numbers for 2013/14 were 65,000 (total) comprising Adelaide 30,000, Sydney 26,000, Dubbo 4,000, Mildura 2,000 and Melbourne 4,000.

Other Aviation:

Broken Hill Airport is a major centre for Royal Flying Doctor Operations
General Aviation – approximately 2,800 landing in 2012/13

MASTER PLAN

The Broken Hill Airport Master Plan was adopted 30/06/2010

AVIATION DEVELOPMENTS

- Continue to support general aviation services
- Continue to support Royal Flying Doctor Service
- Increase capacity by increasing frequency on established direct Adelaide and Sydney routes (short term)
- Establish a direct Melbourne service (medium term) [A Melbourne service via Mildura was introduced in July 2012]
- Attract Low Cost Carrier Jet Service (medium term)

INFRASTRUCTURE DEVELOPMENTS: AVIATION RELATED

- Reseal runway, taxi way and aprons (current). The runway was resealed in early 2012.
- Confirm existing pavement strength. It is anticipated that the runway PCN will be increased to around 25 in the near future.
- Refurbish airfield lighting (short term)
- Incremental increase in terminal capacity (medium term)
- Increase pavement rating through overlay to runway, taxiways and aprons (subject to jet services and funding)
- Quantum increase in terminal capacity including passenger and baggage screening (long term depending on funding and establishment of jet services)

INFRASTRUCTURE DEVELOPMENTS: NON AVIATION

- Upgrade services (electrical, water, sewer, telecommunications) (medium term)
- Expand secure parking area (short term)
- Facilitate development of additional hangars
- Establish long term, secure car park (medium term)
- Identify and pursue retail opportunities
- Establish business park

SECURITY DESIGNATION

Broken Hill Airport has been designated as a Category 5 security controlled airport as defined under in Regulation 3.01B of the Aviation Transport security Regulations 2005.

This means that there is no requirement for screening infrastructure and no requirement for screening of RPT passengers or checked bags.

BUSINESS DEVELOPMENT OPPORTUNITIES

The full business potential of the Broken Hill airport is yet to be realised with significant opportunity for additional retail and non-aviation businesses to be established. The airport has large areas of underdeveloped land. Future business development will be supported by Council Business Development Policy and will be facilitated by the Airport Master Plan facilitating.

Inquiry into Regional Aviation Services
Broken Hill City Council Submission

That the Standing Committee on State Development inquire into and report on the provision of aerial regular passenger transport (RPT) services to regional centres in New South Wales, and in particular:

| <i>Ref</i> | <i>Issue</i> | <i>Comment</i> |
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| 1. | Cost of access to Sydney Airport, regional New South Wales airports and other landing fields including: | |
| | a) airport operator landing fees imposed at various airports and services and facilities included in those fees; | <p>Whilst it is acknowledged that some airport operating costs are of a fixed nature and independent of aircraft size, many costs are related to the size of the aircraft and seat capacity. As such larger aircraft should attract higher landing fees.</p> <p>Metropolitan and larger airports with high passenger numbers have the opportunity to generate significantly higher non aviation related revenue than smaller regional airports. For these airports, it is likely that the landing fees will form a significantly smaller revenue base than for smaller regional airports. At these airports the landing fees for RPT services form the predominant revenue source. For the Broken Hill Airport, passenger landing charges generated 77% of total revenue in 2012/13. Included in the Broken Hill landing fee at the Broken Hill Airport is use of the runway and terminal facilities including parking for those picking up or dropping off passengers. The fee also includes the use of a counter by the airline's ground staff.</p> |
| | b) methodology for calculating landing fees for different classes of aircraft. | <p>The nature of aircraft operating into regional airports is such that they will generally be smaller aircraft. Hence, the methodology to calculate the landing fees should not disadvantage those passengers that have little choice but to use such aircraft.</p> <p>Landing fees should be calculated on an aircraft weight, seating capacity or per passenger basis. They should not be based on opportunity cost of the landing slot to the airport operator as this would have the effect of forcing out smaller aircraft.</p> |

