

3.11 REDEVELOPMENT OF TAUPO AIRPORT

PGF Application		For: Decline	
Applicant:	Taupō District Council (TDC)/Ministry of Transport - Joint	Pipedrive ID #	Commercial Information
Entity Type:	Local Authority	PGF Funding Sought:	\$ Commercial Information
Region	Waikato	Total Project Value:	\$ Commercial Information
Tier:	1 - Regional	Co-contribution rate:	Commercial %
Sector:	Transport - Airports	Funding Structure:	Grant

We recommend that the IAP support the recommendation to:

a) **Decline** \$ Commercial Information grant funding from the PGF fund towards the Redevelopment of Taupō Airport on the basis that the responsibility for development of regional airports sits clearly with the Ministry of Transport (MOT). The decision on the priority of Taupo Airport for redevelopment, the scale of the investment and funding is the responsibility of MOT.

b) **Note** Taupō Airport is a joint venture between the TDC and the MOT.

c) **Commercial Information**

d) **Note** MOT advises that they have a \$ Commercial Information multiyear appropriation equating to \$ Commercial p.a. to fund capital and operating losses across all five joint venture airports of which the full appropriation is currently accounted for. **Commercial Information**

e) **Note** the PGF acknowledges the benefits associated with the airport redevelopment, namely:

- Taupo is an emerging region in the Government Investment Framework for Regional Tourism and is a medium-high priority for tourism investment, primarily for access, as is the focus of this proposal;
- the project will directly create Comm jobs in the construction of the terminal;
- the project creates good additionality to the region by building on what is already there;
- investment will contribute to forecast revenue increases (as noted below); and
- it is critical to facilitating the future growth of the Central North Island.

f) **Note** should funding be approved a full grant is proposed **Commercial Information**

g) **Note** that the project is well aligned to the regional goals of the economic agencies as noted below.

- h) **Note** that TDC produced a business case in 2017 which has been discussed with Ministers, MBIE and MOT.
- i) **Note** that MBIE Tourism considers the redevelopment of Taupo airport as a high priority from a tourism perspective and strongly supports the project. Comments attached.
- j) **Note** the project will not trigger a requirement to have resource consent. The building consent process would be followed.
- k) **Note** that the PDU has previously produced a Transport Sector paper addressing the needs of the 28 regional airports. To date five regional airport submissions have been assessed by the PDU (see table below).
- l) **Note** that RED Ministers in May 2019 agreed to a cap of \$^{Commercial Information} for regional airports at a maximum of \$^{Commercial Info} per airport.
- m) **Note** Taupō airport was identified by officials as a suitable PGF investment in the May 2019 position paper and that officials had informed RED Ministers that an application was expected.
- n) **Note** Taupo Airport is part of the Waikato Regional package. This means the project has been identified as a regional priority. Furthermore, it falls within the lower South Waikato area boosting investment and economic opportunities into the Turangi, Tongariro and Taupo areas.

Proposal:

Taupō airport is a key transport hub and strategic asset which is home to commercial passenger transport, agricultural tourism, flight training and recreational aviation such as skydiving and pleasure flights. The Taupō district is currently experiencing resurgence in visitor numbers with growth in patronage reaching 15.3% per annum. The recent investment by the PGF and Ruapehu Alpine Lifts (RAL) in the Sky Waka Gondola clearly demonstrates support for tourism growth in the region making it a viable alternative to the ski towns in the South Island. The new investment also encourages year round visitation.

The partners of Taupō Airport Authority (a Joint Venture of Taupō District Council and the Ministry of Transport on behalf of the Crown) is seeking PGF funding to upgrade and redevelop the airport terminal, aircraft apron area and car parking. This will ensure the sustainable future of one of the most important pieces of transport connectivity infrastructure in the district. The current scheduling of aircraft means the terminal infrastructure built in 1979 is not optimal and struggles to cope with the current and forecast passenger demands.

