

ECONOMICS AND INDUSTRY STANDING COMMITTEE

INQUIRY INTO REGIONAL AIRFARES IN WESTERN AUSTRALIA



**TRANSCRIPT OF EVIDENCE
TAKEN AT BROOME
TUESDAY, 22 AUGUST 2017**

SESSION FOUR

Members

**Ms J.J. Shaw (Chair)
Mr S.K. L'Estrange (Deputy Chairman)
Mr Y. Mubarakai
Mr S.J. Price
Mr D.T. Redman**

Hearing commenced at 11.10 am

Mr STEPHEN GASH

Chief Executive Officer, Shire of Derby–West Kimberley, examined:

Mrs ELSIA ARCHER

President, Shire of Derby–West Kimberley, examined:

Mr PAUL ANTHONY BICKERTON

President, Derby Chamber of Commerce, examined:

Mr STEWART MILNE

Vice-president, Derby Chamber of Commerce, examined:

The CHAIR: On behalf of the committee, I would like to thank you for agreeing to appear today to provide evidence in relation to the committee's inquiry into regional affairs. My name is Jessica Shaw and I am Chair of the Economics and Industry Standing Committee. I would like to introduce the other members of the committee. To my right is deputy chair Sean L'Estrange, member for Churchlands; Stephen Price, member for Forrestfield; Terry Redman, member for Warren–Blackwood; and Yaz Mubarakai, member for Jandakot. It is important that you understand that any deliberate misleading of this committee may be regarded as a contempt of Parliament. Your evidence is protected by parliamentary privilege; however, this privilege does not apply to anything that you might say outside of today's proceedings.

I would like to thank you for your submissions to the inquiry. Before we begin with our questions, do you have any questions about your evidence today? No? Do any of you wish to make a short opening statement about your submissions?

Mr GASH: Our submission is fairly straightforward in that it highlights, I guess, the importance of flights and the economic impact et cetera, which the chamber will allude to but obviously which everyone is concerned about. The additional information that the Shire of Derby–West Kimberley wants to add or take questions on relates to the history of how the shire has out of necessity worked with industry to look at value-adding and underwriting of air services that have a significant support for the community while still being fit for purpose and meeting the demands of industry. That is a useful bit of history to understand, and I will be asking President Elsia Archer to give a bit of background as to how that came together.

As an airport operator across three airports, including a RAAF base and an airport that has a significant small general aviation output as well, we also have exposure to some of the regulatory framework, and with those we understand better than most the impact of policies and potential barriers, but also opportunities for improvement, especially related to regulated routes.

Finally, if we have the opportunity to talk in camera, we are uniquely placed to talk about some unit costs and the impact and, I guess, what we see and where we have price pressures versus what can be passed on and what we view of the market and the industry in terms of price elasticity of demand et cetera versus community demand versus the just-in-time emotional opportunities for community flights.

I guess the key thing that we want to highlight is that the best value is in utilising assets, both existing assets that you can build on, value-adding how other economic assets in the region are serviced and how you can connect, and also looking at that asset utilisation being optimised. From the shire's perspective, when we have been in discussions about regulated routes, for example, we often may be faced with people looking at a great opportunity to seal down a route, but they may not have optimised planes for that type of distance for that route—you know, fit for purpose. Invariably, when we are talking about some of the strategic and policy objectives, everyone wants to talk bigger and better—bigger planes, more people and more competition—and that that will be able to reduce the fares et cetera. Whereas what we are seeing is that that also came with the extra cost, because for every seat, your modelling of the size of the terminal, the number of desks and all these things are based on that capacity. If you are going to have concurrent capacity of bigger planes that only service a small proportion of your day, and that is where you put all of it versus trying to spread it out or look at ways that actually can add benefit, you are paying for a lot of additional infrastructure, ongoing maintenance and renewal costs of that in the future for not much additional revenue. So, our strategy has been around not only optimising the assets that we have got, but also optimising the utilisation of the assets and fit-for-purpose planes and services, understanding, with Derby's demand profile and also its activity in the past, who those key customers are and what they value. A lot of these customers, where they are looking at mining, industrial, commercial operations or small business, that is around what is the lowest cost, which obviously you are intimately concerned with in this inquiry.

