



AGENDA

ECONOMIC DEVELOPMENT COMMITTEE

4 August 2014

6.30pm

City of Albany Council Chambers

**CITY OF ALBANY
COMMUNITY STRATEGIC PLAN (ALBANY 2023)**

VISION

Western Australia's most sought after and unique regional city to live, work and visit.

VALUES

All Councillors, Staff and Volunteers at the City of Albany will be...

Focused: on community outcomes

This means we will listen and pay attention to our community. We will consult widely and set clear direction for action. We will do what we say we will do to ensure that if it's good for Albany, we get it done.

United: by working and learning together

This means we will work as a team, sharing knowledge and skills. We will build strong relationships internally and externally through effective communication. We will support people to help them reach their full potential by encouraging loyalty, trust, innovation and high performance.

Accountable: for our actions

This means we will act professionally using resources responsibly; (people, skills and physical assets as well as money). We will be fair and consistent when allocating these resources and look for opportunities to work jointly with other directorates and with our partners. We will commit to a culture of continuous improvement.

Proud: of our people and our community

This means we will earn respect and build trust between ourselves, and the residents of Albany through the honesty of what we say and do and in what we achieve together. We will be transparent in our decision making and committed to serving the diverse needs of the community while recognising we can't be all things to all people.

TERMS OF REFERENCE

(1) Function:

The Economic Development Committee is responsible for the delivery of the following Sense of Community Objectives contained in the City of Albany Strategic Plan:

- (a) To build resilient and cohesive communities with a strong sense of place and community spirit;
- (b) To create interesting places, spaces and events that reflect our community's identity, diversity and heritage
- (c) To develop and support an inclusive and accessible community.

(2) It will achieve this by:

- (a) Developing policies and strategies;
- (b) Establishing ways to measure progress;
- (c) Receiving progress reports;
- (d) Considering officer advice;
- (e) Debating topical issues;
- (f) Providing advice on effective ways to engage and report progress to the Community ; and
- (g) Making recommendations to Council.

- (3) Chairperson:** To be elected from the Committee
- (4) Membership:** Minimum of 4 and a maximum of 7 elected members
- (5) Meeting Schedule:** As required
- (6) Meeting Location:** Council Chambers
- (7) Executive Officer:** CEO or nominee
- (8) Delegated Authority:** None

ECONOMIC DEVELOPMENT COMMITTEE
 AGENDA –04/08/2014
 ** REFER DISCLAIMER **

TABLE OF CONTENTS

| | Details | Pg# |
|-----------|---|-----|
| 1. | DECLARATION OF OPENING | 4 |
| 2. | PRAYER AND ACKNOWLEDGEMENT OF TRADITIONAL LAND OWNERS | 4 |
| 3. | RECORD OF APOLOGIES AND LEAVE OF ABSENCE | 4 |
| 4. | DISCLOSURES OF INTEREST | 5 |
| 5. | REPORTS OF MEMBERS | 5 |
| 6. | RESPONSE TO PREVIOUS PUBLIC QUESTIONS TAKEN ON NOTICE | 5 |
| 7. | PUBLIC QUESTION TIME | 5 |
| 8. | APPLICATIONS FOR LEAVE OF ABSENCE | 5 |
| 9. | PETITIONS AND DEPUTATIONS | 5 |
| 10. | CONFIRMATION OF MINUTES | 5 |
| 11. | PRESENTATIONS | 5 |
| 12. | UNRESOLVED BUSINESS FROM PREVIOUS MEETINGS | 5 |
| 13. | MINUTES AND RECOMMENDATIONS OF COMMITTEES | 5 |
| ED | ECONOMIC DEVELOPMENT COMMITTEE | |
| ED016 | City of Albany Position on Airline Deregulation | 6 |
| 14. | NEW BUSINESS OF AN URGENT NATURE INTRODUCED BY DECISION OF COUNCIL | 14 |
| 15. | MOTIONS OF WHICH PREVIOUS NOTICE HAS BEEN GIVEN | 14 |
| 16. | REPORTS OF CITY OFFICERS | 14 |
| 17. | MEETING CLOSED TO PUBLIC | 14 |
| 18. | CLOSURE | 14 |

1. DECLARATION OF OPENING

2. PRAYER AND ACKNOWLEDGEMENT OF TRADITIONAL LAND OWNERS

“Heavenly Father, we thank you for the peace and beauty of this area. Direct and prosper the deliberations of this Council for the advancement of the City and the welfare of its people. Amen.”