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| | | <p>Broken Hill's RPT services are serviced exclusively by 34 seat SAAB aircraft operated by Regional Express. It is recognised that the opportunity cost for a landing slot at Sydney airport may be much higher than that that might be generated by an aircraft of this size. Nevertheless, the opportunity cost of landing slots should not be the method used to calculate landing fees for different size aircraft. The retention of landing slots at convenient times at the primary metropolitan airports (Sydney Airport in the case of NSW) for the use of regional airlines is of critical importance to the survival of regional aviation. Any move by the airport operators to move the slots to outlying airports (such as Bankstown) should be strongly resisted.</p> |
| 2. | Financial management and viability matters impacting on RPT operators, including: | |
| | <p>a) economics of operating various types of aircraft, including modern single engine turbine compared to older twin engine piston aircraft;</p> | <p>Broken Hill City Council is not in any position to comment with any authority on this issue. However, there are some obvious principles that should be considered.</p> <p>The type of aircraft used to operate the Broken Hill to Sydney direct route is major determinant of the viability of the route given that it is most likely the longest intrastate air route in NSW. The aircraft used on this route is a 34 seat SAAB 340.</p> <p>Clearly, the size of aircraft will impact the economics of operating such a long route. The seating capacity will, to a large extent, dictate the fare structure. Given sufficient demand, larger aircraft would have the potential to lower fares. However, lower fares are required to drive demand and many regional airport owners face a "chicken and egg scenario" when considering whether or to upgrade facilities to cater for larger aircraft.</p> <p>The size of the aircraft has a substantial bearing on the strategy to grow passenger numbers on an existing route. The strategy for regional centres is more likely to be to increase frequency rather than introduce a larger aircraft that might not be consistent with the other aircraft operated by the airline (for example, Regional Express use SAAB 340 aircraft exclusively for their Broken Hill operations.</p> |
| | <p>b) impacts of compliance costs, including per passenger costs;</p> | <p>Compliance costs are a major impact on the viability of regional RPT operators.</p> |

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| | | <p>Generally, they operate smaller aircraft with limited capacity and hence limited ability to spread compliance costs over a large passenger base.</p> <p>Broken Hill City Council is of the strong view that security compliance costs are impacting on the viability of RPT operators and these regional airports. Should the requirement for security screening extend to smaller aircraft, then the viability of regional aviation will be severely threatened. The resultant increase in RPT operating costs would necessitate significant increases in regional airfares that are already substantially higher than the fares enjoyed by passengers flying more popular routes.</p> <p>The only per passenger cost that the Broken Hill City Council (as the owner/operator of the Broken Hill Airport imposes on RPT operators) is the passenger charge. This charge is currently \$12.00 (including GST) per passenger. Typically, this represents approximately 2 to 4% of the cost of a one way fare from Broken Hill to Sydney (depending on the fare type).</p> |
| | <p>c) suitability of “hub and spoke” systems for potential routes for smaller passenger numbers;</p> | <p>The viability of “hub and spoke” systems will be dependent of the cost to fly the “spoke” sector compared to other modes of transport (such as road).</p> <p>For Broken Hill, Dubbo may be considered a hub for a Sydney destination and Mildura might be considered a hub for a Melbourne destination.</p> <p>Many travellers choose to travel by road to Mildura and then select from a variety of airlines providing a link to Melbourne. This would primarily be due to the relatively cost of the Broken Hill to Mildura airfare compared with the low cost of the variety of Mildura to Melbourne fares that are available.</p> <p>Travellers to Sydney would prefer a direct flight but on most days, the only available flights are via Dubbo (or Mildura). Travelling by road to Dubbo is not a viable option due to the distance.</p> <p>In considering a “hub and spoke” system, Adelaide airport is possibly a more viable hub than either Dubbo or Mildura for Broken Hill passengers. Often, passengers travelling to Melbourne or Brisbane will consider travelling via Adelaide rather than via Sydney due to the lower cost and more convenient</p> |