To put it out there, before we talk about the history of how the airline came together, one of the key things is that when the Derby service was operating Perth to Curtin, the average flight for the community was around \$300 one way, and we are able to give some breakdown of demand between government, industry and community where we have done a lot of modelling in camera later on. But in terms of that demand, that was a regulated route without competition, just as far as many of the operations we are seeing here, yet the typical fare cost was around \$300 one way. That was because, if you look at underwriting—you may hear the word “subsidy” and all these other things—you either underwrite on volume or a minimum number of seats or you underwrite the airline's risk in terms of guaranteed offtake and things like that, or you have the ability to work at what value-adding that means to the community and how that cost structure of your airport or your services or other additional things works.

We were exposed to that by being a provider of last resort, where the shire had to effectively take on services of operating an airport, including owning the fuel, which comes with commercial risks et cetera itself, but that was because it was what the community needed and what the industry needed. Even to this day, there are Skippers flights to Fitzroy Crossing and Halls Creek and there is RPT to Broome and Kununurra. There still is no RPT out of Derby. For the critical connectivity and just support of all the economic development, this is our public transport, which is one of the key points that come up from the community when we talk to them. It is essential, whether that be for the community, for health et cetera.

We have previously submitted to the current and previous governments economic modelling, which was the justification for the election commitment around trialling a year's support of the reinstatement of the services to Derby. The shire has also looked at how to reduce that cost structure by utilising Derby Airport as well and value-adding with the industry. But I think we can submit all of these things and how they fit, and also where the economic modelling about what is the impact on the government, separately to the committee if you want. It is very interesting reading in terms of the economic assessment of even the cost differential of a government employee with the annual travel concession out of Derby versus out of Broome and the additional

cost structure. That is roughly \$800 000 a year just by the loss of the services there directly to the state government. Obviously, we have done a lot of work on this, but the reason we have done a lot of work is that we have been in it for a fair while. I would ask, chair, whether the president could give the background of how we got into it and how the shire has worked with industry, what that commitment is and why that has worked, please.

The CHAIR: Sure. Before we do that, I will first acknowledge the fact that you would like to move into a closed session. We would like to receive as much evidence in an open session as we possibly can, but if at any stage the questions stray into territory where you would prefer to talk about the particular issue in closed session, please do flag that with us and we will then move into closed session. In terms of the data that you have offered to provide us with, obviously the more information that the committee has available to it on an open basis, the better, and it really will help us. I am very much looking forward to hearing your evidence today. It sounds like you have a lot of value that you can add to this committee's work, so thank you for being so forthcoming. Councillor Archer, if you would not mind giving us a little bit of an overview of where you have come from as a community and how you worked to establish the air service into Derby, it would be greatly appreciated.

[11.20 am]

Mrs ARCHER: It was not easy, can I tell you that much. None of this air services thing I can see being easy, but the community wanted an air service out of Derby, so they came to the shire with that wish, and so we went out to try and do that. At that time, there were three mines happening within the community, so the numbers were there, and it is all about numbers or pax on the plane. So we were lucky that was there, but that was a bit like herding cats. I do not know how many meetings we had with those different mining groups to try and—because they all have different rosters—so it was trying to get them all to have the same sort of roster so that somebody can come on the plane and that type of thing.

It was an RPT, but it was a closed route. It would not have been viable for another airline to come in at that time anyway—realistically it was not. But I guess the mining companies, after many meetings, did come together and agreed to change rosters so that that was possible, because then they came from Perth to Derby, but then a light aircraft had to go, before that aircraft landed, over to the mines and pick up those people on shift and bring them over, so that they would go out on that plane and the ones coming in would go back to the island on that little plane. The same thing happened with Kimberley Diamonds, which is inland. They chose to drive, then they later flew. So there was all of that exercise to get that all to happen. Luckily we did.

Then we put it out to expressions of interest for an airline to take it up, and guess what? Nobody applied. So that was a bit of a disappointment at the time, because we had been talking to an airline at that time and we thought they were sure to put in for it, but they did not. However, another airline whom we had never heard of approached us to start the exercise, which was fantastic for us. It started from there and they—it was just fantastic, I think, to get that to happen. We could not do it at our Derby Airport at that time because the plane was too big to land on that airstrip, so we chose to go to Curtin. We were lucky enough to have the domestic side of the Curtin Air Force base, and it started out at two days a week. It went to three days a week. In the height of the mining season, it went to five days a week, which was fantastic for the community, but then the bottom fell out of the mining industry and hence then the airline ceased. In that time, we had two or three different airlines, I might say, though, because some of them fell over in that time and cost the shire.