“We would like to acknowledge the Noongar people who are the Traditional Custodians of the Land.

We would also like to pay respect to Elders both past and present”.

3. RECORD OF APOLOGIES AND LEAVE OF ABSENCE

Mayor

Mayor D Wellington (Member)

Councillors:

Member

R Hammond (Chair)

Member

S Bowles

Member

R Sutton

Member

J Price

Member

G Stocks

Member

A Goode JP

Member

G Gregson

Member

N Williams

Member

B Hollingworth

Staff:

Chief Executive Officer

G Foster

Executive Director Community
Services

C Woods

Manager Tourism Development and
Services

M Bird

Minutes

C Crane

Apologies:

4. DISCLOSURES OF INTEREST

| Name | Committee/Report Item Number | Nature of Interest |
|-------------|---|---------------------------|
| | | |
| | | |
| | | |

5. REPORTS OF MEMBERS

6. RESPONSE TO PREVIOUS PUBLIC QUESTIONS TAKEN ON NOTICE

7. PUBLIC QUESTION TIME

8. APPLICATIONS FOR LEAVE OF ABSENCE

9. PETITIONS AND DEPUTATIONS

10. CONFIRMATION OF MINUTES

DRAFT MOTION

VOTING REQUIREMENT: SIMPLE MAJORITY

THAT the minutes of the Economic Development Committee Meeting held on 1 July 2014, as previously distributed, be CONFIRMED as a true and accurate record of proceedings.

11. PRESENTATIONS

12. UNRESOLVED BUSINESS FROM PREVIOUS MEETINGS

ED016: CITY OF ALBANY POSITION ON AIRLINE DEREGULATION

Proponent : City of Albany
Attachments : City of Albany Community Consultation Summary Report
Responsible Officer(s): : Executive Director Community Services (C Woods)

Responsible Officer's Signature:



STRATEGIC IMPLICATIONS

1. This strategy directly relates to the following elements from the Community Strategic Plan – Albany 2023 and the Corporate Business Plan 2013-2017.

This item relates to the following elements of the [City of Albany Strategic Community Plan 2023](#) and [Corporate Business Plan 2013-2017](#):

- a. **Key Theme: 1.** Smart Prosperous and Growing.
- b. **Strategic Objective: 1.2** To strengthen our region's economic base.
- c. **Strategic Objective 1.3** To develop and promote Albany as a unique and sought after destination.

In Brief:

- The Minister for the Department of Transport (the Minister) within the Western Australian State Government requested Albany City Council form a position on the regulation conditions imposed on the current Perth to Albany Regular Passenger Transport (RPT) air route.
- The Perth to Albany RPT air service is currently operated by Virgin Australia Regional Airlines (VARA) under an agreement with the WA State Government which is due to expire in February 2016.
- The City of Albany's preferred position at this point in time is to support the State Government position to undertake further investigations and model impacts of alternative regulated or deregulated options prior to the current deed expiring in February 2016.

RECOMMENDATION

ED016: RESPONSIBLE OFFICER RECOMMENDATION

THAT Council :

- **SUPPORT** the Department of Transport as they conduct further investigation and research into the deregulation of the Perth to Albany Regular Passenger Transport air services; and
- **AUTHORISE** the CEO to work with the Department of Transport and air service providers to ensure competitive and sustainable air services are achieved post February 2016.

