

**Submission
No 35**

INQUIRY INTO REGIONAL AVIATION SERVICES

Organisation: Port Macquarie-Hastings Shire Council

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

by email: statedevelopment@parliament.nsw.gov.au

Dear Sirs

Inquiry into Regional Aviation Services

I write in response to the *Inquiry into Regional Aviation Services* currently being conducted by the NSW Legislative Council's Standing Committee on State Development. Council welcomes the opportunity to provide the following submission to the Standing Committee.

Introduction

Port Macquarie Airport is owned and operated by Port Macquarie - Hastings Council. The Airport currently caters for regular public transport (RPT) services operated by QantasLink and Virgin Australia, with daily direct services to Sydney and Brisbane (and seasonal weekly services to Lord Howe Island) and approximately 230,000 passenger movements per annum. Based on passenger movements, the Airport is the 5th largest regional airport in New South Wales.

The Airport serves the Greater Port Macquarie and wider Mid North Coast region of New South Wales, with a "catchment area" population of around 130,000 people. This area is generally defined as being halfway to - Newcastle Airport to the south, Coffs Harbour Airport to the north, and Tamworth Regional Airport to the west.

The Airport also supports a vibrant general aviation sector including pilot training, aircraft maintenance and repair work, freight and charter operations, emergency aero medical (patient transfer), search and rescue and bushfire fighting services (both fixed wing and helicopters), joy / adventure flights, private and recreational flying, and skydiving.

Council has invested heavily in Port Macquarie Airport over recent years to facilitate growth in the range of competitive RPT air services available to the local community, and to underpin the region's future growth, economic development and tourism potential. This investment has included:

- a \$12.2 million upgrade in 2008 to upgrade the airside and landside infrastructure and facilities to cater for the introduction of Virgin Australia (Virgin Blue) Embraer E170 jet aircraft services;
- a \$1 million aviation security screening project in 2008 - implementation of passenger, carry-on, and checked baggage security screening equipment and processes; and

- a \$21 million upgrade in 2013 to upgrade the airside infrastructure (runway, taxiway and RPT apron) to cater for further growth in air services up to 180-seat B737 / A320 aircraft as operated by the main domestic airlines - this project was funded in part by a \$15 million grant from the Australian Government.

These upgrades represent a capital investment in the order of \$20 million by Port Macquarie - Hastings Council (and approximately \$35 million overall) since 2008. As a result of this investment and proactive approach by Council, passenger numbers have doubled during this period with a 5-year annual growth rate approaching 15% pa.

In parallel with the major airside infrastructure upgrade completed in 2013, Council has recently undertaken a review of its Airport Master Plan and identified ongoing development and further investment required to:

- continue to comply with Civil Aviation Safety Authority (CASA) aerodrome standards;
- cater for forecast growth in airline (RPT) services and passenger numbers;
- cater for demand for future general aviation (GA) activities;
- provide opportunity for commercial property development; and
- promote the establishment of flood-free road access to the Airport.

Following completion of the major upgrade last year, the Airport's borrowing capacity and ability to fund further improvements is now severely restricted.

The above demonstrates, as well documented elsewhere, that airports are capital intensive infrastructure assets. With ever increasing costs associated with day-to-day operations and maintenance, and compliance with aviation safety and security regulations, regional airports are faced with many challenges in trying to facilitate and promote growth in air services as demanded by their local communities, while at the same time simply keeping pace with a rapidly evolving aviation industry.

The following submission is made in the context of this Introduction, and structured under the headings defined in the Inquiry's Terms of Reference.

- 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;**
 - b) methodology for calculating landing fees for different classes of aircraft.**

Port Macquarie Airport is established as a separate commercial business unit of Council. The business is self-funded by revenue received from airport operations (user-pays principal), and is not subsidised by Council rates.