Mr S.K. L'ESTRANGE: Can you just help me out? What year was this when you got this happening?

Mrs ARCHER: I think it was 2008.

Mr S.K. L'ESTRANGE: And the flights were Derby to Perth return?

Mrs ARCHER: Yes. And as Steve said the airfare was really quite—most people were quite willing to pay the \$600 return because, by the time you drove to Broome and back home again and then paid the airfares out of here, that was the cost.

The CHAIR: And there were no other fare classes, so every ticket was the same price?

Mrs ARCHER: When we then went to Virgin, because it started out at Ozjet and then it went to HeavyLift—sorry, not HeavyLift; Strategic—and then Virgin; when Virgin took over, they used to put on specials, like \$200 one way, so it was \$400 return. That did happen from time to time. I have to say that when we were working with Virgin, they were very good. I mean, they were very good to work with. I think everybody would agree with that. That worked well. But unfortunately it was nothing to do with the airline; it was all to do with bums on seats that it fell over, because the numbers just were not there to make it viable.

The CHAIR: What sorts of numbers are we talking? What were the numbers that made it happen?

Mrs ARCHER: It was an A320. What does that seat—150?

Mr GASH: Yes, so annual passenger demand you are looking around just over 40 000. That was at the peak of it. The community demand—just dedicated community; not government support community—at the moment is 18 000 to 20 000 flights per year from the community.

Mrs ARCHER: Passengers per year.

Mr GASH: Passengers, sorry.

Mr S.K. L'ESTRANGE: Sorry, what did the airline need?

Mr GASH: I would probably prefer to discuss breakeven points in camera, if that is possible.

The CHAIR: Sure.

Mrs ARCHER: That is, I guess, how we got it to start but that is how it ended, I guess. That is why we went to the current government and asked for a subsidy to try and get us over this hump because the mines are starting up again—two of them at least—so the numbers will be there. But to get it underway, we do need some help to get it off the ground.

Mr D.T. REDMAN: The two mines are Koolan Island and —

Mrs ARCHER: Cockatoo.

Mr D.T. REDMAN: And Rosella?

Mrs ARCHER: No, just those two. I have no idea about—Ellendale was the diamond mine, that was the previous one, but that is in no-man's-land.

Mr D.T. REDMAN: So you would be aiming to secure their traffic through there as a bounce point?

Mrs ARCHER: Yes. They are aware of it, and Koolan Island are aware of that and Mount Gibson—we have been talking to them. Currently, they fly out of here because there are no other options.

Mr GASH: Also historically, their operation, because they are on islands, all of their fuel and other supplies, heavy machinery, are all supported out of Derby port, run by the shire as well, so it is just part of the value adding of the service there.

The CHAIR: So how much did the shire actually contribute to getting these services off the ground?

Mrs ARCHER: I could not tell you in dollar figures, but I guess at the time we gave a subsidised landing fee for a certain—what do you call them?—over a time, to increase over time; however, the numbers were to be. We did all sorts of things, I suppose, at the very beginning to get it to happen.

We encouraged local businesses to do a little tuckshop out there to start with. We did get another business to do the check-ins and all that type of thing. That did not work, so the shire then took that on. As Steve said, the shire ended up doing the whole lot in the end. We were doing everything. I think it probably has cost the shire, if you really wanted to look at the bottom line, but it is for the community. We have really got to think about people.

The CHAIR: So the only thing that the customer saw was the airfare, but the local government absorbed all the other costs associated with providing the service?

Mr GASH: We charged a head tax and ground fee, and security handling. At the end of it, it was all on a commercial basis. Those fees were benchmarked against other airports. However, acknowledging the lower cost structure in the first place, it was a low-cost basis. A lot of that was because the shire employees, if you were to try and service two or three flights a week yet you had to support people to be fully trained in refuelling and all the security measures, that is a lot of investment. They cannot afford to live if they are only doing 15 hours a week for you. They could not prioritise that employment for you if they needed to work for someone else. A lot of the way we are doing it is about multiskilling and flexibility, so that is where a lot of the offsets are. The other parts of the offset to understand is that for the regional members it is no different to the demands on a local government of having a doctor in town. If you look at the significance of some of the rural and wheatbelt towns, if the community tells you what is the number one thing it wants, apart from the issue of roads and everything, but it is more we want to keep the doctor in town. A lot of local governments in the past have been involved in recruiting and subsidising medical services. This is actually, in our view, no different because this is the number one priority for the community, especially with the isolation and the fact that this was the main connectivity for medical services and for those types of social demands, getting the kids to school; all those sorts of things as well.

