

# VERIFIED VERSION

## PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

### Inquiry into Budget Estimates 2012–13

Melbourne — 18 May 2012

#### Members

Mr N. Angus

Mr P. Davis

Ms J. Hennessy

Mr D. Morris

Mr D. O'Brien

Mr M. Pakula

Mr R. Scott

Chair: Mr P. Davis

Deputy Chair: Mr M. Pakula

#### Staff

Executive Officer: Ms V. Cheong

#### Witnesses

Mr Rich-Phillips, Minister responsible for the Aviation Industry,

Mr H. Ronaldson, Secretary,

Mr J. Strilakos, Chief Finance Officer,

Mr J. Dalton, Director, Strategy and Policy, Tourism and Aviation, and

Mr A. Ferrington, Director, Aviation Services, Tourism and Aviation, Department of Business and Innovation.

**Necessary corrections to be notified to  
executive officer of committee**

**The CHAIR** — I now welcome Mr John Dalton, director, strategy and policy, and Mr Andrew Ferrington, director, aviation industry. I call on the minister to give a brief presentation of no more than 5 minutes on the more complex financial and performance information relating to the budget estimates for the aviation industry portfolio.

**Overheads shown.**

**Mr RICH-PHILLIPS** — I will go straight to our first slides. Basically, as I said last year to the committee, the role of this portfolio is largely an advocacy and coordination role. Last year in the budget some funds were provided for a number of election initiatives, a key one of which is the Regional Aviation Fund. Importantly the funding for the Regional Aviation Fund is ongoing funding built into the base of DBI, which allows us to continue to roll out infrastructure projects across regional airports in Victoria over the coming years.

Basically the portfolio role is focused on advocacy and coordination. Basically there are three areas where we are focusing: industry development — obviously investment attraction and export promotion — which feeds into the key performance measure for the department; skills development, which is an important area to ensure that we can actually attract the investment pipeline for the sector; and the third area being the infrastructure development aspect, which is where the Regional Aviation Fund and some of the government's other commitments around airport infrastructure upgrades come into play even though they are not delivered through this portfolio.

In terms of the slides, our first slide is up there basically to demonstrate the diversity of matters within the aviation aerospace industry here in Victoria. Obviously there is air services, which is an area that is probably most familiar to members of the committee and members of the community, being the operation of scheduled and non-scheduled services; aerospace, particularly with a focus on manufacturing and component manufacturing, in which Victoria is very strong and has traditionally been very strong as a leader in Australia; and aviation services, which is a rapidly growing sector of the aviation industry, particularly in areas such as maintenance, repair and overhaul operations, but also in areas which perhaps are of a lesser focus for the public in the sector — areas such as airport planning, which is an incredibly important growth area, particularly looking at what is happening the Asia-Pacific region. So services to aviation are an incredibly important area.

The fourth area identified on the slide is the training sector, which is pilot training but also training in MRO skills and training in the related planning and airport management disciplines. That is an overview of the sector.

The next slide is of data that is actually taken from Boeing. It is up there to demonstrate the growth that is expected in the aviation sector in the Asia-Pacific over the coming 20 years. The reason this slide is up is that it obviously relates to aircraft purchases, which is something that Boeing is very keen to forecast, but also the flow-on from this sort of growth. Basically the slide shows the expected demand for aircraft of different sizes, the main growth being in the single-aisle aircraft, which is typically the 737 sort of category of aircraft. You can see that there is expected to be a trebling in fleet size over that 20-year period in that category of aircraft. Of course that has flow-on effect for demand for pilots, it has a flow-on effect for ground crews and MRO crews, and it has a flow-on effect for the provision of airports, airport planning services and airport management services, as well as a flow-on for the manufacture of aircraft and the manufacture of aircraft components.