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| | | scheduling. At times, they might also consider travelling to Sydney via Adelaide as this might provide a cheaper fare. Such an option might be particularly attractive to cost conscious tourists and might be significantly more attractive if services could be scheduled to better connect with services to other destinations. |
| | d) the viability of passenger loading for different classes of aircraft. | We have no comment on this issue |
| 3. | Economic impact on regional communities of gaining or losing RPT services, including: | |
| | a) the local business community; | <p>Regional communities such as Broken Hill are reliant on air travel to ensure the viability of the local businesses and service providers. The loss of the existing RPT services would have devastating impacts on the community.</p> <p>Impacts would include:</p> <ul style="list-style-type: none"> a) Curtailment of, or increased cost to deliver social, health, law enforcement and justice services to Broken Hill and the Far West Region of NSW. These services are all reliant on fly in fly out consulting specialists to ensure the delivery of the range of services expected by the community. b) The mining and exploration industries would be affected as air travel is the travel method preferred by mining and exploration company executives, consultants, professionals, specialist service contractors, sales representatives, analysts and fly in fly out personnel. Mining is vital to the ongoing economic survival of Broken Hill and surrounding area. The loss of state and federal government revenues would also be impacted by any downturn in the exploration and mining industry that would be exacerbated by the loss of RPT services connecting Broken Hill to Adelaide, Sydney and Melbourne c) The local tourist industry would be severely impacted as air travel is the preferred method of travel used by many tourist – particularly those travelling for short stays and events d) Local businesses generally will be impacted as they are reliant on RPT services e) The film industry is a major economic driver for Broken Hill and the surrounding region. This industry would be severely affected if RPT services were to be withdrawn. |

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| | <p>b) the impact on general aviation and regional airport management of the gain or loss of RPT services to regional centres;</p> | <p>RPT services are in effect subsidising the operation and maintenance of the Broken Hill Airport with 77% of the airports revenue derived from RPT passenger charges. If RPT services were to be withdrawn, the level of service provided to the general aviation industry would decline as the existing cost base could not be supported through charges that could be passed onto general aviation pilots.</p> <p>Over the financial years 2010/11, 2011/12 and 2012/13, the Broken hill Airport has incurred a cumulative operating loss of \$723,000. Whilst Council is taking steps to narrow the operating deficit, the sustainability of the airport is not certain. Any additional costs brought to bear on airport operators will force many to curtail operations. Similarly, any additional costs forced onto airline operators that threaten their viability will also threaten the viability of the regional airport into which they operate.</p> <p>Given the high economic multiplier attributed to airport operations in a regional economy, any downscaling of airport operations will have a significant detrimental effect on the local economy.</p> |
| | <p>c) the potential for future economic development;</p> | <p>Potential future development for Broken Hill and the Far West Region of NSW will be shaped by industries including mining and exploration, tourism and film.</p> <p>Although the population of Broken Hill has declined, Broken Hill will always remain a major regional centre for the provision of health and social services. All of the above industries are reliant on a viable and affordable RPT service to ensure their continued survival.</p> |
| | <p>d) impacts for local, state and Federal governments, including licensing arrangements for services less than 50,000 passengers per annum.</p> | <p>Broken Hill, like other regional centres throughout NSW, is a hub for the provision of most of the local, state and federal government services provided to the community. The loss of RPT services would severely hamper the ability of these tiers of government to deliver their services.</p> <p>Licensing arrangements for services less than 50,000 passengers are considered vital to allow the establishment of new services to those regions not already served by an RPT operator.</p> |