TDC has spent \$^{Commercial Inform} to date on feasibility studies. The remaining capital works for developing the terminal and surrounding area is estimated to cost \$^{Commercial} of which \$^{Commercial} has been set aside as co-funding in the Taupō District Council's Long Term Plan (LTP) 2018-2028.

Historically Taupō airport has seen an average of 52,000 passengers per annum (2008-2018), with 59,000 and 65,000 passengers in 2017 and 2018 respectively. With expected growth over the next few years this fits into the BAU-High bracket below.

Forecast Passenger movements	FY Comm	FY Comm	FY Comm	FY Comm	FY Comm	FY Comm	FY Comm	FY Comm	FY Comm	FY Comm	FY Comm	FY Comm	FY Comm
Total Passengers	Commercial	Commercial	Commercial	Commercial	Commercial	Commercial	Commercial	Commercial	Commercial	Commercial	Commercial	Commercial	Commercial
Low													
BAU													
High													

A full grant is the preferred option of funding as any cash surpluses that the airport generates are set aside for

future renewal expenditure of existing airport assets (e.g. runway reseal due in 2029) and to fund any new capital expenditure without seeking capital injections from the JV partners.

Assessment against the PGF criteria:

Eligibility Criteria

This application is eligible for PGF funding and is consistent with previous regional airport applications:

Regional Airport	Cost	Request	Outcome
Bay of Islands	\$ ^{Commercial}	Catalyst for third party investment	Approved
Gisborne	\$5.5m	Terminal redevelopment	Approved
Chatham Islands	\$ ^{Commercial Inf}	Runway	Cabinet Paper drafted to include other aspects of Chatham Islands
Commercial Information	\$ ^{Commercial}	Commercial Information	Commercial Informat
Commercial Information	\$ ^{Commercial}	Commercial Information	Commercial Information

Productivity Potential

Globally governments acknowledge the role of airports in delivering social and economic benefits. It was noted at the recent Airports Association conference noted that "...Regional NZ is the key driver of the New Zealand economy", with the government's commitment of seeking high value tourism. To achieve this; investment in infrastructure is required to support the current growth forecasts.

Policy objectives and regional priorities

Te Waiā Waikato Economic Development Agency which will look to deliver high level objectives for the region:

- Lift economic performance across the Waikato region
- Attract, retain and grown investment, talent and business across the region
- Champion and provide one voice for economic and business needs and opportunities across the region

Bay of Connections (Economic Development Agency)

- Great Lake Taupō sub-regional Tourism Strategy – identifies the airport as critical infrastructure requiring development for the increased growth in tourism

Ruapehu District Council Long Term Plan (LTP) 2018 - 2028

PDU IAP Policy paper on Transport (Regional Airports)

PGF Criteria	Assessment Commentary	Rating (0✓ to 5✓)
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Link with fund and government outcomes