[11.30 am]

The CHAIR: What is your population?

Mr GASH: At the latest census we were around 7 730 from the 2016.

Mr D.T. REDMAN: Shire or Derby?

Mr GASH: Shire. The Derby town site is around 4 000. But significantly, when we talk about the connections between flights and the smaller charters that we were talking about—mining and industry, for example—there are also significant connections between flights and remote communities of getting kids from boarding school or whatever back to their communities. There is a large catchment for that population.

Mr D.T. REDMAN: Your pitch has been, from memory, to get a Perth to Derby flight.

Mrs ARCHER: Absolutely.

Mr D.T. REDMAN: Basically a regular service from Perth to Derby. Have you considered, as a plan B, something like Broome to Derby? A smaller option that, in a putting-to-market option, might be attractive to a different player with a different profile.

Mrs ARCHER: That used to happen with a smaller aircraft. Can I tell you? If you have a big case or if you are a mum and dad with one child or two children and you are trying to get on that little aircraft, it just is not possible. I think the only people who used that light aircraft were government workers going from Derby to Fitzroy or on to Halls Creek.

Mr D.T. REDMAN: That was the milk run across the top, was it not?

Mrs ARCHER: Yes.

Mr GASH: Yes.

Mrs ARCHER: Realistically, it just was not any good.

Mr GASH: So the milk run now services Kununurra to Halls Creek and Ringer Soak. That is the one that has the commonwealth contribution to the route. That was because people from Halls Creek were saying that their biggest demand was to Kununurra rather than to Broome. Skippers have maintained a Broome to Fitzroy and Halls Creek approximately three times a week. If you are looking at the milk run and you are looking at the capacity, the Saabs or the Dash 8s or any of those that would normally be the workhorses of New South Wales, for example, that is normally about someone getting on and doing business or an appointment coming back and forward.

As the president said, most of ours are going—if you are going to go to all the trouble to get to Perth, you are going to probably be there for a few days or you have an interconnecting flight or a holiday or things like that. So luggage is significant. If you are going to model a smaller internal route, there are two things with that—you have to model it on less passengers if you are going to look at how you solve the weight of the cargo, which would be an advantage because one of the big things that we have problems with is the just-in-time trade. The chamber has highlighted previously the impact of even just waiting just for parts for caravaners who have been stranded coming in from the Gibb River Road and waiting for freight and parts to come up.

In Derby, one of our biggest issues is the other way—dealing with the deceased and getting them to Perth. There are some significant issues there. But when you talk about an internal service as an option, it could possibly work as a plan B if it was run, with all its maintenance, as an internal loop. But it is whether anyone is going to take the leap of faith to do that on the modelling without similar sort of involvement.

One of the big things when we were talking about our regulatory barriers and the impact of policy is that the current discussion around regulated routes—how do you start an air service, how do you support it or how do you look at honeymoon periods—is not suited by the regulatory environment of the Department of Transport and how they either do their tender processes or how they evaluate value. To them, value is about just the lowest cost, whereas we are talking about what is the best regional value and the offset to government in other areas, other departments or other services where they would otherwise have to wear increased costs.

Mr D.T. REDMAN: Some social obligation.

Mr GASH: Yes. The other aspect with that is that you have heard that it is possible, if you start, there is leadership locally to get businesses together. If you look at the other offset where even if you got two or three mines together and you looked at their shifts, say they all want to say, “We want our shift changes to be on Thursday and Tuesday” or something like that, and it does support your service, they might have to hire eight Cessna Caravans to meet that air lift and the flight to go out to where they are going. What is the subcontractor who owns those eight planes going to for the other three days that they are not being used at that level?

It would make sense that if, instead, we start value adding and say that if we can find someone to fill two of those other three days, how do we add value to the collective for the other mines et cetera, get them all together and show that leadership? Otherwise, all the costs over that whole five days will be passed over most of the two days. It is how the modelling of that utilisation works as well. That is where the Department of Transport’s model does not look at how you add value; it wants to tick a box.