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| | | <p>The value of the licensing arrangement for regions that have long established RPT operations is less obvious. It is a barrier to new entrants and this may be exploited by incumbent operators to support higher fares than could be sustained in the face of competition. In addition, it might prove to be a disincentive for an incumbent operator to grow the market to the 50,000 threshold level.</p> <p>It is not clear that licensing arrangements are necessary to ensure the viability of an incumbent operator. It is noted that the Broken Hill – Adelaide route is not subject to a licensing arrangement. It attracts approximately 30,000 passengers annually. For many years, the route has been serviced by only one RPT operator. There has been no interest from other operators to establish a new service to serve the same route. It would appear that market forces are at work to discourage the introduction of additional services that may prove to be uneconomic if two operators were to operate the same route. This would seem to reinforce the expectation that any new operator would need to consider the impact of an incumbent operator in their business model for any proposed service.</p> |
| 4. | Potential for development of future modern RPT aviation including: | |
| | <p>a) opportunities for regional aviation manufacturing and servicing;</p> | <p>Given that aviation manufacturing and servicing are high value adding activities; it would seem that they may be viable start-up industries for some regional areas.</p> <p>Those regional areas with a skilled workforce and a demonstrated capability to introduce and service advanced plant and machinery (typical of a highly competitive mining industry) might be candidates for the nurturing of such opportunities.</p> <p>Broken Hill is one such regional centre.</p> <p>Government incentives to foster such start up industries would demonstrate a tangible commitment to encourage the sustainability of such regional areas as opposed to the continued withdrawal of government services. The withdrawal of such services is often based on, at times; arbitrary projections of declining population that then become a self fulfilling prophecy.</p> |

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| | | Broken Hill also has a significant RFDS presence which already provides a substantial aviation servicing capability. |
| | b) the development and supply of sufficient numbers of trained and skilled aviation personnel; | <p>Whilst the aviation industry seems to be suffering a downturn at the present time, the aviation industry (like the mining industry) is cyclic.</p> <p>Just a few years ago, RPT operations to/from Broken Hill needed to be curtailed due to a shortage of pilots. A thriving regional aviation industry is a vital component of a healthy wider national and international aviation industry.</p> |
| | c) local, state and Federal government arrangements for staff travel; | Often, air travel is the only viable option for the delivery of state and federal services (including health care and social services) to regional areas such as Broken Hill and the Far West Region of NSW. |
| | d) opportunities for dual use RPT services to include both freight and passenger legs on the same routes. | <p>Dual use services may not be practicable for long haul routes such of the Broken Hill/Sydney route.</p> <p>The inclusion of freight on regulated RPT services will limit the opportunity to carry passengers and will provide upward pressure on air fares on these routes. For example, it is understood that there are already weight limitations on the Broken Hill /Sydney route during periods of hot weather. In addition, some members of the community might harbour a view that passengers might be curtailed in preference to carrying freight that might provide a more economic return to the airline operator.</p> |
| 5. | Any other matter relating to the provision of aerial regular passenger transport services. | |
| | <p>The importance of maintaining regional RPT services to regional areas cannot be overestimated.</p> <p>This drives the need to ensure that avoidable additional costs are not imposed on airline and airport operators.</p> <p>The ever tightening requirements for passenger and security screening are seen as a severe threat to the continued viability of regional RPT services where the cost to provide such screening services is prohibitive. It is already seen as a major impediment to the introduction of larger aircraft to service areas such as Broken Hill. These larger aircraft are required to provide the economies of scale to achieve any meaningful reduction in the high fares typical of regional routes.</p> | |

The need for state and federal funding to provide the necessary infrastructure upgrades to ensure that regional airports can continue to meet the future needs of regional areas in which they operate is paramount. Local Council's in particular are struggling to remain financially viable. Where they are the owner/operator of regional airports, they cannot be expected to fund the required airport infrastructure upgrades necessary to ensure that they can continue to meet the changing needs of RPT services.

The strategic value of regional airports such as Broken Hill to the state of NSW (and indeed the nation) should not be underestimated. The location of the airport in remote far west NSW enhances the ability of the state and the nation to recover from natural disasters that may strike the surrounding isolated area.

In addition, the strategic value of the airport in enhancing the nation's defence capabilities should also not be underestimated.