In 2008, Council introduced an all-inclusive passenger fee arrangement to replace the previous system which included a combination of a passenger fee and an aircraft weight based movement charge (per landing). The all-inclusive arrangement provides a more transparent and easily administered fee structure for airlines and the Airport alike. The passenger fee charged to RPT airlines includes all services and facilities provided to the airline at the Airport, including check-in desk / kiosk space, ground handling agent office space and equipment storage areas, but excludes aviation security screening fees which are charged separately as discussed below.

Passenger fees are calculated on the basis of detailed financial modelling of operating expenditure, and published annually in Council's Schedule of Fees & Charges. The Airport's operating expenditure includes the cost of operations and maintenance, overheads, depreciation and capital works / loan principal and interest repayments. With increasing pressure from airlines to reduce passenger fees, Council has developed new non-aeronautical revenue streams, such as the introduction of paid car parking, to reduce the dependence on aeronautical revenue and improve the viability of airline services.

Council also considers passenger fees with reference to recognised asset pricing models (the building block methodology), although it is noted that passenger fees at regional airports are generally significantly lower than that which could theoretically be justified using the asset pricing approach.

Ultimately passenger fees are negotiated in consultation with airlines, recognising that the airlines are key business partners and stakeholders in the region's ongoing development.

It should be noted that as with any business, efficiency and cost effectiveness comes with size. Passenger fees at smaller regional airports are sensitive to passenger numbers and the stage of infrastructure development / renewal, with significant infrastructure investment to facilitate growth having a potentially greater impact at smaller airports where cost recovery is amortised over a smaller passenger base.

- 2. Financial management and viability matters impacting on RPT operators, including:**
- a) economics of operating various types of aircraft, including modern single engine turbine compared to older twin engine piston aircraft;**
 - b) impacts of compliance costs, including per passenger costs;**
 - c) suitability of "hub and spoke" systems for potential routes for smaller passenger numbers;**
 - d) the viability of passenger loading for different classes of aircraft.**

As mentioned above, airports are subject to ever increasing costs associated with compliance with aviation safety and security regulations as mandated by the Civil Aviation Safety Authority (CASA) and Australian Government Office of Transport Security (OTS).

CASA is currently implementing various changes to its regulatory environment including realigning the *CASR 1998 Manual of Standards Part 139 - Aerodromes* with International Civil Aviation Organisation (ICAO) standards and recommended practices. Following completion of this review, it is understood that CASA intends to re-certify all Australian airports based on the degree of compliance with the ICAO standards.

This introduces a potential new risk to regional airports wishing to cater for growth in air services as demanded by local communities, and potentially significant costs in upgrading airport infrastructure and facilities to cater for these services. As an example, at Port Macquarie Airport, the recent upgrade completed in 2013 included widening of the runway to 45 metres to cater for larger Code 4C (B737 / A320) aircraft operations, which are currently undertaken on 30 metre wide runways at some regional airports.

Council is also currently investigating the feasibility of widening the runway strip to 300 metres (currently 150 metres) as required by CASA to comply with Code 4C aerodrome standards, which also has the potential for significant financial and environmental implications.

The introduction of aviation security screening services at regional airports has impacted on the viability of RPT services at some smaller airports. Security screening services at Port Macquarie Airport are charged to airlines on a full cost recovery basis, with consideration of the actual costs incurred and number of screened departing passengers. Again these costs are sensitive at smaller airports where cost recovery is amortised over a smaller passenger base.

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

- a) the local business community;**
- b) the impact on general aviation and regional airport management of the gain or loss of RPT services to regional centres;**
- c) the potential for future economic development;**
- d) impacts for local, state and Federal governments, including licencing arrangements for services less than 50,000 passengers per annum.**

In its support for the recent upgrade of Port Macquarie Airport, the Port Macquarie Chamber of Commerce stated "Port Macquarie Airport is a critical element of the infrastructure framework underpinning the economy of Port Macquarie and, as such, is fundamental to our community and its future". The Chamber President went on to say "The potential economic benefits of such development are undisputed..." and "Expanded airport facilities would do much to facilitate the growth of existing business in our region...".

