

**Submission
No 52**

INQUIRY INTO REGIONAL AVIATION SERVICES

Organisation: Wagga Wagga City Council

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**The Director
Standing Committee on State Development
Parliament House
Macquarie St
Sydney NSW 2000**

RE: WAGGA WAGGA CITY COUNCIL SUBMISSION THE NEW SOUTH WALES LEGISLATIVE COUNCIL INQUIRY INTO REGIONAL AVIATION SERVICES

Dear Sir,

Wagga Wagga City Council appreciates the opportunity to provide a submission to the New South Wales Legislative Council's Inquiry Into Regional Aviation Services. We support the initiative shown by the New South Wales Legislative Council in reviewing this essential service in the regional, state and indeed national interest.

The City of Wagga Wagga in the heart of the Murrumbidgee region has a proud and strong history in aviation. Since its official opening in 1938 Wagga Wagga Airport (Wagga Airport or The Airport) has played a critical role in both the civil and defence aviation capability. Wagga Airport is owned by the Commonwealth Government and has been operated by Wagga Wagga City Council (Council) under a head lease from the Department of Defence since 1996.

The Airport is serviced by Qantaslink and Regional Express (Rex) to Sydney, and Rex to Melbourne. Qantaslink provide four daily return services to Sydney, operating both Q400 and Dash 8 300 aircraft. Rex operates the SAAB 340, generally with four daily return services to Sydney and two daily return services to Melbourne. In financial year (FY) 2012/13 Wagga Airport serviced approximately 207,000 passengers and has had consistent passenger numbers above 200,000 since FY2007/08 when we achieved 225,000 passengers.

Wagga Wagga City Council's submission will address elements of all five question categories included in the Inquiry terms of reference.

Wagga Wagga City Council supports and endorses the Australian Airports Association submission to the Inquiry, focussing on the following key recommendations:

- a) That the NSW Government work collaboratively with the Commonwealth Government to reintroduce the En-Route Rebate scheme as a matter of urgency.
- b) That the NSW Government commissions the development of a NSW Aviation Strategy.
- c) That the NSW Government and the Federal Government work collaboratively to reduce the cost of regulatory compliance for regional airports, acknowledging that a "one size fits all" regulatory approach to aviation regulation is both costly and unnecessary. In particular the Wagga Wagga City Council supports a risk based and intelligence led approach to aviation security.
- d) That the NSW Government work with the Federal Government to ensure the continued reservation of affordable access at Sydney Airport (Kingsford Smith Airport) at peak times for regional services and investigate the slot allocation rules to determine if there is a more efficient way to coordinate airline movements (take-off and landing) within the defined hour period.

Continuing access to slots during peak times at Sydney Airport (KSA) for regional airline services has been identified by most regional airports across NSW, including Wagga Wagga, as a key imperative for future economic development for the private sector, services sector and government agencies. The proximity of KSA to the CBD, all modes of transport, including train services between the domestic terminal and the city centre enable passengers with meetings and appointments to travel to Sydney and back in one day.

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:

1. Cost of access to Sydney Airport, regional New South Wales airports and other landing fields:

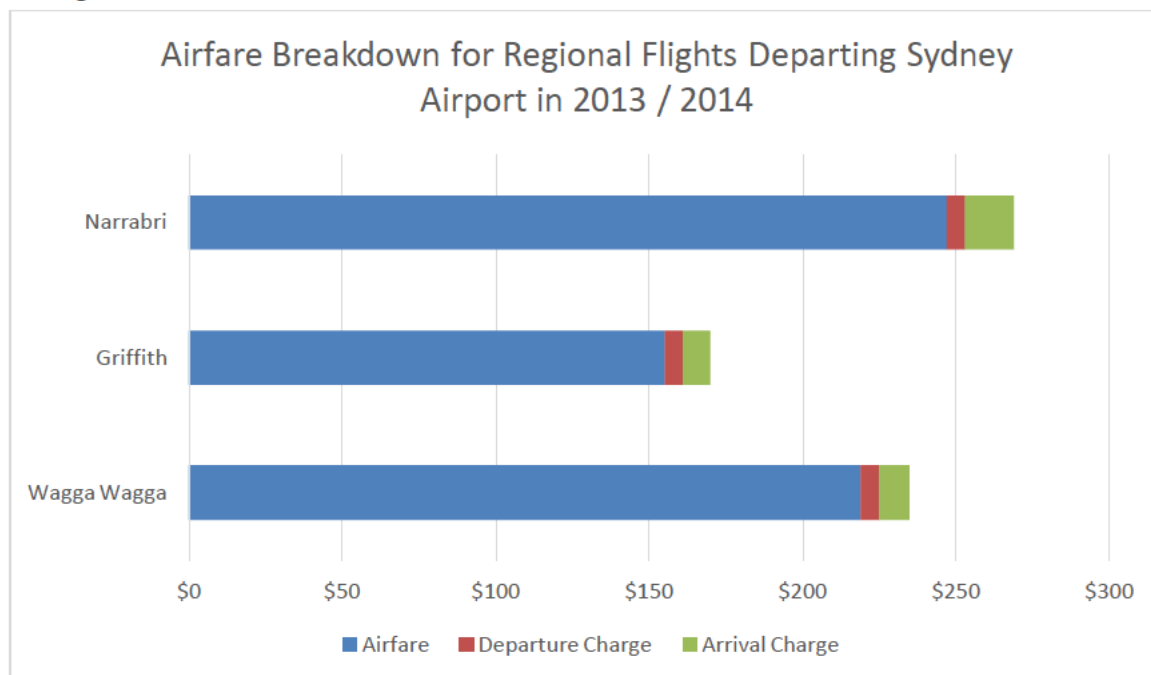
Most council owned or operated airports in NSW are operated as standalone business units of their respective councils'. As such airports must at the very least try to recover the cost of operations from all users. It is a harsh reality that local councils simply do not have sufficient discretionary budget to operate their airports on a less than cost recovery basis. Nor should they be expected to. Nevertheless in a 2012 research paper commissioned by the AAA, titled *Australia's Regional Airports – Facts, Myths and Challenges*, it was demonstrated that nationwide, 50% of regional airports are unable to cover the cost of their operating expenses. The shortfall is then ultimately passed onto the ratepayers, syphoning funds from other important community services, functions and infrastructure. The funding gap it would seem is only widening. As such it is imperative that regional airports are able to charge reasonable fees to cover operations.

Wagga Wagga Airport raises revenue from a number of sources including Non-Regular Public Transport (RPT) landing fees, passenger charges, lease and licence rental, car parking, Instrument Landing System (ILS) charges and a host of other sources. The approach taken to all charges is a user pays methodology. It should also be recognised that airlines pay no other fees for use of any Airport owned facilities.

The passenger charges applied to all inbound and outbound RPT passengers at Wagga Airport are amongst the lowest in regional NSW for airports of a similar scale. In 2006/07 our passenger charges were \$9.23 (ex GST), compared to \$9.69 in 2012/13. This represents a 5% increase on a flat rate basis. Whilst over that time revenue has increased, in part due to adjustments to passenger threshold levels where growth incentives reduce the flat passenger charge, increases in operating costs have far outstripped increases in revenue from passenger charges.

In FY2012/13 Wagga Airport made a modest surplus from operations of just over \$100K. During this period our Airport Reserve (Retained Profits) reduced from \$2.8M to \$323K, after capital expenditure.

The following graph sourced from the AAA Submission to this Inquiry demonstrates the proportion of airfares charged by three regional airlines servicing three NSW regional routes to and from Sydney, which are attributable to airport passenger charges.



NOTE: *These examples use anecdotal information based on the lowest airfare of the day available for flights between Sydney and these destinations on the Qantas, Regional Express and Vincent Aviation websites and the passenger charges information available from the airport operators.*

Even though most regional airports are natural monopolies they are effectively price takers, and have no real monopoly power to exercise in their negotiations with airlines. As stated in the Australian Airports Association submission to this Inquiry, “there are many constraints on the extent to which an airport, and particularly a regional airport, can use the commercial power often associated with a monopoly business:

- Airlines and other airport users possess marked countervailing power;
- Aircraft moveable assets, compared to airports as fixed assets;
- Airports sometimes have to compete with one another, particularly to secure RPT services where there are other airports within a relatively close distance or when vying for slot availability at capital city airports;

- Airport owners are predominantly local government bodies who must consider operational budget constraints in ensuring their airport attracts and maintains the air services that their communities demand;
- The threat of regulatory intervention if they seek to exercise market power or set prices at levels that exceed a fair return.
- The threat of withdrawn services if airports seek to increase passenger charges above what airlines accept.