Creates permanent jobs	<ul style="list-style-type: none"> • The project will employ approximately ^{Comm} workers in the construction stage of the build • Once operational the project will directly create ^{Comm} 	✓✓✓
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	<p>FTE at the airport</p> <ul style="list-style-type: none"> • There is the potential to create new opportunities in additional retail/hospitality space at the airport • Growth in tourism and increased number of flights over the longer term will support new opportunities including servicing commercial flights, providing pleasure/scenic flights and skydiving 	
Delivers benefit to the community	<ul style="list-style-type: none"> • Commercial air services are important to the economic growth and quality of life in rural and low population towns • Currently AirNZ operates a twice daily service aboard its Bombardier Q300 (50 seats) aircraft on the Auckland-Taupō route. A redeveloped airport will provide AirNZ with a quality infrastructure in the Central North Island to expand its service 	✓✓✓
Increased utilisation and returns of Maori asset base	<ul style="list-style-type: none"> • Recent settlement of Ngati Tuwharetoa's treaty claim, there is a tangible opportunity to enhance the economic opportunity for Maori through the development of the airport. Taupō and the surrounding towns of the Central North Island are rich in Maori culture and experiences showcasing something unique to this region of New Zealand 	✓✓
Enhanced sustainability of natural assets	<ul style="list-style-type: none"> • N/A 	N/A
Mitigation of climate change effects	<ul style="list-style-type: none"> • Proposal is for a modular design terminal incorporating best practice eco-friendly sustainable materials etc. • Indirectly, long term vision of carbon neutrality (20 year horizon cited with electric battery planes) 	✓✓
Additionality		
Adding value by building on what is already there	<ul style="list-style-type: none"> • This project will build on Taupō's existing airport • The project has secured regional funding of \$^{Commercial} meaning the PGF will be building on existing project funding • Commercial Information [REDACTED] 	✓✓✓
Acts as a catalyst for productivity potential in the region	<ul style="list-style-type: none"> • The modernisation of the airport terminal, runway apron and car-parking facilities will aid in more efficiently processing the forecast increased visitors and business to and from the airport. As such the airport will be one factor in helping the region grow its economy 	✓✓✓

Connected to regional stakeholders and frameworks		
Alignment with regional priorities	<ul style="list-style-type: none"> The project is part of the overall transport plan which is a regional priority in the Te Waka Regional Economic plan (Waikato's Economic Development Agency) 	✓✓✓
Support from local governance groups (inc. Councils, Iwi/Hapu)	<p>Letter of support have been provided by:</p> <ul style="list-style-type: none"> Te Waka (Waikato Economic Development Agency) acknowledges the airport redevelopment project as a key economic infrastructure asset in their development programme 2018-2022 Bay of Connections have identified 28% of the regions GDP is attributable to tourism and future growth is a top priority Ruapehu District Council Long Term Plan (LTP) 2018 - 2028 – “Additional flights to the District via Taupō airport are critical to growth in the visitor sector and other businesses in the District” Iwi have been involved through the District Economic Strengthening Strategy of which the TAD is a catalyst project Iwi will be involved in the design development phase of the terminal and surrounds as appropriate once funding for the project is confirmed. 	✓✓✓
Governance, risk management and project execution		
Robust project management and governance systems	<ul style="list-style-type: none"> Taupō District Council with a project management team of Council officers and external contractors The Ministry of Transport will provide oversight on behalf of the Crown and will be required to approve the funding releases following the negotiated milestones being completed TDC has experience of delivering robust projects within budget and on time e.g. Eastern Taupō arterial roading project (\$^{Commercial}) was co-funded with the NZTA and delivered on time and within budget 	✓✓✓
Risk management approach	<ul style="list-style-type: none"> The project will be managed in house through the Taupō District Councils robust Project and Risk management processes. A Risk matrix and mitigations matrix has been provided 	✓✓✓
Future ownership / operational management	<ul style="list-style-type: none"> The Taupō Airport Authority which is a Joint Venture between the Taupō District Council and the Crown will own the asset The development of user pays car-parking will ensure that the operational cost of the asset is met over the ten-year horizon 	✓✓✓✓

Analysis of the benefits and costs

Project Drivers (Issues with the current airport)

- The terminal is not large enough to service passengers on the larger 50 seat aircraft (Air New Zealand's Bombardier Q300 aircraft Taupō/Auckland route)
- Commercial Information
- Commercial Information
- The current layout does not allow for the inclusion of security screening should this be required at a later date
- There is insufficient space for current car parking or future growth
- Demand for aircraft parking by airlines and private jet operators is growing and the existing apron is constrained

Costs

The remaining project costs of \$^{Commercial} can be summarised as three distinct sub projects:

Sub-Project	Estimated Costs	Comment
Terminal	\$ ^{Commercial Information}	Infrastructure
Car-parking	\$ ^{Commercial Information}	Commercial
Aircraft Apron	\$ ^{Commercial Information}	Infrastructure
Total	\$ ^{Commercial Information}	

The joint applicants are seeking \$^{Commercial} from the PGF.