Even if you look at, for example, the government’s election commitment on the restarting of the one year for Derby, why would an airline look at that when it would take something out unless it

was underutilised elsewhere, and try to do it for one or two days. Yes; they are going to break even, but it is still going to be a risk for them and still going to be not great return on investment. When we are talking regulated routes and adding value, we should be looking at a system that gives an incentive to grow the route. Currently, the incentive is to tick a box on your activity or to do your reports on quality, whereas there is nothing there that actually incentivises an airline by saying, “Okay. If you do this—you will get a one-year extension if you can grow by this about or reduce your costs by this amount or have an average fare of this amount”, which would actually give those types of incentives on regulated routes.

The CHAIR: What do you think would be an appropriate set of incentives? What needs to change about the tender process?

Mr GASH: First of all, I think that it needs to not be aggregated. In the previous tenders for a regulated route, I think there were several routes such as Esperance or others aggregated together. That meant that only the Department of Transport or government could look at it. If it was route-by-route, then on the basis of confidentiality, you could get the shire as one of the assessors of the route who could then say, “Go back and ask all tenderers how suitable their plane is to do this or is to do that.” At least there is still that guidance while still meeting the probity standards of how you do that. Whereas we were completely shut out of the last process and that is why —

Mr D.T. REDMAN: I am interested in that last comment about the nature of how you run a tender process. We have a number of regulated routes around the state and many of them are packaged up in blocks. Airlines will have a threshold of how much they want. I will use Rex as the example, which does the Esperance, Perth and Albany route. They are going to have to have a minimum number of planes and they are going to have to have maintenance for those planes and a number of staff. It is the only operation that they have in Western Australia. You have got to have a threshold you meet before you can do it.

The size of the package that is put to them to tender on it is really significant to the nature of that tender. You have just run an argument to suggest that we just do one route—maybe a Derby–Perth route, which is a bit unique in a sense of what the other intrastate routes are in Western Australia. You are running an argument to suggest that we consider that in its own right as distinct from a package whereby you actually may get benefit of scale, opportunity and innovation that they can bring to dealing with a service.

Mr GASH: Absolutely. That is where you would be assessing options. As it is at the moment, the aggregation means that no-one can assess the community benefit or the other added value, whether it be business for that route, over the top. If we then say that rather than just value for money, what is the regional value, that is where the state takes the lead and the state says that there is regional benefit to everyone by aggregating these as long as we can still get this level of service locally for here or you put a condition on it that says, “subject to you reaching agreement with these mining companies” or trying to incorporate this type of route. They are not mutually exclusive.

[11.40 am]

The CHAIR: Is there another way to skin the cat, though—like if there was a more effective consultation in the design of the tender process up front? So if there was sort of when you are designing your tender, you go out to the local government or to your local chambers and say, you know, “What do you need? What is the sort of optionality?”, or, “How would you like to these things packaged up?” in the design of the tender process.

Mr GASH: Possibly. However, whenever you go out to the industry, everyone is interested and, “Oh well, we’ll tender”, and then no-one turns out, or, “Oh, yes; we’ll guarantee the flights”, or, “We can do this.” One of the other things though is also if you are dealing with industry and respecting their operational things, how willing are they to disclose some of that information to different airlines et cetera who may be competitors if one is a preferred provider for BHP or a preferred provider for Rio or all these other things as well? So that is where sometimes having that independent third party, like the shire where there is a level of trust which actually interprets these and says, “Here’s the package of the needs”, would help, yes.

Mr S.J. PRICE: Stephen, you mentioned in your submission about a \$5 million upgrade to Derby Airport.

Mr GASH: Yes.

Mr S.J. PRICE: Is that something that is happening now?

Mr GASH: Yes. It is being built at the moment.

Mr S.J. PRICE: And that is through federal funding?

Mr GASH: Yes. So that is \$5.1 million through the National Stronger Regions Fund. The total project is just over \$8 million. That is actually a project that is not just about the outcome of the building or the infrastructure; it is how the building was happening because it is using refurbished and gifting buildings from the Curtin detention centre, so it was using some underutilised assets from the commonwealth anyway. Also, significant training and economic opportunities for Winun Ngari Aboriginal Corporation, who are in a joint venture with an Indigenous builder to do the project but also get real training outcomes which then can have flow-on effects to their remote communities and potentially where they see on their building support and skills into the future.

Mr D.T. REDMAN: The project is on the Curtin strip, isn’t it?

Mr GASH: Derby.

