

Statement of Proposal

WANAKA AIRPORT – A LONG-TERM LEASE?



Photo credit: www.instagram.com/mountainlightbox

Consultation on changes to
the way Wanaka airport is
managed and governed



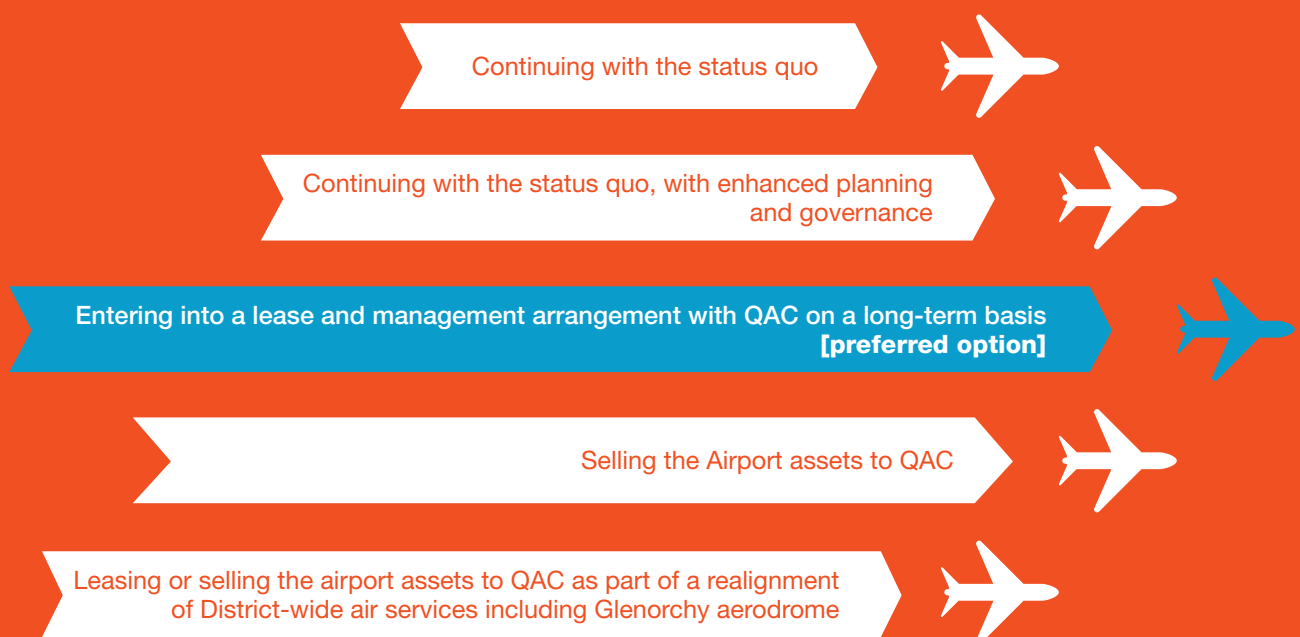
[SUMMARY]

Queenstown Lakes District Council is considering options for changing the way Wanaka airport is managed and governed. We are formally consulting the District, and in particular the Wanaka Ward, to see whether there is community support for this proposal. We are presenting the Council's preferred option, along with the advantages and disadvantages of all the options that are reasonably available.

The Council's preferred option is to enter into a long term lease and management arrangement with Queenstown Airport Corporation Ltd (QAC), which is a council controlled trading organisation. The lease would be structured to incentivise investment by QAC in Wanaka Airport to enable the Airport to meet the projected growth in the District's air services over the next decade or longer.

The proposal is the result of several months of investigations and takes into account the current and future needs of the wider Queenstown Lakes district. QLDC considers that the status quo or "do nothing" option is likely to lead to insufficient investment in necessary Airport infrastructure, and as a result the Airport would not keep up with anticipated growth.

THE OPTIONS THE COUNCIL CONSIDERS REASONABLE ARE:



[BACKGROUND]

CURRENT GOVERNANCE OF WANAKA AIRPORT

The Council owns the land on which Wanaka Airport sits, the airport-related infrastructure (runway etc) and various buildings on the site. Some of the buildings and hangars are privately owned but are subject to ground leases granted by the Council.

The Council took over management of the airport in 1990. Day to day operations have been performed by QAC under a management agreement for several years.

QAC was incorporated in 1988. It is a Council Controlled Trading Organisation. Its shareholders are the Council (75.01%) and Auckland International Airport Ltd (24.99%). QAC also provides airport and property expertise to the Council in relation to the management of the Glenorchy Aerodrome.