Draft project timetable:

Issue First RFP on TenderLink. Architect	Commercial Information
Architects RFP closes	Commercial Information
Approval to appoint Architect	Commercial Information
Design briefing process starts	Commercial Information
Concept presentations (both SLT and Elected Members) commencing from	Commercial Information
Preliminary design	Commercial Information
Developed Design – Detailed Design	Commercial Information
External Project Manager starts (TBC)	Commercial Information
Lodge Building Consent	Commercial Information
Construction works commence	Commercial Information

Financial Analysis

^{Commercial In} is an international aviation consultancy firm and has assisted in the preparation of the application.

The proposed financial and pricing model is a structural change from the way Taupō airport currently operates, with the key differences being:

- New revenue stream from user pays car parking
- Introduction of asset pricing model as recommended by ^{Commercial} (as used at other airports)
- Increase revenues from landing and terminal charges which aligns with the increase in level of service to the travelling public

The financial model is currently a full accounting breakeven model with no return on equity. That is, full recovery of depreciation as well as operating expenses.

The rationale is for the airport to be a long-term financially sustainable business, with the primary role in servicing the leisure and business traveller which in turn supports and helps grow the local and regional economies. Aircraft landing and terminal pricing is set at a level that is sustainable for the aviation businesses using the airport especially the two primary users being Air NZ and Sounds Air.

The proposed pricing model has been developed in consultation with Air New Zealand.

Projected passenger numbers:

Year	FY ^{Commercial}	FY ^{Commercial}	FY ^{Commercial}	FY ^{Commercial}	FY ^{Commercial}	FY ^{Commercial}	FY ^{Commercial}
Passenger movements (000's)							

Growing passenger numbers is off the back of increased passengers per flight (upsizing from the Q300 – 50 seats to the ATR with 68 seats).

Projected Revenue and Expenses (\$000's)

	30/06/2020	30/06/2021	30/06/2022
Income			
Landing Revenues	Commercial Information	Commercial Inform	Commercial Inform
Lease Revenues			
Parking Revenues			
Other			
Total Operating Income			
Expenditure			
Employee			
Operating Costs			
Depreciation			
Other Operating Expenses			
Total Expenses			
Operating (Deficit)			

Funding Arrangements

The applicant is seeking a ^{Commercial} % Grant and have modelled the following scenarios:

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The provision of a portion of PGF funding as a loan would negatively affect the project on two fronts:

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- Runway reseal due 2029 – estimated cost ~\$^{Commercial Informa}
- Wastewater main connection to TDC network (to replace current septic tanks) – estimated cost \$^{Commercial Informa}
- ANZAC memorial drive reseal – estimated cost \$^{Commercial Inform}

- Commercial Information

- Consequential impairment was noted for the Gisborne terminal upgrade. Regional airports are not strongly profitable ventures. They are infrastructure assets essential for connectivity, resilience and as catalysts/enablers for economic activity (skydiving).

Due Diligence and Ownership

Entity due diligence not required – Local Authority and MOT
The PDU works with DIA to assess risk around local authorities.

Risk Assessment

The key risks to the PDU and proposed mitigations of this investment are as follows:

#	Risk	Mitigation approach	Rating
1	Through our extensive modelling, the financial sustainability of this project hinges on the joint applicants receiving a grant rather than a loan or a loan from the PDU.	<ul style="list-style-type: none"> Extensive financial modelling Stress testing of the financial model Agreement from key stakeholders on the model 	High
2	Minister of Transport of the day will not approve the increase in aeronautical charges.	<ul style="list-style-type: none"> Agree the pricing methodology with the Ministry of Transport. Agree the pricing methodology with Air NZ. 	High
3	Passenger numbers are lower than the BAU forecast model	<ul style="list-style-type: none"> Adoption of the pricing methodology allows for re-pricing of the financial model yearly 	Low
4	Cost over runs of the project	<ul style="list-style-type: none"> Robust procurement and project management strategy as per Council and MOT's policies. 	Low