BACKGROUND

2. The Albany Regional Airport is the gateway for air travel to the South West and Great Southern regions of the State and effectively serves the needs of the business community, local residents, tourists and a vibrant general aviation sector.
3. Air transport and supporting infrastructure is considered an important economic driver for the region.
4. The City of Albany owns and operates the Albany Regional Airport and handles around 60,000 RPT passengers. Since July 2012 the Albany Regional Airport has operated as a security controlled airport.
5. The Albany City Council was asked by the Minister within the Western Australian State Government to form a position on the deregulation of RPT air services between Albany and Perth.
6. Currently the services are regulated from Albany to Perth via a Deed of Agreement (the Deed) between the WA State Government and VARA. This agreement has provided a regular schedule of services to Albany and this arrangement will be in place until February 2016.
7. The City of Albany is not a signatory to this agreement however the Department of Transport (DoT) is seeking comment from major stakeholders as it reviews the level of service to be delivered post February 2016 when the deed is set to expire.
8. The Minister is currently reviewing regulated air routes options post February 2016 and has requested feedback from the Albany City Council on its position regarding air route deregulation for the Perth to Albany air route.
9. The Minister's general position is that the deregulation is the preferred model across all current regulated routes unless it can be clearly demonstrated that deregulation will cause negative impact upon a regional destination and its community.
10. The current VARA RPT service delivery is 18 direct return flights per week between Perth and Albany and an additional 2 return services via Busselton. VARA historically applies to the DoT to operate a reduced level of frequency over the Christmas and summer holiday period each year to maintain operational viability. In return for the delivery of this level of service the DoT allows VARA to operate on this route without competition from other airlines.
11. In the 12 months (2013 calendar year) the Albany Regional Airport handled some 59,407 RPT passengers. Passenger growth has been modest over the past 3 years, coinciding with Albany's upgrading to become a security controlled airport in 2012 with corresponding flow on increases to flight costs. Short to medium term growth forecasts are more positive with passengers numbers expected to rise with a strong program of major regional events being staged over the next 4 years.
12. This Deed will remain in place until 27 February 2016 unless surrendered by the operator or in case of a breach of the Deed.
13. The City of Albany implemented a community consultation process to gauge feedback and a summary of the main results are detailed below with a copy of the full report in attachments.
14. The consultation was undertaken without any backgrounding of the possible consequences of entire deregulation and without discussion of the options available.

15. The consultation process included an online survey, direct requests for feedback from identified stakeholders, face to face surveys with airport users, and opportunities to provide written submissions. As a summary;
 - A total of 462 people completed the survey, including written submissions.
 - The majority of respondents supported the deregulation of air services in Albany with 84% in support, 4% against and 11% unsure.
 - The main driver was the perception that deregulation would reduce the cost of flights, 70% of people provided cost as the main reason for their choice.
 - Most people perceived that deregulation will reduce the cost of air fares, offer more choice and improve services.
16. In addition the Albany Chamber of Commerce and Industry (ACCI) also conducted a similar survey of its membership in May of 2014. The ACCI survey also showed a majority in support of the deregulation of air services from Albany to Perth (78%), with 19% being unsure and 3% not supportive.
17. The DoT is currently preparing a discussion paper on the topic pointing out the pros and cons and possible impacts of all options.

DISCUSSION

History

18. The DoT currently has Deeds in place for regulated RPT air services to Albany, Esperance, Carnarvon, Kalbarri, Monkey Mia, Leinster, Wiluna, Meekatharra, Mount Magnet, Leonora, Laverton and Exmouth and in place until 27 February 2016, unless surrendered by the operator or in case of a breach of the Deed.
19. The DoT is currently undertaking a review of this status and will recommend to the Minister whether or not to exercise the additional up-to-five-year option.
20. The following extract is sourced from the WA State Aviation Strategy Draft – August 2013.