An Economic Impact Assessment Study conducted in 2011, estimated that the upgrade of Port Macquarie Airport to cater for further growth in air services including the potential introduction of up to Code 4C medium jet (B737 / A320) aircraft would result in:

- an additional \$86.1 million in gross output per annum*;
- an additional \$38.2 million in value added or GRP per annum*;
- an additional \$21.8 million in wages and salaries paid per annum*; and
- an additional 408 jobs created per annum*.

* based on 400,000 passenger movements per annum (currently 230,000 passengers pa)

These figures, and the statements from the Chamber of Commerce, demonstrate the importance of RPT services to regional communities.

It is noted however, as mentioned previously in this submission, that facilitating ongoing growth in RPT services and passenger numbers to achieve these economic benefits, requires significant financial investment by aerodrome operators. This investment is not without risk, with airlines providing no long term guarantees as to the level of services, type of aircraft, or the continuation of air services at a particular airport.

Increases in RPT services, and likewise in general aviation activities, also create pressure for regional aerodrome operators in ensuring that adequate infrastructure and facilities are provided to ensure the safety of all aircraft operations. This pressure is highlighted by the fact that general aviation activities at Port Macquarie Airport account for approximately 80% of the total aircraft movements, but less than 5% of the Airport's annual operating revenue. Typically general aviation activities are unable to sustain commercial pricing levels that would normally be applied via the user-pays principal, requiring operations to, in effect, be subsidised at Council-owned airports.

4. **Potential for development of future modern RPT aviation including:**
- a) **opportunities for regional aviation manufacturing and servicing;**
 - b) **the development and supply of sufficient numbers of trained and skilled aviation personnel;**
 - c) **local, state and Federal government arrangements for staff travel;**
 - d) **opportunities for dual use RPT services to include both freight and passenger legs on the same routes**

With airports diversifying their business activities to increase non-aeronautical revenue streams, there is an increasing trend to identify land (both airside and landside) suitable for commercial property development opportunities. Subject to land use zoning constraints, this land may be suitable for the development of regional aviation manufacturing and servicing and/or training facilities. It is likely that the establishment of such facilities at NSW regional airports by major national operators (eg airlines, MROs) would require State Government funding assistance to encourage the new business investment.

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

Council understands that there are currently no additional slots available for new regional air services at Sydney Airport during morning (6am to 11am) and afternoon / evening (3pm to 8pm) peak periods. This constraint is impacting on opportunities for growth in competitive air services at NSW regional airports during peak hours.

It is critical that Kingsford Smith Airport continues to evolve to maximise efficiency, flexibility and ultimately capacity for all services, while noting the current movement cap of 80 movements per hour.

While recognising that the Slot Management Scheme protects slots used by regional airlines for NSW intra-state services, there would appear to be an opportunity to provide domestic airlines with greater flexibility in their overall network management, by permitting the use of an available domestic interstate slot for a new regional intra-state service (ie for new slot applications, there could be a single "domestic" slot category for use by either an interstate or intra-state domestic service).

It is understood this arrangement would require a change to be made to the current slot management legislation by the Australian Government Minister for Infrastructure and Regional Development.

This issue requires the urgent attention of both the NSW State Government and the Australian Government to remove the current constraint to further growth in competitive air services at NSW regional airports during peak hours.

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Thank you for the opportunity to make this submission to the Standing Committee. Should you require any further information, please do not hesitate to contact Ashley Grummitt, Council's Business Enterprise Manager, Port Macquarie Airport on (02) 6581 8111 or by email at ashley.grummitt@pmhc.nsw.gov.au.

Yours faithfully

Peter Besseling
MAYOR

PORT MACQUARIE OFFICE
Corner Lord & Burrawan Streets
Telephone (02) 6581 8111
Facsimile (02) 6581 8123

WAUCHOPE OFFICE
High Street
Telephone (02) 6585 1922

LAURIETON OFFICE
9 Laurie Street
Telephone (02) 6559 9958