It is noted that within the application that as part of an overhaul of regional routes, in 2015 Air New Zealand removed the Taupō/Wellington route and in 2016 removed the 19 seat Beechcraft 1900D aircraft from active service. As a result, visitation to Taupō decreased in 2015. Air New Zealand continues to operate the Taupō/Auckland route with the 50 seat Bombardier Q300 aircraft. Air New Zealand's 10 year plan will be to

increase the number of services on the 68 seat ATR aircraft to accommodate high season passenger movements. Currently the terminal is not large enough to service passengers on the larger aircraft at an acceptable level of service

Consultation undertaken or implications:

Please see below MBIE Tourism feedback on the redevelopment of Taupō airport (email dated 22/08/19)

MBIE Tourism considers the redevelopment of Taupo airport as a high priority from a tourism perspective and highly recommend that the PGF support this project.

Taupo is classed as an emerging region in the Government Investment Framework for Regional Tourism which is based on the four key criteria (access, attractions, amenities and awareness). We consider Taupo as a medium-high priority for tourism investment, primarily for access, as is the focus of this proposal.

This project aligns well with the outcomes of the New Zealand-Aotearoa Government Tourism Strategy: delivering exceptional visitor experiences, improving the lives of New Zealanders through tourism and supporting thriving and sustainable regions. This includes an increase in Tourism infrastructure, improving access, safety and improving visitor's awareness of the region. A key priority work area for the Government is destination management and planning, taking a strategic, coherent and consistent approach when managing destinations – this project will contribute towards managing the destination and there is strong support from local and central government, the tourism industry and the local community.

This project is one of the eight key priorities for the region as identified in the BOP Visitor Economy Strategies <http://www.bayofconnections.com/sector-strategies/visitor-economy/>. It is also identified as a catalyst initiative in the Taupo districts economic strengthening strategy. The BOP Visitor Economy Strategy funded by MBIE highlights the following "Aviation infrastructure requires upgrading to meet current requirements across the region, in particular, Taupo requires additional investment. Less frequent but larger aircraft have stretched terminal facilities and future demand will increase the pressure on these facilities". To give an insight into the increase in visitors, the International Visitor Survey highlights that International visits to Taupo have increased from 220,000 in 2013 to 520,000 in 2018.

The redevelopment of the airport will support the increase in visitor numbers including those generated by the Tourism NZ marketing campaign in Australia (You may want to seek Tourism NZ input) and new attractions such as the Skywaka Gondola. It should act as a catalyst for economic development and the visitor economy in Taupo and Ruapehu (surge region). There are several opportunities (multi sectoral) that are currently being explored as part of the Ruapehu-Tongariro Tourism Development Programme, which will deliver a package of projects connected from the visitor perspective such as the Turoa Gondola, Mountains to sea cycleway past the proposed Pokaka eco-sanctuary to National Park village. Collectively, these with the airport redevelopment will create an exceptional visitor experience, improve access, increase attractions, amenities, support positive attitudes towards tourism in a deliberate and considered approach to destination management.

It is positive to see that Taupo District Council and MOT has considered the financial sustainability which is reflected in the user pays charges over the next ten years.

I note that the project deliverables are to be negotiated once the funding is confirmed and that the project will be governed by Taupo District Council. I suggest that through the negotiations that Taupo District Council consider how local iwi (Tuwharetoa) are involved and how the Tourism Strategy tikanaga values (Ohaanga/whairawa, Manaakitanga, Kaitiakitanga and Whanaungatanga) could be woven into the design and redevelopment.

End

Supporting proposal:	No
Appendices:	Yes – Applications Commercial Information
Author of paper:	MP, Senior Investment Analyst, NH Investment Director, PDU Investment Team

PROACTIVELY RELEASED