DoT route regulation policy;

“Service coverage and access to air services have been the primary policy objectives of previous DoT reviews. DoT aims to ensure that communities of populations greater than 500 are within 250 km (by safe road) of a town with a publicly accessible airport and an RPT service a minimum of twice a week. Regulatory models used to date ensure service coverage and access by protecting routes from competition and requiring certain standards of the operators of these routes. Nevertheless, the policy objectives of competitive environments, service quality, reasonable airfares, adaptability, minimal government intervention, limited subsidies and consistency with National Competition Policy are best met through a primarily deregulated environment.”

(source: WA State Aviation Strategy Draft – August 2013).

A previous review of intrastate aviation services was undertaken by the Department in 2009. The review straddled the Global Financial Crisis and resulted in significant amendments to the network model to reflect the potential volatility of several of the regulated RPT routes. The revised model (March 2010) separated the existing networks, deregulated Geraldton (93,000 passengers per annum), allowed regulated competition into Exmouth (approximately 70,000 passengers per annum) and tested competition for

services to Albany and Esperance (51,000 and 44,000 passengers per annum respectively), while providing assurance to communities that no town would lose its RPT air service.

As a result, Geraldton has had competing services since November 2011, with more choice, cheaper fares and larger aircraft operating on the route.

At Exmouth (Learmonth), where VARA and QantasLink have been competing, average fares have also decreased. Passenger numbers have increased significantly on both routes. (source: WA State Aviation Strategy Draft – August 2013).

21. However, most recently VARA announced it was to stop its Exmouth (Learmonth) service due to lack of viability.

Current Perth to Albany RPT Air Route

22. There is no general consensus as to what passenger volume might suggest that a route could be successfully deregulated.
23. In the 2013 calendar year the Albany Regional Airport handled 59,407 arriving and departing passengers or approximately 1,142 pax per week. Currently VARA operates regulated RPT services to Albany in the order of 20 return flights Perth to Albany each week utilising the 46 seater Fokker 50 aircraft. The average flight load factor is around 62%. A more detailed analysis reveals some early morning flights attract strong load factors while others such as weekend flights receive weak support.
24. The current Perth to Albany return air route is dominated by business and work travel with a strong reliance upon government agency travel demand. This market type also includes fly-in fly-out (FIFO) workers travelling to Perth in order to connect with their flights to the resources sectors in the north of the State. Local business also use the service however the local Chambers of Commerce and Industry (Albany and Denmark) report that their members favour self drive options due to high airfare pricing and lack of confidence in service reliability.
25. The Perth to Albany RPT air route currently attracts a very low level of holiday and leisure support due to comparatively high pricing, and a lack of tourism product packaging and promotion via the travel distribution system. This is a market that has potential to develop and grow if stimulated with attractive pricing, packaging and frequency of service.
26. A small number of local residents also utilise the service some needing to seek medical treatment in Perth. A local resident fare program currently exists however is seldom used as it is only attractive for those wanting to travel at short notice and normal promotional fares are typically far cheaper.
27. It is believed there is significant latent demand from local business, local residents, and visiting friends and relatives (VFR) that is currently not utilising the air service due to perceived high costs and reliability of service. Again, these are markets that have potential to develop and grow if stimulated with attractive pricing and increased capacity of service.

The WA State Aviation Strategy Draft - August 2013

28. The Draft State Aviation Strategy stated the following in regard to regulated and de-regulated routes;
 - *Routes vary significantly in yield and distance and the demography can affect the certainty of financial viability for one or more operators. However, it has been seen through previous tender processes that services to Geraldton, Albany, Derby and Exmouth that carry*

significant passenger volumes are attractive to operators and are likely to be capable of sustaining active competition.