That enormous growth in the Asia-Pacific region will be very significant for our aviation and aerospace sector here in Victoria and the key areas where Victoria is strong in aviation and aerospace. That indicates the potential that exists in the sector. The reason the government has the portfolio is because we want to send a message to the industry and send a message to investors that we see this as an important sector for the Victorian economy and one that we are keen to focus on.

**The CHAIR** — Thank you, Minister. The remaining time until 3.15 is available for questions on the aviation industry portfolio. Your response to my initial question may be shorter than the question itself. Minister, given the key growth and efficiency initiatives announced in the budget, can you please outline for the committee the likely impact of the budget on enhancing service delivery, promoting productivity and achieving efficiency gains within this portfolio? In responding, could you also indicate how you intend to monitor the portfolio's effectiveness in maximising improvements in these areas, and will you please inform the committee of what you consider to be the likely impact on industry and/or community stakeholders in the portfolio of these initiatives?

**Mr RICH-PHILLIPS** — I guess my answer probably will be a bit shorter than your question. Basically the output funded through this portfolio is the Regional Aviation Fund. It is quite obvious what it does in terms of providing upgrades to infrastructure at regional airports. I guess, though, in terms of the broader advocacy role of the portfolio, the coordination role of the portfolio and driving productivity, one of the big issues in this sector is the regulatory burden associated with the aviation and aerospace sector.

One of the big issues that exists in the training sector of aviation is overlap between national requirements, which are based on international protocols, and training provision requirements that are imposed by either the VRQA in Victoria or the now national equivalent. One of the issues is the international market. Where students are coming to Australia to receive internationally recognised qualifications, under the framework that has been put in place for international students, they are also required to do, or the training provider is required to offer, a certificate IV in the relevant discipline, for example. They are not here to earn a certificate IV. The certificate IV does not have any value for them back in their home country. They only want the international qualification, but the training provider needs to provide both, and there are inconsistencies, for example, between what is required for the international qualification and what is required for the cert. IV.

Part of this role has been to work on behalf of those companies with Skills Victoria and with the commonwealth to try to resolve some of the inconsistencies between the national framework and the international requirements to drive productivity benefits and cost-saving benefits for those training providers. That is an example of the type of advocacy work the portfolio does and where we would expect to see productivity benefits as a consequence.

**The CHAIR** — Excellent. Thank you, Minister. You ended up giving an answer that was 10 times longer than the question.

**Mr RICH-PHILLIPS** — I will try harder next time, Chairman.

**Mr PAKULA** — Minister, budget paper 3, from pages 90 to 95, contains all the DBI performance measures, and try as I might I could not find any that were specifically related to the aviation portfolio. It makes it difficult from a budget point of view to monitor either your performance or the performance of the portfolio via performance measures, so I suppose we have to look at outcomes rather than outputs. You have made it clear in the house that you are the minister responsible for aircraft maintenance. No doubt in terms of the aviation sector in Victoria over the 2012–13 year there is probably not going to be any decision which will have a greater impact than the Qantas decision on maintenance. What can you share with the committee in terms of how successful you have been in protecting maintenance jobs in Victoria?

**Mr RICH-PHILLIPS** — I thank Mr Pakula for his question. I imagine he does not expect that I will say a lot at this point around that. The reality is the matter Mr Pakula is talking about is the heavy maintenance review that Qantas announced in February. Qantas currently have three heavy maintenance bases in Australia — one in Brisbane, one at Melbourne Airport and one at Avalon Airport. Qantas have announced that they will consolidate either to a single base or two bases; they will not continue with three bases.

Since that announcement was made in February the Victorian government has been working very closely with Qantas. We have met with Qantas at a very senior level on a number of occasions, either the Premier or myself, and those discussions with Qantas are continuing. Clearly the objective of our discussions with Qantas is to ensure that the maximum number of jobs from the two bases are retained. Qantas have made it clear that there is going to be, as a consequence of their heavy maintenance review, a reduction in the total number of jobs in heavy maintenance. There are around 1000, approximately 1050, jobs employed at those two heavy maintenance facilities here in Victoria, and our objective is to retain as many of those jobs here in Victoria as possible. As the committee would be aware, by default, Qantas has not yet made an announcement, and that announcement will be made in due course.