There are many constraints on the extent to which Wagga Wagga Airport can increase its revenue through increasing landing charges. Airlines and other airport users do possess marked countervailing power. As a regional airport, when negotiating with airlines, Wagga airport has far less capacity to pursue a commercial outcome than a larger airport. Airlines are very cost sensitive, whilst we understand the need to focus on cost control, anecdotally there have been cases where airlines have threatened to abandon routes if regional airport charges are increased to a point approaching anywhere near a monopoly rent. In some cases they have simply refused to pay even though they may continue to use the airport – indeed, it seems likely that for a large portion of regional airports, airport charges do not even reach cost recovery.

*The BITRE publication Avline 2010-11 highlighted that charges at 6 NSW Regional Airports serviced pre-dominantly by non-jet aircraft and handling the highest number of passengers in 2005-06 generally remained unchanged in nominal terms and fell by 3.4% in real terms between July 2010 and July 2011. At Dubbo airport, the charges increased in real terms by 0.5% and at **Wagga Wagga Airport the charges reduced in real terms by 6.1%.***

2. Financial management and viability matters impacting on RPT operators:

The true cost of regulatory compliance at Wagga Airport is well in excess of \$1 million annually. Direct security screening costs are approximately \$750k, and these are passed onto Qantaslink. This is because Qantaslink are the only airline operating at Wagga which is subject to security screening due to the Q400 aircraft being in excess of 20,000kg Maximum Take Off Weight (MTOW). All administrative costs and

other costs not driven by third party charges from our security screening provider are absorbed by the Airport. In other words these costs are not passed onto Qantaslink. This is a significant cost to both the Airport and Qantaslink, and when combined with safety compliance necessitated the employment of a full time Compliance Officer. This position has recently changed to a full time Airport Operations Manager. This is over and above the Manager Commercial Business position which oversees The Airport's operations. Regulatory compliance is a full time function at Wagga Airport.

3. Economic impact on regional communities of gaining or losing RPT services:

In 2010, Wagga Wagga developed an Airport Master Plan. The Airport Master Plan outlined the strategic vision for the airport and set out the necessary infrastructure to establish Wagga Wagga as "a world class aviation education and training city" and its airport as "a centre of national aviation significance". The delivery of this vision and master plan requires significant ongoing investment by Council as well as the attraction and investment of aviation businesses to the commercial aviation precinct. To support the development of a business case for the Wagga Wagga airport precinct and to inform future funding submissions and investments for the Wagga Wagga Airport, Wagga Wagga City Council needed to understand the current economic contribution of the Wagga Wagga aviation sector to the economy. Council also sought to understand the potential contribution of the sector to the economy in the future.

In FY2011/12 Council engaged the AEC Group to undertake an Economic Impact Assessment (EIA) of the Aviation Sector in the region. The EIA determined that the Wagga Wagga aviation sector is characterised by four distinct components:

- 1) commercial air passenger services;
- 2) aviation education and training;
- 3) aviation businesses services; and
- 4) RAAF Base Wagga Wagga.

Wagga Wagga also has a number of key aviation businesses such as REX airlines and Airservices Australia, as well as aviation training institutions including the Australian Airline Pilot Academy (AAPA) and the Defence Aeroskills Training

Academy (DATA), operated by BAE Systems, RMIT and Pennant Systems. Further information can be found at the following web addresses:

<http://www.rex.com.au>

<http://www.rit.tafensw.edu.au>

<http://www.aapa.net.au>

<http://www.baesystems.com>

The Australian Airline Pilot Academy (AAPA) at their state of the art facility located at Wagga Wagga Airport provides a 32 week full-time course for trainee pilots to meet the current and future demand for Regional Express pilots as well as development courses for current Rex pilots. This facility also provides a critical role in providing future highly trained and skilled pilots to other domestic and international carriers. AAPA have recently received approval from the United Arab Emirates' (UAE) General Civil Aviation Authority (GCAA) as an approved Flight Training Organisation to conduct Integrated Airline Transport Pilot Licence (ATPL) training for UAE carriers. AAPA now becomes one of only three non UAE-based flight training organisations worldwide approved by the GCAA and the first approved to conduct ATPL training. AAPA had also been selected by Jeppesen (part of Boeing Training and Flight Services) to be one of its global partners in aviation flight training. AAPA currently conducts cadet pilot training programmes for its parent company Rex and recently conducted Multi Crew Pilot Licence (MPL) core flying training for cadets of Air Arabia. This is a significant step in strengthening Australia's stance in the international aviation training arena and bringing export dollars to the region.