- *Of these, Geraldton has been successfully deregulated with pleasing results, including lower airfares, more services and greater customer choice all leading to a significant increase in passenger numbers on the route. The licensing of more than one operator (regulated competition) on the Exmouth route has also proved highly successful.*
- *Deregulation is no guarantee of perfect market outcomes; however, it provides the operators an unregulated opportunity to meet demand effectively. After deregulation of a route such as Geraldton, DoT monitors key operating statistics as provided by the Commonwealth Bureau of Infrastructure, Transport and Regional Economics. Any noticeable decline in service levels is reviewed and action is taken on a case-by-case basis if and where required, primarily through proactive and cooperative relationships with airlines, airports and key users.*
- *In extraordinary circumstances, should a deregulated route prove incapable of sustaining RPT air services (that is, there is complete market failure), the Minister for Transport may consider as a last resort whether re-regulation of a route is required, depending on the level of demand and the proximity of the community to other towns receiving RPT air services. In this case, a direct subsidy might also be considered.*

29. Tourism Council of WA (TCWA) responded to the WA State Aviation Strategy Draft with the following comments on the question of deregulating existing regulated routes;

“For route deregulation to achieve lower prices several conditions must be met:

I) There must be a sizeable leisure market for the route.

The leisure market (including holiday makers and those visiting friends and relatives) is relatively price elastic and is more likely to select airline, time of travel and destinations based on price. This does not hold for business travel which is relatively price inelastic. For the business traveller the time of travel and destination are determined by the purpose of visit not price. Unless there is a significant leisure market for the route, lower prices will not increase the size of the market and will have minimal impact on airlines share of the market.

II) An airline must be able to use the Global Distribution System and dynamic pricing

An airline must be on the Global Distribution System (GDS) to enable the fares to be distributed to the leisure market through channels such as Online Travel Agents (e.g. Webjet) and traditional travel agents (e.g. Flightcentre).

III) An airline must be able to package for the leisure market

The most effective channel to stimulate demand from the leisure market with discount prices is through holiday packaging via a tourism intermediary such as a wholesaler or inbound tour operator. An airline will provide significantly discounted fares to a tourism intermediary, because they will not be available to business travellers. The discounted fares will be ‘hidden’ by the intermediary in the total price of a packaging which includes airfares and accommodation. These fares are also typically distributed to intermediaries via the GDS. This packaging only occurs if there is an interested tourism intermediary able to package fares, accommodation, tours, events and attractions. Packaging particularly requires sufficient stock of rooms in the route destination which are bookable, commissionable and able to be packaged. This excludes most owner operated accommodation such as B&Bs and small caravan parks. In essence a regional destination needs sufficient ‘branded’ accommodation chains to package with discount

airfares for the leisure market.” (Source: TCWA Policy Paper – comment on the draft WA State Aviation Strategy, undated)

30. TCWA summarised this key concern stating “*significant doubts as to whether deregulation would achieve lower fares on any of the existing regulated routes because they: are natural monopolies, are predominantly business-corporate travel and have limited means to package and distribute lower fares to the leisure market*”.
31. More recently TCWA has repeated the above position and stated publicly that it does not support the deregulation of the Albany air route claiming Albany wanting to deregulate would “be a massive own goal” (reference being to the recent Soccer World Cup).
32. It is agreed that the lack of high quality (4 star plus), large capacity commercial short stay accommodation operators currently constrain the development potential of Albany for the holiday and leisure market and this also directly impacts the use of RPT air services. However, there are two prime Albany locations currently being marketed as large capacity short stay accommodation projects and once operational would meet the criteria detailed above by TCWA.
33. Albany as a visitor destination currently attracts a strong holiday and leisure market however air travel is not utilised due to the lack of attractive airfare pricing and packaging. There is a strong argument that until lower air fares are made available then air travel by holiday and leisure visitors will not grow.

GOVERNMENT & PUBLIC CONSULTATION

34. A community engagement plan was developed by the City of Albany. The objective was to ask community their opinion to assist Council in forming a position about the deregulation of air services in Albany. The level of engagement identified was to CONSULT with communities aiming to facilitate a two-way communication designed to obtain public feedback.
35. This was achieved through a survey and a public comment period. While the aim was to get a vote for or against deregulation, additional questions were asked to collect information to assist Council in forming a position.
36. The public comment period was undertaken between 22 May – 13 June 2014, with an extension provided due to community feedback to 16 June 2014 (25 days). Three face to face survey periods were implemented with users at the Albany Regional Airport.
37. The City of Albany also invited key stakeholders to respond with a position on the possible deregulation of air services. Key Stakeholders were invited to make comment included Community groups/agencies, Transport providers, Education Industry, Health Industry, Airport Service Industry, Business community, Individual members of community, and Airport users.