Mr D.T. REDMAN: On the actual Derby strip?

Mr GASH: Yes. So there is a —

Mr D.T. REDMAN: So that stuff I saw sitting on the side was all the stuff that you are incorporating into —

Mr GASH: That is now already in and on site, and, yes, it is on track and on time and on budget. That also addresses the requirements of the RFDS, for example. They had some infrastructure requirements. It also futureproofs and allows us more airside space that is lettable. Because one of the things in terms of looking at the cost of airfares is—I do not think that there is a single airport that could cover its costs just from airside revenue—land-side revenue is a significant aspect. Derby—West Kimberley is no different, but ours is not in parking—we would be shot if we introduced paid parking—but ours is through just our lettable area as maintenance and support services. I refer to that land side—type development.

Mr D.T. REDMAN: Has it got an industrial zoning?

Mr GASH: Yes.

Mr D.T. REDMAN: So the oil and gas sector laydown areas, is all that available for that, or is that not —

Mr GASH: Anyone can do anything there if they come and have a chat to us.

The CHAIR: And the price is right.

Mrs ARCHER: And it is freehold to the shire.

Mr GASH: And it is freehold and we are able to develop it. So we have another 50 acres that we can develop there.

Mr S.J. PRICE: And that is in preparation, too—you mentioned a couple of times about the reinstatement of a flight as a result of —

Mr GASH: Yes. So the idea is that through that election commitment on the reinstatement of the flight, that is aimed at two days a week. We want to look at that being a Monday and a Friday. If we can get that out of Derby with the appropriate plane, that reduces the shire's cost structure of handling the baggage. We lose \$200 000 a year just in the time it takes for our employees to go 40 kays out of town; and by doing it in the Derby Airport, there is already a third party independent contractor on fuel, which means we do not have the training costs or the other things. So the value-adding is not just in terms of the flights; it is how it all fits together. Because we currently support around 4 000 a year non-RFDS flights out of Derby Airport, it is a busy little general aviation, and 80 per cent of the hangars are small rotaries—helicopter and other industrial support—so it means that we can basically increase the revenue with the same cost basis, and utilising the existing resources from elsewhere whilst still preserving the capacity of Curtin if larger flights are required.

The CHAIR: This is perhaps a question more for Mr Bickerton and Mr Milne. Can you give me a bit of an overview of what your, sort of, economic base is in Derby? What are your primary industries, and how many of your people are travelling for business-related purposes or for personal, family, tourism-type —

Mr BICKERTON: There is a lot of government departments that travel, and schools, as we were discussing. What else?

Mr MILNE: Also the service industry. There is a lot of manufacturing, fabrication, accounting services, administration and those sort of industries. The impact is probably quite detrimental in the sense it is very limiting to the cost of running a business.

The CHAIR: Yes.

Mr MILNE: For us, it is more isolation and remoteness. In addition to what Broome has, we are 220 kilometres away, and Fitzroy Crossing is 600 kilometres away from Broome. So for us to be able to provide services in Derby we have the added cost which becomes uneconomical. For example, for a business, I would go down to the Perth office four times a year; I am lucky to go once now. The chamber of commerce, if we want to go down, we just cannot attend meetings because of the cost of actually getting down there to attend chamber meetings. It is mostly government industry, but there is a lot of supporting industry around the town.

Mr BICKERTON: There again with your parts, through the businesses I hear and see that everybody is struggling to get parts. The mail could take over seven days. A general letter or something could take over seven days to get to Derby. It comes down to training and your apprentices, when they are young, travelling through Broome down to Perth, with the prices and just the whole structure of it. There is so much that we could talk about.

Mr GASH: The government sector has now caught up to mining as the main driver because of the reduction in mining. So we had some economic analysis done, and the gross regional product for the Shire of Derby–West Kimberley was \$758 million in 2011–12, and in 2015–16 the gross regional product reduced by 40 per cent to \$455 million—a 40 per cent reduction in GRP.

The CHAIR: And that has obviously made a bit of a dent in your rate base as well.

Mr GASH: Yes, plus the shire obviously, to preserve the airport–port infrastructure, while it may be able to reduce some incremental and variable costs, it is still left with a very large fixed-cost basis such as insurance and other maintenance et cetera. So, yes, it's been a struggle, but that is why the shire has been active with the chamber of commerce to look at how we use this downturn to focus on the strategic growth: what industries do we need; how do we support them both from logistics, but also from the local businesses so that when they come to town we have a way to say, "We will go and talk this person or that person", or, "How do we network and get them together"?