Regional Express Engineering heavy maintenance facility is also based at Wagga Wagga Airport providing maintenance including "C Checks" for their fleet of more than 40 Saab 340 aircraft.

The continued provision of RPT services to Wagga Wagga is critical to the success of these operations.

Wagga Wagga's aviation sector has been built upon strong passenger demand growth, which has seen the establishment of both QantasLink and Regional Express (REX) airline services into Wagga Wagga for a number of years. Over the past 10 years air passenger traffic through Wagga Wagga has doubled, reaching

approximately 225,000 passengers in 2007/08 and 214,000 passengers in 2010/11. Wagga Wagga's aviation sector goes beyond just servicing of passenger flights. It also provides a major regional aviation alternative for aircraft manufacturing, repair and maintenance, education and training.

Wagga Wagga provides services and capabilities across larger commercial and general aviation sector activities, and services both local demand and a share of the broader national market.

Key characteristics that have given Wagga Wagga a competitive edge in the aviation market include:

- The presence of the RAAF Base, which has given the critical mass for the airport to support two commercial airlines, a range of general aviation services and development of education and training institutions in Wagga Wagga (e.g. AAPA and DATA)
- Provision of an Instrument Landing System (ILS) which underpins all pilot training investments in Wagga Wagga to date
- The presence of aviation education and training institutions including the Australian Airline Pilot Academy (AAPA), the Defence Aeroskills Training Academy (DATA), and TAFE NSW Riverina Institute.
- Lower business and landing costs compared to major airports making Wagga Wagga a more affordable and viable option for many aviation businesses seeking to relocate/invest in the Wagga Wagga aviation business precinct
- A positive regional business environment
- An established aviation business services sector, allowing for the opportunity for business clustering and attraction of investment to complement existing aviation business and service activities
- Relatively uncongested airspace and aerodromes compared to major airports
Wagga Wagga has developed an aviation industry hub that has evolved from the coexistence of military and commercial aviation demand to support a wide variety of aviation sector activities.

Current Contribution

In 2010-11, the direct activity of Wagga Wagga's aviation sector is expected to have resulted in:

- \$416.1 million in total output (\$298.8 direct and \$117.4 indirect)
- \$195.0 million in total value add (\$146.8 direct and \$48.3 indirect)
- \$117.1 million in incomes (\$89.2 direct and \$27.9 indirect)
- 1,484 employees (1,117 direct and 367 indirect)

Future Contribution - Base Case Scenario

In 2020-21, the direct activity of Wagga Wagga's aviation sector has the potential to result in:

- \$610.5 million in total output (\$428.3 direct and \$182.2 indirect)
- \$283.8 million in total value add (\$208.4 direct and \$75.4 indirect)
- \$170.4 million in incomes (\$126.8 direct and \$43.7 indirect)
- 2,063 employees (1,497 direct and 566 indirect)

Summary of EIA Findings

In the context of the broader economy, **the Wagga Wagga aviation sector currently represents:**

- 4.8% of regional GRP (direct and indirect) comprising:
 - 3.6% direct contribution to GRP
 - 1.2% indirect contribution to GRP
- 4.6% of regional employment (direct and indirect) comprising:
 - 3.5% direct contribution to employment
 - 1.1% indirect contribution to employment

Future aviation sector growth will be largely hinged on growth of the commercial passenger and freight services demand, as well as aircraft maintenance and repair operations, training and services to support this growth.

Council has invested in approximately \$22m of airport infrastructure in recent years including:

WAGGA WAGGA AIRPORT	Total Capex 2006/07 - 2012/13
Precinct 2A - Commercial Aviation and Light Aircraft	\$ 7.58m
Aircraft Pavement Upgrade - Runway	\$ 6.7m
Instrument Landing System (ILS)	\$ 1.98m
Terminal works	\$ 1.5m
Security Screening	\$ 1.17m
Stage 1 Apron Refurb	\$ 632k
Carpark extension	\$ 388k
Total	\$ 19.95m

In 2013 Douglas Aerospace commenced operations in stage one of their new facility in the newly constructed Commercial Aviation Precinct at Wagga Airport. As the anchor tenant in Wagga Airport's new commercial aviation precinct, Douglas Aerospace have invested in the future of their business and the regional aviation sector through their relocation to Wagga Wagga.