UNDER THE EXISTING MANAGEMENT AGREEMENT:

QAC provides various services in return for a management fee. The services include governance, operations (including airport operations, employment, health and safety and employment of staff), planning and lease management, regulatory compliance, and financial management and reporting. QAC agrees to run the airport in an efficient and compliant manner ensuring performance of a variety of tasks listed in the agreement against performance indicators.

The Council is responsible for funding any capital projects.

We don't expect that the level of day-to-day operational governance of the airport would change, but the long term planning and vision would be increased. The level of planning and governance provided under the existing management agreement is limited because the three year term of the agreement promotes short term commitment and vision.

The Airport operates as a non-certificated airport under the Civil Aviation Act 1990.

At the moment Wanaka Airport has a modest income stream of about \$230,000 a year before interest and tax, largely from landing fees and ground rents.

The Council's long-term plan has a total capital programme of \$396M, of which \$1.5M relates to Wanaka Airport. Capital expenditure at the Airport depends on other core Council priorities such as network infrastructure. This level of investment is reactive only and is required to maintain existing infrastructure. It is insufficient to achieve the development required over the next decade or more to provide for the expected growth of the Airport.



Scientific aviation activities, such as the NASA balloon programme, may become increasingly important and provide additional opportunities for growth to the wider district.



[FUTURE GROWTH]

Our airports provide an important service to residents and businesses alike. They cater to the demands of an increasing number of domestic and international travellers, as well as providing a hub for freight. This movement of people and goods in and out of the district is vital to the many local businesses that rely on tourism for their bottom line.

Demand for air services across the District is increasing. Land and planning constraints make further expansion of Queenstown Airport difficult. At the same time, under its present governance structure, there is little incentive for the capital expenditure necessary to attract aviation services to Wanaka Airport. This review provides a significant opportunity for Wanaka Airport to grow. If planned and managed well, this

could provide increased services to the Wanaka area and also reduce pressure on Queenstown Airport.

The future role of Wanaka Airport has been identified as being a complementary and supplementary facility to Queenstown Airport, able to accommodate aircraft spill-over from Queenstown. Spill-over of general aviation services is increasingly likely to occur as Queenstown focuses its capacity on accommodating jet services, and can drive economic growth in Wanaka.

Wanaka Airport is already internationally renowned for the bi-annual Warbirds over Wanaka air show but it could also become the base for general aviation in the region as well as accommodating

scheduled and charter air transport service in its own right. Scientific aviation activities, such as the NASA balloon programme, may become increasingly important and provide additional opportunities for growth to the wider district.

Future growth at the airport could well require the purchase and development of additional land at the current site and development of the existing site to provide further space for ground leases. The Council has received requests for additional ground spaces to rent, which Wanaka Airport currently cannot accommodate due to space restrictions.

[WHY NOW?]

To a degree, the change has been proposed because the existing management and governance don't achieve the right balance between short term management and long term planning. There is a risk that if we keep the existing

arrangements, in the medium to long term the airport won't have the space, the planning framework or the governance structure to best ensure it can absorb overflow general aviation and air transport services from the major airport at

Queenstown. Given the growing needs of the community and the need for commercial assets to show a positive return on investment, there is a compelling case for change in the way the airport is governed and managed.

WHAT ARE THE OPTIONS?

For completeness, a further option identified, but not considered in detail, was sale of the Airport on the open market. This could result in misaligned objectives for Queenstown and Wanaka Airports, competition between them, and overall poor outcomes for the community.

1

STATUS QUO

Advantages

No disruption to current management/services.

QLDC retains the ability to directly control direction of the airport.

Disadvantages

Unlikely ever to fulfil Civil Aviation Act requirements for Part 139 Certification (relating to requirements to take larger aircraft).

Unfocused strategic direction and governance responsibility.

Council lacks airport strategy expertise.

Necessary capital funding competing for funding against other council priorities.

2

STATUS QUO WITH ENHANCED PLANNING AND GOVERNANCE

Advantages

More focused approach to governance and better opportunity to achieve strategic aims.

Dedicated resource to take control of the management of the airport.

Disadvantages

Not enough incentive offered for manager to drive significant change/growth.

Still competing for funding against other council priorities.



3

LEASE TO QUEENSTOWN AIRPORT CORPORATION

Advantages

QLDC would receive regular income from leasing agreement as well as 75.01% share of dividend payments.

QAC has expertise and experience to make quality investment decisions.

QLDC and community able to influence investment decisions and direction of airport through Statement of Intent and Letter of Expectation.