**Mr PAKULA** — I kind of expected you to say that, Minister. I suppose the proof of the pudding will be in the eating. Just reverting to the point I made originally about performance measures, why are there no specific performance measures that relate exclusively to aviation as a portfolio, and is that going to change for next year's budget?

**Mr RICH-PHILLIPS** — I thank Mr Pakula for the question. I recognise the recommendation made by PAEC in its report last year, which was a recommendation to Treasury and which, I think, goes to the heart of

your question, Mr Pakula, because ultimately the output group's framework and the performance measures are put together by Treasury under the auspices of the Minister for Finance — that is the actual structure that appears in BP 3 — though this year, as you would notice, and I think you may have had discussions with other DBI ministers, the DBI outputs have shifted away from sector-specific output measures. Obviously putting in new aviation measures would be moving in the opposite direction. Ultimately the activities in this portfolio feed into the general investment attraction, employment growth measure, which is the key output measure for the department.

I guess the other issue is one of materiality. This portfolio is not a large spending portfolio in the context of overall government spend, and therefore it is reasonable to ask whether it is appropriate to have stand-alone performance measures. The reality is the program that is funded under this portfolio, the Regional Aviation Fund, is a visible program in the sense that it funds individual projects, and I am happy to talk about those, but it is not one that typically lends itself to performance measures.

**Mr O'BRIEN** — Just following on from that, I am happy to ask in the context of the performance measures under investment attraction, investment facilitated in regional Victoria et cetera, listed on page 93, and the important issue that you touched on in your presentation, for example, of airport planning. Specifically I very much recall your work in relation to this. I was wondering, Minister, if you could update the committee on the progress of the Geelong regional airport feasibility study?

**Mr RICH-PHILLIPS** — I thank Mr O'Brien for the question. Obviously this is something of relevance to Mr O'Brien as a local member covering the Geelong region. The Geelong airport feasibility study was an election commitment of the government's at the 2010 election. That commitment was made as a consequence of the then proposed, now actual, closure of the Geelong Grovedale airport, which was a general aviation facility just south of Geelong and which is now being overtaken by the Armstrong Creek housing development. The reason the government made the commitment around the feasibility study was that as a consequence of that closure at Grovedale, Geelong would be one of the few major regional cities in Victoria not to be served by its own general aviation airport.

As a consequence, last year 150 000 was provided in the budget to undertake a feasibility study. That was undertaken by consultants Rehbein last year, and I think the cost of that was actually less than the budget allocated. I think it came in 25 or 30 000 cheaper —

**Mr O'BRIEN** — Under the watchful eye of the Assistant Treasurer.

**Mr RICH-PHILLIPS** — Mr Ferrington tells me 117, so a reasonable saving against the budget. That report basically made three key recommendations. One related to expanding and providing access for general aviation at Avalon. Avalon of course is north of Geelong and is a major air carrier airport, but the recommendations invited consideration of making that facility available for general aviation. The second recommendation related to upgrades to Lethbridge Airpark, which is to the north-west of Geelong and which is actually in Golden Plains shire rather than in the city of Geelong. The third recommendation related to providing and identifying a long-term greenfield site for the development of a new general aviation airport to serve Geelong, with recognition that that is something that might take place over a 50-year time frame. Nonetheless, the report recommended that a greenfield site be identified now, recognising the challenges of airport developments and the need to ensure that there is appropriate protection around those environs.

As a consequence of the report, an implementation group has been established with representation from DBI as well as Gold Plains Shire and the City of Greater Geelong to work on implementing those recommendations, and obviously a large part of it relates to work by the council. In the case of Avalon, I was very pleased that last month the operators of Avalon Airport adopted the first recommendation of the feasibility study in opening that facility to general aviation and allowing general aviation aircraft to be based at Avalon, which is very significant given the closure of the general aviation airport at Geelong.

