



## BRIEFING

### PROVINCIAL GROWTH FUND: Airports

<b>Date:</b>	2 May 2019	<b>Priority:</b>	High
<b>Security classification:</b>	In Confidence	<b>Tracking number:</b>	3076 18-19

Action sought		
	Action sought	Deadline
Hon Grant Robertson <b>Minister of Finance</b>	<b>Agree</b> to the principles for the PGF funding airports outlined in this briefing.	2 May 2019
Hon Phil Twyford <b>Minister of Transport</b>	<b>Agree</b> to the principles for the PGF funding airports outlined in this briefing.	2 May 2019
Hon David Parker <b>Minister of Economic Development</b>	<b>Agree</b> to the principles for the PGF funding airports outlined in this briefing.	2 May 2019
Hon Shane Jones <b>Minister for Regional Economic Development</b>	<b>Agree</b> to the principles for the PGF funding airports outlined in this briefing.	2 May 2019
Fletcher Tabuteau <b>Parliamentary Under-Secretary to the Minister for Regional Economic Development</b>	<b>Note</b> the contents of this briefing	2 May 2019

Contact for telephone discussion (if required)			
Name	Position	Telephone	1st contact
Isabel Poulson	Manager, Strategy and Policy	Privacy of natural	✓
Jared Humm	Senior Adviser, Strategy and Policy	Privacy of natural	

The following departments/agencies have been consulted
Ministry of Transport

**Minister's office to complete:**

- |   |                                       |
|---|---------------------------------------|
| <input type="checkbox"/> Approved             | <input type="checkbox"/> Declined     |
| <input type="checkbox"/> Noted                | <input type="checkbox"/> Needs change |
| <input type="checkbox"/> Seen                 | <input type="checkbox"/> Overtaken by |
| <input type="checkbox"/> See Minister's Notes | <input type="checkbox"/> Withdrawn    |

**Comments**

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#### Purpose

The purpose of this paper is to outline the Provincial Growth Fund (PGF) approach to investment in regional airports.

#### Recommended action

The Ministry of Business, Innovation and Employment recommends that you:

- a **Note** the airport policy principles that have been developed for airports that the Provincial Growth Fund (PGF) could invest in *Noted*
- b **Agree** to the airport policy principles in this briefing to guide assessment of regional airports for PGF funding *Agree/ Disagree*
- c **Agree** that PGF investments in individual airports will be in the order of **Commercial** or less. *Agree/Disagree*

David van der Zouwe  
**Acting Head of Investment**  
Provincial Development Unit, MBIE

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Hon Grant Robertson  
**Minister of Finance**

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Hon Phil Twyford  
**Minister of Transport**

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Hon David Parker  
**Minister of Economic Development**

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Hon Shane Jones  
**Minister for Regional Economic  
Development**  
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## Background

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1. Since the launch of the PGF in March 2018, investments have been made in Gisborne, Kerikeri, Westport, and Commercial airports, with investments being considered for Commercial Information airports.
2. Key considerations for the investments in Gisborne and Kerikeri airports included links to enabling economic development in surge regions (in particular through tourism development opportunities), in addition to the general criteria of the PGF being met.
3. It has become apparent that a number of airport-related proposals will be submitted to the PGF for consideration during 2019, and this paper seeks to outline an approach to help guide possible PGF investment.
4. Many regions have expressed that airports are important for economic development, access for key sectors and for social inclusion purposes. Improvements to some regional airports are seen as necessary by regions to fully realise the potential of opportunities in key sectors, especially tourism. Other investments are seen as necessary to maintain or enhance access to a region relating to safety, security, resilience and operational requirements. While these are more aligned to transport policy objectives than PGF objectives, they provide supporting reasons for investment in airports.

## Investment in airports

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5. Fit for purpose airports can play a key role in enhancing productivity of regions, particularly in enabling economic activity through, for example, providing robust links for the tourism sector to larger tourism hubs. They can also enhance the resilience of transport links to a region and increase social inclusion.
6. The PGF has invested in four regional airports to date – Kerikeri, Gisborne, Westport, and Commercial. The first three fit with the principles outlined in this paper, including the following details:
  - Alignment with the Northland, Tairāwhiti and West Coast action plans respectively
  - Increasing tourism attractions are being developed (several co-funded by the PGF) and the airport will enhance the tourism offering
  - There is an opportunity to create meaningful jobs in these regions based on broad tourism employment opportunities.
  - The current facilities are old and not fit for purpose, including not meeting health and safety standards

Commercial Information

7. Commercial Information

- Commercial Information [REDACTED]

8. Commercial Information [REDACTED]

9. Commercial Information [REDACTED]

10. While some requests will be consistent with the PGF's objectives, these requests often seek funding to address regulatory and safety requirements, changes in Air New Zealand operational requirements, regional desire to increase tourism numbers and repair of no-longer fit for purpose facilities (i.e. terminal buildings).