More focused approach to governance and best opportunity to achieve strategic aims.

QAC better incentivised to increase capital expenditure and profitability.

QAC already has personnel capable of meeting Civil Aviation Act requirements for Part 139 certification.

Disadvantages

Potential community concern around losing control of the airport's strategic direction.

Potential resistance from lease / licence holders and operators to any increases in fees resulting from a more commercially focussed operation (although this is already a function of the existing management agreement).

A perceived profit ahead of outcomes for the Wanaka community.



4

SALE TO QUEENSTOWN AIRPORT CORPORATION

Advantages

Generally, as per Option 3 plus:

A significant sum would be paid to QLDC on sale of assets.

QLDC would still be majority shareholder of QAC with some control over strategic direction of Wanaka Airport via Statement of Intent under the Local Government Act.

Disadvantages

Generally, as per Option 3 plus:

Asset would no longer be wholly owned by QLDC (24.99% would be owned by AIAL).

QLDC would lose substantial control over direction of airport and investment decisions.

Greater potential community concern around losing control of the airport.



5

DISTRICT-WIDE AIR SERVICES

Advantages

As per Option 3 or 4 plus:

Opportunity to include Glenorchy aerodrome as part of integrated district-wide air services.

Disadvantages

As per Option 3 or 4 plus:

Would require reconsideration of the recently notified Glenorchy Airstrip Reserve Management Plan.

Potential community concern around commercialisation of Glenorchy Aerodrome.

[WHAT IS THE PREFERRED OPTION?]

THE COUNCIL'S PREFERRED OPTION IS TO ENTER INTO A LONG TERM LEASE AND MANAGEMENT AGREEMENT WITH QAC.

This option transfers the operations, long-term planning and governance of the Wanaka Airport to QAC, a party with the expertise necessary to plan and develop an airport. Ultimate ownership remains with the Council. The interest in the Airport granted by the lease would incentivise QAC to make a significant capital investment in the Airport to improve its profitability and will require QAC to take a longer term approach to governance and planning. The Council would retain ultimate control of the direction of the

Airport through mechanisms retained in the lease and, because QAC is a CCTO, through the Letter of Expectation / Statement of Intent process. The Council involvement through these means would provide a way in which the Wanaka community could continue to have a say in the future direction of the Airport.

From a financial perspective, the modelling undertaken as part of the business case analysis by Rationale Limited suggests that there will be a moderate increase in the Council's revenue from Wanaka Airport. The benefits resulting from increased capital expenditure by QAC will also be realised by the Council and community. It is not anticipated that the increased capital

expenditure will impact on the dividend received from QAC.

As a governance approach, this option is similar to that recently taken by the Council in respect of the District's campgrounds, where the Council leases the campground assets to a third party operator. The main difference is that in the case of a lease to QAC, QAC is a Council-controlled trading organisation.

Overall, the Council considers that this option provides the best balance of advantages and disadvantages and will best meet the Council's objectives and the needs of the community.



[WHAT ARE THE COSTS OF EACH OPTION?]

The Council does not consider that any of the options would affect the operational costs the Council incurs each year in running the Airport. In fact, for each option (other than the status quo or the status quo with enhanced planning and governance), the Council expects that it would be better off financially.

With little investment planned for the Wanaka Airport in the 2015 long-term plan, the financial outcome of the preferred option (lease) is relatively minor and only positive in nature.

If it appears once public consultation has occurred and the detail of the governance arrangements are known that there could be a cost to ratepayers from the new arrangement, the Council would undertake a further consultation process with the public on the decision.



Wanaka Airport is already internationally renowned for the bi-annual Warbirds over Wanaka air show.

[MAKING A SUBMISSION]

The Council welcomes your comments on this proposal encourages everyone with an interest to make a submission.

Please **[CLICK HERE]** to make your submission on-line by 18 November. You may also make a written submission, posted to reach Private Bag 50072, Queenstown, or emailed to services@qldc.govt.nz with "Wanaka Airport Submission" in the subject line, no later than 25

November 2016. If you are not using our on-line form, please ensure that you include your full name and address, an email or daytime contact phone number, and say whether or not you wish to present your submission to the Council in person at a hearing.

The Council will convene a hearing in early 2017, at which any party who wishes to do so can present their submission in

person. The date will be confirmed by the Council and we will let all submitters know.

Every submission will be acknowledged in accordance with the Local Government Act, will be made available to the public, and every submission will be heard in a meeting that is open to the public.

Your submission will carry equal weight whether or not you speak to it in person.