The second recommendation in relation to Lethbridge is also being advanced with the department working with the operators of Lethbridge and the implementation committee in terms of looking at opportunities under the Regional Aviation Fund for that facility to be upgraded. I am confident that from the recommendations that were made in the feasibility study we will see a return of general aviation capacity and the provision of general aviation capacity for Geelong as a regional city over the coming couple of years.

**Mr SCOTT** — Minister, in your presentation you made reference to aviation training, and I note during your evidence before the committee last year you acknowledged that you had just received a feasibility study into an aviation training academy, which was commenced by the former government. Given that you have now had this report for a year, what decisions as to funding, location, partnerships et cetera has the government made about this important project?

**Mr RICH-PHILLIPS** — I thank Mr Scott for his question and for his interest in this matter. I guess the short answer is, as a consequence of the feasibility study, that project was unfeasible in that form. Basically to go back and put some context around what was proposed, I think the funding was provided by the previous government in the 08–09 budget; I think it was \$3 million provided for a feasibility study. Basically the way in which that project had developed was that Kangan Batman TAFE, which provides a number of aero skills courses, had purchased an early Boeing 737, which was flown out to Melbourne Airport for use as a training aid, as part of their aero skills course, and that has been accommodated in the BAE Systems facility out at Melbourne Airport.

An imperative arose for an alternative location for that aircraft to be identified, which gave rise to the development of the concept that the previous government was looking at in terms of an aviation training academy centre of excellence — I think was the term that was used — so basically something that could accommodate that aircraft. The report that was received by the government last year basically proposed the construction of a facility which would cost in the order \$150 million, in round figures, to house that aircraft, to provide for the existing training providers in this area — so Kangan and some of the other training providers — to operate out of that facility. The problem with that proposal was that it required a very large capital spend by government, and it actually was not advancing the capability of training in this area.

So what the government has done, having received and looked at that proposal is that we have looked at a fresh proposal, and I expect to be making some announcements around that very soon, within the next couple of months. It is a proposal which recognises that modern aircraft maintenance, repair and overhaul operations require a different skill set to that which is currently being provided. Particularly as we move to aircraft such as the 787, the new Boeing composite aircraft, the reality is that the composite skills required to work on that are very specialised and typically only able to be provided in conjunction with the manufacturer. A lot of those skills and techniques are specific to the original equipment manufacturers, and therefore it is important to be able to provide training in association with the manufacturers.

So the government is currently putting together a proposal where we will be seeking more industry involvement. We recognise the provision of aviation skills is incredibly important not just in the MRO space but that it is important to have industry buy-in in that proposal, and we expect to be making some announcements within the next couple of months around that.

**Mr SCOTT** — By way of follow-up, is government policy in this area relating to an aviation training academy or similar facility informed by an understanding of the relationship which such a facility would have on the decisions around maintenance and retaining maintenance — like Qantas — in the Victorian economy? Do you see a relationship, and do you believe that having such a training academy would assist Victoria retain maintenance activities like Qantas's?

**Mr RICH-PHILLIPS** — To answer the question in the context of Qantas. Qantas already have a workforce that is delivering what it requires in terms of heavy maintenance, and I do not know that the issue is a lack of availability of suitably qualified maintenance people for Qantas. Taking Qantas out of the equation and looking at the industry more generally, yes, the provision of a pipeline of skilled people across a range of disciplines — not just MRO disciplines but a range of disciplines — is important to attracting investment in that sector here to Victoria, and that is why, notwithstanding the fact that the original proposal is not going to work in its original form, I am very keen to get an alternative proposal on the table and attract industry support.

**Mr MORRIS** — Minister, in one of your previous answers you referred to the Regional Aviation Fund. I wonder if you can advise the committee on progress being made by the fund, please?

**Mr RICH-PHILLIPS** — I thank Mr Morris for his question. The Regional Aviation Fund in fact is the main program delivered through the aviation portfolio. It was funded in the budget last year at an allocation of \$5 million per annum, ongoing. The purpose of the fund basically recognised that a lot of the infrastructure that

exists at Victoria's regional airports is very old. Some of it dates from the Second World War, and some of it has had very little investment or upgrade since the Second World War.

In the early 1990s a lot of our regional airports were transferred from commonwealth ownership to local government operation. At the time the transfers were made under the Aerodrome Local Ownership Plan program some funding was provided by the commonwealth to local government for the maintenance of those facilities. But the reality is, 20 years on, most of that funding has now been expended and there is little capacity within local government for the upgrade of many of those facilities.

We see those facilities as being important to Victoria's aviation infrastructure and transport infrastructure from a tourism point of view, from an access point of view to our regional cities but also, importantly, for our aviation training sector. One of the great competitive advantages we have had in Victoria is ready access to facilities within close proximity of Melbourne, typically within an hour or 2 hours flying time, Ballarat, Bendigo as well as the Melbourne Basin airports. So those facilities have been critically important to attracting major flying training operators such as Oxford, and Singapore technologies out at Ballarat, as well as some of the international training that is now being undertaken at Mangalore.

We see the facility as important, so we put the fund in place to allow the operators of public use airports — recognising that not all of them are in local government hands — to access those facilities for infrastructure upgrades. Basically what we are focusing on through this program is upgrades to operational infrastructure. The reality is the government has the Regional Growth Fund, which the Deputy Premier administers. That fund is used in a wide range of areas, including on some airport matters. The Regional Aviation Fund is specifically targeted at operational infrastructure upgrades: runways, taxiways, lighting facilities, approach facilities et cetera. The first commitment that was made out of that fund was to Bendigo for the redevelopment of its airport. I am pleased to say that in March this year the Bendigo council agreed on the new proposal that it is going to fund with its \$5 million grant under the RAF. It is a variation on the original proposal, which existed two years ago, recognising the realities of increasing construction costs and the fact that they were not able to secure the commonwealth funding they were seeking. Nonetheless, they are proceeding with the project, and we will be very pleased to support them through the fund.

We have also approved already under the fund additional funding for Latrobe Valley Airport, which will support operations down there and particularly, as you would be aware, Gippsland Aeronautics — as the chairman would be aware as a member for Gippsland — which is probably the major aircraft manufacturer in Australia. That is an enterprise the Victorian government is very keen to see prosper, so we are very keen to support upgrades at that airport which will underpin that. One of the objectives of the fund is to leverage off funding from other sources, be it local government or commonwealth, and that Latrobe Valley project is also seeking commonwealth funding.

The third project to be funded is for an upgrade at Warrnambool. The relevant council — the airport is not located in the Warrnambool shire — is also seeking federal funds for that project. Those two projects have already been approved in addition to the Bendigo project, and we have had expressions of interest from a further 15 or thereabouts airports around Victoria seeking access to this fund. The fund has proved to be very popular with regional airport operators. It does build on work that was done by John Brumby, and I particularly acknowledge the work John Brumby did as regional development minister in putting some funds into some of these airports which had not had funds for decades. The benefit of this fund is that it is built into the base of the department and will continue to provide funding on an ongoing basis.

**The CHAIR** — Thank you, Minister. I know there are some frustrated aviators who would love to be asking some further questions.

**Ms HENNESSY** — I will even sing a couple of bars from *Come Fly with Me* by Frank Sinatra, Minister, instead of my question.

**The CHAIR** — Time is on the wing, you might say. This concludes the consideration of the budget estimates for the portfolios of Assistant Treasurer, technology and responsibility for the aviation industry. I thank the Assistant Treasurer and departmental officers for their attendance today. There were a number of questions taken on notice. The committee will write to you, Minister, and we would be pleased to receive response within 21 days. This concludes the hearing.

**Committee adjourned.**