So the chamber has been instrumental, and last week we presented to the councillors that since 1 January 2016—for the last 18 months to the end of this financial year—70 per cent of its \$22 million revenue was spent in the Kimberley; 45 per cent was spent in the Shire of Derby–West Kimberley itself, or up to \$13 million. And then if you look at the state-based services of water, power, sewer and insurance and those sorts of things, we worked out there was only 15 per cent of options that could have been spent within the region to add value to the regional economy that were not from the shire's own operations. So while there has been a downturn, you focused on it in other ways of actually how you support the local businesses to make sure that they can struggle through, build resilience and then have the capacity to optimise on growth. That is why we are now focusing on what is an aspect of that growth and how we work with industry.

There is no single ministry that is going to solve everyone's problems. It is not tourism alone. Everything is grouped together, which means you actually have to have a mechanism of getting people together and look at that fundamental principle of adding value, rather than looking at things in isolation.

Mrs ARCHER: If I can just go back to Paul's comment about freight. One of the things is freight—I mean, we can talk about airline fares and all that sort of thing, but freight is a problem as well. It seems to get offloaded and we just do not get it for days and days. And that is another cost, you know. I mean, there was a charter boat in waiting for some parts. It was supposed to leave but it had to wait another five days, so it has to put those people up for five days, you know. So that type of thing, you know, because the freight had not arrived. So that really is something. They might talk about newspapers not arriving here; well, we do not even get a jolly newspaper. But the freight is huge. That really is quite concerning, the freight, is it not?

[11.50 am]

Mr BICKERTON: Yes, it is, especially if you have got tourists coming through. They want to keep going, and they are stuck there. It is costing them. They go back and say do not go to the Kimberley because it is too hard.

Mr S.J. PRICE: Can I go back a little bit to the flight that is meant to be reinstated? I am curious as to how that will be structured, if that makes sense.

Mr BICKERTON: So are we!

Mrs ARCHER: It is work in progress, I think.

Mr GASH: The sequence is first of all we see if it makes the budget commitment. Our discussions with Transport are then what does it look like —

Mr S.J. PRICE: Are you talking state or federal?

Mr GASH: State.

Mr D.T. REDMAN: Did you say election commitment?

Mrs ARCHER: You did make that commitment. It was the Premier. Last year, I had one wish, and that was the wish—that we have some money, \$1 million, to help, and that wish was granted, and

it is in the Kimberley booklet, where all the wishes are. We have been told on good authority, Stephen, that that \$1 million is still there.

The CHAIR: We will deliver on our election commitments; do not worry about that! You can wait with bated breath for 7 September!

Mr GASH: If I may reassure members, the cost–benefit is positive, so we are going back to how that may look. The Department of Transport is looking at how that gets rolled out. The benefit is to actually individual government agencies, where out of their operating budgets, for example, the difference between, I guess, the Department of Commerce’s annual leave travel concession for government officers from Derby versus Broome was a fairly significant difference because of the cost of coming out of Derby. That is now aligned there.

So if we can reverse the savings there, how do those savings across government get realised without Transport getting very worried about it all coming out of their budget, for example, and how does that add value? So, yes, there are some things that we are trying to discuss what that looks like, especially if you are going to go through a full regulatory process for a one-year trial and what does that look like. If you are going to do the trial and you are going to spend the money, how do you try to get it to be a success? How do you value-add and build the opportunities and to give that incentive versus just saying, “We’ll see if anyone wants to do this for a year for marginal return if they’ve got a spare plane floating around”? It does not work like that.

The CHAIR: I think what you are doing is fantastic. I really appreciate your evidence because it is so impressive the way that you are trying to bring your entire community together and to make sure that everybody, to the maximum extent possible, benefits from what you are trying to deliver from an air service. It is just fantastic. I always love it when you see industry, government and community working together to try to deliver a solution that is to the benefit of everyone. I think you are to be really congratulated for your leadership. It is just so great when you see regional communities coming together like this. My congratulations to you. I think it is wonderful. Can we assume that as part of this you are engaging with the mining projects that you flagged and you are bringing them along to understand what their requirements are so that when you put something in front of the Department of Transport, you have a pretty well-baked idea of exactly the service that you need and obviously the break-even points that we will discuss in closed session?