11. Specific PGF investment principles will help guide assessment of airport related proposals. Any investment will be required to meet PGF criteria.

## Principles

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### Development of airport investment principles

12. Principles for investment in airports and ports were originally agreed by Regional Economic Development Ministers in March 2018. These are set out below:

#### *PGF related investment principles*

- Productivity potential – enables sectors/firms to operate more effectively
- Tied to sector investments in the region (consistent with the PGF hub/spoke investment model)
- Fit with surge region priorities
- Provide training and development and employment opportunities for local people
- Take account of local government or owner interests and roles in investing in the infrastructure
- Take account of whole of life costs and ability of the region to manage the asset beyond the life of the fund.

#### *Relative to other potential investments in the same infrastructure class*

- Centrality to priority sectors in the region
- Remedial infrastructure – most degraded facilities across the country
- Consideration stronger if the infrastructure proposal will support existing growth (rather than proposals that suggest they will lead to growth)
- Input from sector on the most important areas for investment across surge regions
- Accessibility to regions with poor or non-existent air connectivity
- One airport investment per region through the PGF.

## Updated airport principles

13. An updated set of principles for airports is required due to the increase in interest in airport-related applications to the PGF and those likely to seek funding during 2019, and the need to carefully balance this interest with prioritising for the remainder of the Fund. This allows the PDU to better identify what airports could be funded by the PGF.
14. Airport projects seeking PGF funding should be tied to sector investments that rely on or are enhanced through air services (for example, Gisborne Airport funding linked to PGF tourism opportunities in the region). For example, local businesses being reliant on continued access to bigger markets or the need to improve connections to a region's increase productivity potential – particularly in regions where road travel is unreliable in terms of providing reliable access to markets.
15. Investments through the PGF will be made in a way that is consistent with the longer-term objectives for regional airports in New Zealand and contribute to the overall development of the transport network, but with a focus on surge regions and the potential to lift regional productivity.
16. The following principles will be applied to PGF investments in airports, in addition to those outlined above:
  - No alternative airports located nearby, within a sixty minute drive, or existing PGF investment in nearby airports
  - Problems with certainty of access to the area (region or sub-region) the airport serves (poor road links, weather etc)
  - The airport must fit with the relevant region's economic development priorities (i.e. through inclusion in a regional economic development strategy or equivalent)
  - The airport investment should be identified as a priority for key sectors in the region
  - The investment should provide certainty about connection to markets
  - The investment should support existing growth in other sectors and not attempt to lead growth
17. Additionally, the following considerations should be made:
  - The ownership interests of an airport should be taken into account (for example, whether it is private, local government, Crown, or joint ownership - Crown ownership would mean that other sources of funding should be looked at in the first instance)
  - The sustainability of commercial airport operations
  - Whether the investment is remedial infrastructure that is seen as a priority across the New Zealand airport sector (i.e. safety, security, operational requirements, etc)
  - Training and development opportunities for local people.

## Airport ownership

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18. Models of ownership of the airports are generally by the council or a 50/50 joint venture between the council and Crown. The Crown also has interests in other airports which have been corporatized, and owns Milford Airport 100 per cent.
19. The Crown is a 50 percent owner of five regional airports: Taupō, Whangarei, Westport, Whakatāne and Whanganui. These Joint Venture (JV) arrangements are governed by a deed and date back to the 1960s. The Minister of Transport (MOT), is responsible on behalf of the Crown for these JV Airports and MOT manages this arrangement on his behalf.
20. MOT administers a five year multi-year appropriation (2018/19 to 2022/23) of \$2.500 million (\$0.500 million per year) to manage the Crown's interests. In the first instance, any proposals relating to the five JV airports should look to be funded through this appropriation before consideration for PGF funding.
21. The following **Commercial Information** have not made a PGF application but have indicated that they will likely do so in future:
  - **Commercial Information**
  - [REDACTED]
  - [REDACTED]
  - [REDACTED]