STATUTORY IMPLICATIONS

38. **Delegations to CEO***. In accordance with Section 5.42(1) of the *Local Government Act 1995*. LG may delegate to the CEO any of its powers and functions other than this power to delegate and subject to s5.43. *Voting Requirement: *Absolute Majority Required.*

POLICY IMPLICATIONS

39. Nil

RISK IDENTIFICATION & MITIGATION

40. The risk identification and categorisation relies on the City's [Enterprise Risk Management Framework](#).

| Risk | Likelihood | Consequence | Risk Analysis | Mitigation |
|---|-----------------|---------------|---------------|---|
| <p>Community Business Interruption.</p> <p><i>Air route is deregulated however no additional operators choose to compete and VARA reduces level of current service and/or prices increase.</i></p> | <i>Possible</i> | <i>Severe</i> | <i>High</i> | <ul style="list-style-type: none"> • City to work with Department and airline operators to attract and develop sustainable air travel markets. • Note: <ul style="list-style-type: none"> ○ VARA can currently reduce level of service by applying to the Department quoting lack of viability so in essence this risk exists whether regulated or not. ○ In the event of market failure from deregulation the Department can re-regulate a route including the consideration of a direct subsidy. |

FINANCIAL IMPLICATIONS

41. The City of Albany operates the Albany Regional Airport as a profitable financial business unit and has recently invested significantly to upgrade both the runway; the security screening capacity of the airport; the terminal lounge and cafe.
42. These upgrades have been funded on the assumption that at least the existing level of flights and a small annual increase in visitor numbers will continue into the future.
43. There is no guarantee that deregulation of the route will ensure the current forecast financial performance of the airport into the future.
44. The exact level of financial impact is not quantifiable without first entering into a deregulated market and risking current and projected financial performance against an unknown situation.

LEGAL IMPLICATIONS

45. Nil

ENVIRONMENTAL CONSIDERATIONS

46. Nil

ALTERNATE OPTIONS

47. Council may choose to support airline deregulation without knowing the full impact of such a decision.
48. Council may choose not to provide a position to the Minister and request that the Minister and the Department alone make the decision with regard to deregulation.

SUMMARY CONCLUSION

49. A reliable, safe, secure, effective and financially sustainable RPT air service is considered essential for the benefit of the business and residential communities of Albany and the Great Southern region of WA.
50. There is a perception amongst the local business and general community surveyed that the current RPT air service Perth to Albany does not offer value for money and that most people believe deregulation will reduce the cost of air fares, offer more choice and improve services.
51. The Albany Regional Airport currently handles just under 60,000 RPT passengers per annum underwritten largely by a strong mix of business/work travel due largely to Albany's role as a regional centre for government services and commercial infrastructure. Additional latent demand for air travel from local business, residents, VFR and holiday and leisure markets is thought to exist (although levels unknown) if the perception of greater value for money in air travel can be achieved.
52. There is a risk that deregulation may not attract additional air operator competition and that reduction to existing services may result. This risk already exists under a regulated setting however can be further mitigated by the City working with the DoT and airline operators to determine the best outcome for the City of Albany in the short and medium term.

| | | |
|-----------------------------------|---|----------------------------------|
| Consulted References | : | <i>Local Government Act 1995</i> |
| File Number (Name of Ward) | : | RC.EVM.35 (All Wards) |
| Previous Reference | : | Nil |

14. **NEW BUSINESS OF AN URGENT NATURE INTRODUCED BY DECISION OF COUNCIL**
15. **MOTIONS OF WHICH PREVIOUS NOTICE HAS BEEN GIVEN.**
16. **REPORTS OF CITY OFFICERS**
17. **MEETING CLOSED TO PUBLIC.**
18. **CLOSURE.**