Mr GASH: Yes.

The CHAIR: That is great. That is fantastic.

Mrs ARCHER: You have just got to have the people. You cannot do anything without people. Sorry; that is just how it is.

Mr D.T. REDMAN: Because the prison is not serviced through—do they have much demand for service?

Mrs ARCHER: Absolutely. They are a big user of it.

Mr S.J. PRICE: How does that happen now?

Mrs ARCHER: They come through here a lot. They do use the charters in Derby from time to time as well. There is a charter service there and they use that. But, other than that, they do what we do—they drive down here and fly out. That is really good for Broome’s numbers. But we really need to be able to do it. When it starts, there will be times when we will not be able to—I mean, somebody might want to fly on Wednesday, not Friday or Monday. So you will still be coming down here to catch an aircraft.

Mr D.T. REDMAN: What is the current status of the detention centre? Has that all gone?

Mrs ARCHER: That has all gone.

Mr D.T. REDMAN: It is just bare ground?

Mrs ARCHER: Yes. There are just four people out there, one family and three single fellows. That is all that is out there. It is a fantastic facility and it is being looked at. I think there are a few Americans out there at the moment, about 20 of them or something like that.

Mr BICKERTON: But between your \$400 and \$600 value mark for your seats, you will have more people flying more regularly.

Mrs ARCHER: Yes.

Mr BICKERTON: It is a lot easier and you will definitely have more people flying. I used to fly a lot more.

Mr S.J. PRICE: I take it that is the price point?

Mr BICKERTON: Yes. At over \$600, you are starting to get way too much.

Mr S.J. PRICE: One way?

Mr BICKERTON: Return.

Mrs ARCHER: What happened out here yesterday and last week is Virgin—I do not know about Qantas—had overbooked on their aircraft, and that has happened and people have gone and booked in and been told it is overbooked. I know it happened to people from Derby yesterday who had driven down here to catch the aircraft, and it was overbooked, and then the next one was overbooked, and they ended up having to then pay an airfare to go out on Qantas. That is happening as well. I know it happened last Monday as well, and then those people could not fly until the next day. I know the family that it happened to yesterday. So it is really genuinely happening.

The CHAIR: If that family wanted to contact the committee and give us a bit of an idea of their experience —

Mrs ARCHER: Okay; will do.

The CHAIR: — and provide a submission to the inquiry, we are always very interested to take evidence on people's experiences around not just price but service reliability. Those sorts of issues are really important.

Mrs ARCHER: They were jolly angry; I can tell you that much.

The CHAIR: I am sure they were! Does anybody else have any other questions for the open session? Is there any other information that you would like to provide us on an open-hearing basis before we move into closed session?

Mr GASH: Only to leave with a comment that often we tell people what we want or we put out tenders or we deal with all these other arrangements, whereas sometimes you actually have to also look at: is there a better way of doing it? Our experience that has been invaluable is talking to airlines about where the peak spots versus non-peak spots are that still could add value to the community but have a hugely reduced cost structure, for example, not only about the peak of the slot, but how that could then interconnect with what that jet may do elsewhere to maximise its utilisation. So the risk is that if you are looking at having the base demand on business and community and government et cetera, and then your other tourism is seasonal, it is always going to be difficult.

For the businesses in town that we see in Derby, it costs more because of not only the extra costs with isolation, but with the seasonality of their construction businesses as well, similar to peak-time airlines for tourism, what are they going to do with their fixed costs and other structure for the rest

of the non-peak time? We try to work with businesses about how they can extend when they can make money so that they do not have to try and get a higher return on the peak times. It is a difficult one when we see the way we are impacted out of Broome as well, because we are trying to deal with those peak demands, and sometimes people pay it because they can pay or they do not have another option.

We are not going to comment on the appropriateness of the level. We have had a lot of discussions with our businesses when we go back and say, "Look, you were a little bit higher than people from Perth on this type of contract." But then we understood where their fixed costs were and why they had to be higher, and we looked at the total value of that. For us, that is where we have had to understand that regional value a bit better. It is not as relevant to what you guys are looking at, but I do understand if people are running commercial airlines, they have got to make a profit somewhere, and if that is the peak time, that is the peak time, because they are not going to make a profit on the downturn. I do not know what the answer is.

The CHAIR: We are hoping to find out! We will now close this open hearing and move into closed session.

[The committee took evidence in closed session]