## Eligibility for PGF funding

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22. The Airports New Zealand association has classified New Zealand's airports into four broad categories on the basis of their risk of isolation from diminution of air connectivity. These are:
  - International airports (e.g. Auckland, Christchurch)
  - Large regional airports (e.g. Dunedin, Palmerston North)
  - Midsized regional airports (e.g. Invercargill, New Plymouth)
  - Smaller regional airports (e.g. Chatham Islands, Kaitaia)
23. Aligning this categorisation with the PGF's objectives and principles (as above) provides a basis for identifying which airports the PGF might invest in. The PGF will invest in small to mid-sized airports where they provide strong economic benefits to their region, particularly in surge regions, enabling the PGF's investment to lift the productivity potential of the region.
24. Many airports are seeking funding to address regulatory and safety requirements or changes in Air New Zealand operational requirements. A wider assessment of the viability of New Zealand airports is needed to determine what investment is needed into the sector to meet these requirements. PGF will not invest to address systemic issues of safety underinvestment – it will invest where this will lead to an increase in the productivity potential of the region. These systemic issues are more appropriate to be funded by its owners or through the transport related parts of government, given the

objectives of safety, connectivity and social inclusion. While this funding gap remains, the PGF will consider applications that can demonstrate a contribution to a region's productivity potential in addition to other considerations.

25. Commercial Information

[Redacted]

26. Investments in Northland, the East Coast and the West Coast, reflect their status as surge regions and the strong potential for large scale growth in tourism, matched by the PGF's investment in tourism destinations in those regions.

### Smaller regional airports

27. Smaller airports provide vital links to people in regional and sub-regional areas, connecting them and businesses to larger markets and hubs. These airports enhance opportunities for key sectors thereby increasing regional productivity. PGF would invest in regional airports where that would strengthen the productivity of key sectors. To date, the PDU has identified the following airports, which have either made, or signalled, a PGF application, that could receive funding from the PGF within this category (in addition to Kerikeri, Gisborne and Westport, as well as an air freight (coolstore) development at Hawke's Bay Airport):

- Commercial Information

[Redacted]

[Redacted]

[Redacted]

28. Commercial Information

[Redacted]

29. Commercial Information

[Redacted]

### Mid-sized airports

30. There are a number of other airports that are located in regions where there are emerging sectors that will contribute to lifting regional productivity, and where the airport is a sustainable, commercial operation and can contribute to enhancing those economic opportunities. Upgrading these airports to enable or enhance air services with economic development impacts is an expensive proposition for them. To date, the PDU has assessed the following airports that could receive funding from the PGF within this category:

- Commercial Information

[REDACTED]

[REDACTED]

31. These airports are not based in PGF surge regions and funding requirements are based on regulatory and Air NZ factors (safety, security, operational factors) and costs that will prohibit them from maintaining existing services. Their fit with the PGF is not as strong with the smaller airports. However, their regions would benefit from the provision of ongoing services (as opposed to growth in services), so Ministers may still wish to consider investing in these airports. Commercial Information

[REDACTED]

32. Commercial Information

[REDACTED]

### **Priorities for PGF investment**

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33. An initial assessment of airports against the principles outlined in this paper is attached as Annex One. This delineates what airports the PGF could fund, those it could possibly fund if principles are met, and those that it would not fund. Note that each individual application to the PGF will be assessed on a case-by-case basis within usual procedures. A full list of prospective airport proposals for the PGF is attached as Annex Two.

34. Of these, the most appropriate airports, located in surge regions, for the PGF to potentially fund are those already funded in Kerikeri, Gisborne and Westport. Beyond these, the PGF should first prioritise investment in surge regions, and beyond this consider applications that will make a significant impact on the productivity potential of non-surge regions as evidenced by the specifics of the application. The test for this impact on productivity potential in non-surge regions will be set high given the high cost associated with investing in airports.

35. An initial assessment of the airports that may be most relevant for further consideration, depending on the specifics of the applications put forward, includes Hokitika and Whakatane and could include Whanganui depending on the specifics of the application and potential for growth. These airports are considered most appropriate for investment due to alignment with the principles outlined earlier in the paper. While Hokitika resides within West Coast, the distance to Westport is over two hours' drive and prone to weather event impacts.

36. Beyond these, Taupo and Chatham Islands are not situated in surge regions, but present credible economic development and regional productivity opportunities, enhancing developing key sectors, and are located in areas with limited alternative accessibility.

### **Next steps**

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37. Once the airport principles have been agreed to by RED Ministers, PDU officials will progress airport investment proposals to appropriate decision makers.

## Annexes

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Commercial Information

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PROACTIVELY RELEASED