Aircraft up to Boeing 737-800 and Airbus A321 can be painted in Douglas Aerospace's first hangar. The first jet aircraft painted in the new facility, being a Bombardier Challenger was completed in early August 2013, this was followed by a Bombardier Global Express. Douglas Aerospace has now commenced construction of their second aircraft refurbishment hangar, which will be located adjacent to their existing hangar. This second hangar will cater for aircraft up to Saab 340 size. This second hangar will enable them to refurbish the Rex Group's fleet, including SAAB 340's and Westwinds and Lear Jet.

Douglas Aerospace have recently achieved CASA Part 145 approval, and as one of only two similar aircraft refurbishment businesses of this size and scale in Australia, it reflects well on Wagga Wagga Airport that they chose to consolidate their business enterprises in our new aviation precinct. The Commercial Aviation Precinct and Douglas Aerospace are the major foundation and drivers for growth and economic development within the regions aviation sector.

Four new aircraft hangars have been constructed in the new light aircraft precinct by private aircraft owners. Construction of a further four hangars in the precinct by another group of developers is well progressed at the time of writing.

The significant investment by Council in the future of regional aviation, through the development of the Commercial Aviation Precinct and Light Aircraft Precinct will continue to grow business, economic development, jobs and flying activity in the region. Wagga Wagga Airport continues to be a leader in regional aviation, contributing significantly to the Gross Regional Product and employment as well as achieving its vision of being: “A Centre of National Aviation Significance”.

It is critical that RPT air travel between Wagga, Sydney and Melbourne continues, to enable business growth and development, both in the aviation sector and beyond.

4. Potential for development of future modern RPT aviation:

The direct activities of **the region’s aviation sector are equivalent to almost 70% of Wagga Wagga's agriculture, forestry and fishing sector** activity and double that of the Wagga Wagga wholesale trade sector. This highlights the importance of Wagga Wagga's aviation sector in the broader economy.

In the future Wagga Wagga aviation sector growth will be driven by commercial passenger and freight demand, as well as growth in aviation education and training sector activities. General aviation businesses and services are also expected to be a significant driver of growth. Attraction of aviation business investment and delivery of stage 2 of the Wagga Wagga masterplan will be key to cementing Wagga Wagga's place as a leading regional aviation hub in the New South Wales and broader Australian industry context.

Wagga Wagga's aviation sector has the potential to increase its total direct output by between \$129.5 million and \$218.9 million in the future, equating to an additional industry value add of between \$61.6 million and \$107.8 million each year (direct).

Additional employment created by the sector is likely to support approximately 381 direct employees and 199 indirect employees, in the baseline scenario, and a further employment of 303 direct employees and 118 indirect employees if the Medium Growth Scenario is achieved. Any future growth of the sector will create a significant number of jobs in the local Wagga Wagga economy.

Dual use RPT and freight services are already in place at Wagga Airport. There is certainly room to expand these dual services. However to ensure compliance with the additional safety and regulatory requirements when carrying freight regional operations need to be supported with funding to ensure their facilities and personnel are equipped to handle freight as well as passengers.

5. Any other matter relating to the provision of aerial regular passenger transport services.

To ensure the continued operation and growth in regional RPT services, and growth in the aviation sector more generally, Council reaffirms it's recommendations to this Inquiry:

- a) That the NSW Government work collaboratively with the Commonwealth Government to reintroduce the En-Route Rebate scheme as a matter of urgency.
- b) That the NSW Government commissions the development of a NSW Aviation Strategy.
- c) That the NSW Government and the Federal Government work collaboratively to reduce the cost of regulatory compliance for regional airports, acknowledging that a "one size fits all" regulatory approach to aviation regulation is both costly and unnecessary. In particular the Wagga Wagga City Council supports a risk based and intelligence led approach to aviation security.
- d) That the NSW Government work with the Federal Government to ensure the continued reservation of affordable access at Sydney Airport (Kingsford Smith Airport) at peak times for regional services and investigate the slot allocation rules to determine if there is a more efficient way to coordinate airline movements (take-off and landing) within the defined hour period.

Wagga Wagga City Council supports the view that affordable, frequent airline transport is a critical success factor for the Riverina region. This is true from an economic development perspective, but also importantly, to create employment opportunities, to provide for the many and varied social benefits, including medical transfer flights and emergency response services. If you have any further questions or need further information or clarification please contact: