Attachment C

rationale IMPROVING INFRASTRUCTURE OUTCOMES

Wanaka Airport Strategy

Single Stage Light Business Case

QUEENSTOWN LAKES DISTRICT COUNCIL

WANAKA airport

September 2016

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Wanaka Airport Strategy – Single Stage Light Business Case

Prepared for:

QUEENSTOWN LAKES DISTRICT COUNCIL

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Executive Summary

This business case seeks to identify a strategic direction or governance model for Wanaka Airport.

Wanaka Airport is one of Queenstown Lakes District Council's (QLDC) strategic assets. It currently operates independently as an uncertified aerodrome and is managed day-to-day by Queenstown Airport Corporation (QAC). Any decision relating to the sale, or transfer or sale of shareholding of any strategic assets is a significant matter and will trigger the Special Consultation Process.

A facilitated workshop identified the following problems with the status quo.

- A lack of clear direction and competition for Council resources means investment is reactive and not prioritised.
- Failure to determine the strategic direction limits Council's ability to maximise opportunities and to protect the asset.
- Council's existing arrangements lead to sub-optimal outcomes.

This is evidenced by a lack of capital planning included in the 2015 Long Term Plan (LTP) and landing fees and ground leases are below market.

To address these problems, the following benefits were identified as being important to ensuring improved outcomes for the district.

1. Improved, well-aligned and integrated air services for the district (40%).
2. Improved economic and financial performance (25%).
3. Quality investment decisions (35%).

The preferred option is a long-term lease to QAC. The airport would remain wholly owned by QLDC, but QAC would be better incentivised to work towards increasing revenue opportunities. It ensures that:

- The Queenstown and Wanaka airports are run in a complementary manner.
- Ownership is retained by QLDC.
- Control over the future direction of the airport is maintained via lease conditions and the QAC statement of intent (SOI).
- A positive net present value (NPV) is achieved.
- It enables a future decision on the sale of the airport if cash is needed or the value is maximised.

This business case seeks formal approval from QLDC by way of adoption of the draft statement of proposal. On adoption of the statement of proposal at Council's 29 September meeting, the Special Consultation Process would then be initiated.

1 Purpose

This business case seeks to identify a strategic direction or governance model for Wanaka Airport. It aims to ensure that Queenstown Lakes District Council (QLDC) has a clear understanding of the investments required to enable Wanaka Airport to deliver the right level of service, in a manner that is consistent with QLDC's broader strategic objectives.

This business case follows the Treasury Better Business Cases guidance and is organised around the five case model.

2 Strategic Case

2.1 Strategic Context

Wanaka Airport was transferred into the ownership of QLDC in 1990. In the past, overall management of the airport was delegated to a committee of councillors (the Wanaka Airport Management Committee (WAMC)), however day-to-day operation is now delegated to Queenstown Airport Corporation (QAC), of which QLDC is the majority shareholder (75.1%).

2.1.1 Strategic value

According to the *Wanaka Airport Planning and Development* report prepared by Astral Ltd in April 2016[1] (the Astral report):

"The role of the Airport has been identified as being a complementary and supplementary facility to Queenstown Airport, able to accommodate aircraft spill over from Queenstown which is increasingly likely to occur as Queenstown focuses its capacity on accommodating jet air transport flights. Wanaka could increasingly become the base for general aviation (GA) in the region as well as accommodating scheduled and charter air transport service itself. Scientific aviation activities, such as the NASA balloon programme, may become increasingly important." (page 3)

Wanaka Airport currently has no scheduled commercial flights, with Air New Zealand having ceased flights to the airport in early 2013 due to lack of profitability. The airport continues to provide a base for scenic and charter flights to destinations such as Milford Sound and Mount Aspiring National Park. There are a number of independent operators leasing hangar space who provide services including flying instruction, tandem skydiving and aircraft maintenance. Wanaka Airport hosts the very popular international air show '*Warbirds Over Wanaka*' and also homes several visitor attractions including the '*Warbirds and Wheels Museum and Café*'.

Queenstown Airport has various constraints that inhibit its ability to grow, including land-related issues with regard to physical expansion. Wanaka Airport is an obvious proposition to provide an increasing level of air services in the region. According to the Astral report (page 15), this would be likely to include:

- Hangar space for high value privately owned aircraft.
- Hangar and facility space for scientific operations such as NASA super pressure balloon launches.
- Operational offices and reception facilities for sport aviation activities.
- Hangars and bases for helicopter and general aviation, including flight training.
- Ancillary services such as maintenance and repair of aircraft and components.
- Aircraft parking, in particular corporate jet overflow from Queenstown airport.
- Charter air services such as winter ski flights.

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[1] http://www.qldc.govt.nz/assets/Uploads/Council-Documents/Full-Council-Agendas/2016/28-April-2016/Item-9/9a-Wanaka-Airport-Planning-and-Development-Report-c.pdf

2.1.2 Alignment with QLDC goals

The airports of the Queenstown Lakes district 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.

Like any local council, QLDC's role requires a balance of preserving the lifestyle residents desire with creating and sustaining the business opportunities that enable its residents to live prosperously. From a broad perspective, QLDC's key aims as an organisation are:[2]

To enhance the quality of life for all people within the District:

- By further developing services and facilities.
- By carrying out sound social, physical and economic planning.
- By ensuring the provision of cost effective services is responsive to community needs.

QLDC value statements include:

- Commitment to striving for the long term desires of each community.
- Communication and consultation with the residents and ratepayers of the district on major policy direction.
- Provision of services in a cost effective and efficient manner.
- A high level of service to residents and ratepayers of the district.
- Management of community assets with a long-term strategic view of community desires.
- A proactive approach to managing the resources of the district.
- A commitment to the strategic planning process.

As part of meeting these needs, QLDC owns and operates a substantial community facilities portfolio comprising of approximately 106 facilities with a total asset value of approximately $470M. The activity includes commercial properties held in the context of QLDC's general strategic objectives, which either produce a positive commercial return or are being operated to at least cover their costs (breakeven). QLDC's investment in Wanaka Airport falls within this category.[3]

Wanaka Airport has been designated a 'strategic asset'. Strategic assets are those assets that are important to the long-term goals of QLDC. Under the provisions of the Local Government Act 2002 (specifically Section 97), QLDC cannot transfer ownership or control of a strategic asset, unless it has first consulted with the community and included the proposal in its operative LTP (*QLDC Community Facilities Asset Management Plan 2015*, page 6)[4].

Any decision relating to the sale or transfer or sale of shareholding of any strategic assets is a significant matter and will trigger the Special Consultation Process.[5]

To clarify:

(i.) Any decision that transfers or changes ownership or control of strategic assets to or from the Council is a significant matter.

(ii.) The sale or transfer of shareholding of any of the Significant Strategic Assets will trigger the Special Consultation Process.

(iii.) Any long term lease of strategic assets (other than land).

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[2] http://www.qldc.govt.nz/your-council/our-mission/

[3] QLDC Community Facilities Asset Management Plan 2015, page 3-4, http://www.qldc.govt.nz/assets/Uploads/Council-Documents/Asset-Management-Plans/Community-Facilities.pdf

[4] http://www.qldc.govt.nz/assets/Uploads/Council-Documents/Asset-Management-Plans/Community-Facilities.pdf

[5] http://www.qldc.govt.nz/assets/Uploads/Council-Documents/Policies/Finance/QLDC-Significance-and-Engagement-Policy.pdf

2.1.3 Management of strategic assets

QLDC is a relatively small organisation and has therefore become practised at dealing with the issue of finding alternative forms of management and/or governance for assets that fall outside its immediate expertise.

Queenstown Airport is a very relevant example: Queenstown Airport Corporation (QAC) was incorporated in 1988 and is responsible for operating Queenstown Airport. It is a Council Controlled Trading Organisation (CCTO). QAC's Shareholders are QLDC (75.01%) and Auckland International Airport Ltd (AIAL) (24.99%).[6] QAC also provides airport and property expertise to the Queenstown Lakes District Council (QLDC) in relation to the management of Wanaka Airport and the Glenorchy Aerodrome.[7]

Another recent example are Queenstown's campgrounds, which are also designated as strategic assets. QLDC decided as a matter of principle that it was not its role to run a commercial accommodation operation or to compete with other accommodation providers. In 2014, QLDC signed a 25-year lease with campground operators CCR in order to provide more certainty around income for QLDC and also as an incentive for all campground managers to invest in improved facilities. "This outcome meets that expectation, and at the same time delivers significant revenue to Council – both a capital sum for goodwill, and an ongoing lease rental payment which will be linked to revenue." Mayor Vanessa van Uden (2014). [8]

2.1.4 Potential growth

As discussed in Section 3.1.1 of this report, there is significant potential for growth at Wanaka Airport. If planned and managed well, this growth could provide not only increased services to the Wanaka area, but also reduced pressure on Queenstown Airport, as well as the potential for a healthy return on investment in the future. The demand for air services at Queenstown Airport continues to increase and the airport is currently very profitable.

For significant growth to occur in terms of passenger numbers, it is likely that larger aircraft will need to operate in and out of Wanaka. Under that scenario, investment in Wanaka Airport would be necessary in order to ensure CAA compliance with operations at that level.

Wanaka Airport currently operates as a non-certificated airfield and therefore does not fall within the jurisdiction of Part 139 of the Civil Aviation Rules: *Certification of Aerodromes*. A non-certificated status means that Civil Aviation Rules place the responsibility on the operator of an aircraft to ensure that the airport is suitable for their particular aircraft. A non-certificated status also precludes the operation of scheduled flights for aircraft with seating capacities of 30 persons or over.[9]

However, if Wanaka Airport were to consider significant growth in size and/or services, especially proposed changes to "…construct, re-align, alter, or activate any runway or other aircraft landing or take-off area" it may be required to apply to the director of the Civil Aviation Authority under Part 157 of the Civil Aviation Rules: *Notice of Construction, Alteration, Activation, and Deactivation of Aerodromes*. The director will then conduct an aeronautical study "…to consider the effects that the proposed action would have on the safe and efficient use of airspace by aircraft, and on the safety of persons and property on the ground."[10]

If expansion of Wanaka Airport were considered viable and it was then deemed necessary to apply for certification under Part 139 of the Civil Aviation Rules, there are conditions to be met in terms of personnel requirements including the engagement of a chief executive, an airport manager and sufficient personnel to

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[6] http://www.qldc.govt.nz/assets/Uploads/Council-Documents/2014-Full-Council-Agendas/24-July-2014/Item-04-Statement-of-Intent-Queenstown-Airport-Corporation-201415/4b-QAC-SOI-2015-2017-QLDC-feedback-compressed.pdf

[7] http://www.queenstownairport.co.nz/corporate/about/about-zqn

[8] http://www.qldc.govt.nz/news/show/1595/campground-lease-arrangement-win-win-/

[9] http://www.qldc.govt.nz/assets/OldImages/Files/District_Plan_Changes/Plan_Change_26_downloads/Section_32_Report_and_Appendices/Appendix_E_-_Wanaka_Airport_Master_Plan.pdf

[10] www.caa.govt.nz/rules/Part_157_Brief.htm

operate and maintain the aerodrome. The chief executive would hold ultimate accountability for the airport and for ensuring the adequacy of safety compliance and funding. NB: There are only 27 aerodromes in New Zealand certified under Part 139, one of which is Queenstown Airport (operated by QAC).

2.1.5 Economic Development Strategy

The QLDC Economic Development Strategy[11] states the aspiration of protecting and enhancing the district's unique environment through; a higher value and more diverse economy – higher value jobs and industries; higher quality urban and natural environments.

Supporting priorities and opportunities identified in this strategy that are applicable to the Wanaka Airport are:

1. Encouraging higher contribution visitor activity.
2. Future proofing infrastructure.
3. Encouraging expanding economic development activities for the district.
4. Achieving higher growth in visitor arrivals in Wanaka.

2.2 The Need for Change

An investment logic mapping exercise (ILM) was held on 16 June 2016 with key stakeholders (full details at Appendix A) to gain a better understanding of drivers and the need for change. The stakeholder panel identified three problem statements, shown below with weightings:

- A lack of clear direction and competition for Council resources means investment is reactive and not prioritised - 40%
- Failure to determine the strategic direction limits Council's ability to maximise opportunities and to protect the asset - 50%
- Council's existing arrangements lead to sub-optimal outcomes - 20%

The topic of investment in growth for Wanaka Airport has been the subject of discussion for many years. For example, an article from the Otago Daily Times in 2009[12] explored the gap between the governance/management then in place and what might be required going forward: "A decade of growth at Wanaka Airport has prompted a call for a new corporate management model to attract more than $10 million in investment and fulfil its master plan of being a certified, regional airport by 2036."

Evidently, the need for change has been known for some time, however what has been missing is the right impetus to push plans over the line. The Astral report describes the current situation in the following way: "…responsibility for the Airport within QLDC appears to be very fragmented and the strategic value of the airport asset is at risk of being lost through this and high staff turnover with little institutional knowledge." (page 36)

Potential options for future growth of the airport have been well-outlined, in particular by the Astral report. What is needed now is a governance structure that will identify in detail and pursue the best outcome for the airport and QLDC, both economically and in terms of delivery of air services.

The governance structure going forward will be responsible for setting a direction in areas such as the following:

- Physical expansion strategy – expansion to the north or south.

[11] http://www.qldc.govt.nz/assets/Uploads/Council-Documents/Strategies-and-Publications/Queenstown-Lakes-Economic-Development-Strategy-Consultation-Document.pdf

[12] https://www.odt.co.nz/regions/queenstown-lakes/new-airport-management-model-sought

- The purchase of land adjacent to the current runway in order to facilitate expansion.
- Increased revenue – may include advertising and marketing the range of services available at Wanaka Airport.
- Management of the Wanaka Airport brand as a gateway for tourists to the region.
- Holistic management of the airport as a tourist destination in its own right – airshows, the café, the museum etc.

Economic

According to the Astral report, Wanaka Airport brings in a "…modest income stream of about $230,000 annual EBIT" (page 4), which is largely comprised of landing fees and ground rents. Astral believe that this revenue could be significantly increased, which would be in line with QLDC's strategic goal for commercial properties of producing a positive commercial return or being operated to at least cover their costs.

The QLDC Ten Year Plan has a total capital programme of $396M, of which $1.5M relates to Wanaka Airport (QLDC, LTP 2015-25, page 21)[13] In a previous version of the Astral report (published in December 2015), there was an indicative capital budget projected out to the 2030/31 financial year that showed a total CAPEX of $15.4M with $2M occurring in the next two years. These numbers were not included in the final report, but give an indication of the level of investment potentially required over that 15-year period, which far exceeds what is currently in the LTP.

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/or operated in order to focus on increasing revenue.

2.3 The Case for Change

Key stakeholders identified three key benefits for this proposal at a facilitated workshop on 16 June 2016. The case for change is summarised below for each of the key benefits.

Benefit One	Improved, well-aligned and integrated air services for the district (40%)
Existing Arrangements	An increase in visitor numbers is driving a need for increased air services in the district that meets the needs of both visitors and residents. Site limitations at Queenstown Airport mean that a district-wide response to demand is required. Wanaka Airport currently operates independently from the other air services in the district.
Business Needs	A coordinated response to the increased demand for air services in the district that meets the needs of both visitors and residents, now and into the future.
Potential Scope	Core: Alignment of priorities across the district air services. Desirable: Integrated planning between air services in the district. Aspirational: One entity planning and delivering air services in the district.
Potential Benefits	KPI 1: Air service resilience KPI 2: Improved customer satisfaction
Potential Risks	Conflict between local and district priorities.

[13] http://www.qldc.govt.nz/assets/Uploads/Council-Documents/Ten-Year-Plans/2015-2025-TYP-VOL1.pdf

Benefit Two	Improved economic and financial performance (25%)
Existing Arrangements	There is currently a modest income stream, which is supported by money from QLDC where needed. The potential for increasing various revenue streams, for example more expensive landing fees, are not currently being pursued.
Business Needs	To meet QLDC's aim of realising a positive commercial return from the Wanaka Airport. To encourage expanding economic development activities for the district such as increasing visitor arrivals through the Wanaka Airport.
Potential Scope	Core: Operated to at least cover its costs (breakeven). Desirable: Produce a positive commercial return. Aspirational: Maximising the economic return to the district.
Potential Benefits	KPI 1: Return on Investment KPI 2: Passenger numbers
Potential Risks	Significant downturn in demand.

Benefit Three	Quality investment decisions (35%)
Existing Arrangements	Under the existing arrangement of QLDC asset ownership with QAC as the contracted airport operator, long-term strategic and master planning is being neglected.
Business Needs	To move away from maintaining the 'business as usual' model and instead to create a level of expert governance that utilises a business case approach to investment and can drive the airport forward in terms of reaching its goals.
Potential Scope	Core: Improved long-term planning. Desirable: Improved long-term planning supported by robust business cases. Aspirational: Investment decisions that maximise the value of the airport to the district.
Potential Benefits	KPI 1: Delivery against plans KPI 2: Investments supported by business case
Potential Risks	A lack of skills and capability at both the management and governance levels. Political interference in decision making.

3 Economic Case

3.1 Critical Success Factors

In addition to the benefits being sought, the following assessment criteria were used for screening the options:

Strategic fit and business needs - significance policy, economic development, transport strategy.

Potential value for money - right solution, right time at the right price.

Supplier capacity and capability - is it a sustainable arrangement (external)?

Potential affordability - is there funding available?

Potential achievability - ability and skills to deliver (internal)?

A full record of the assessment of options against these criteria can be found at Appendix A. From this, a shortlist of options was identified.

3.2 Identify Shortlisted Options

Within the potential scope of this proposal, the following longlist options for providing the identified services were identified by key stakeholders:

Table 1: Possible longlist options classified by the five dimensions of choice

Dimension	Description	Options within each Dimension
Scale, scope and location	When considering change should we simply be focussing on the Wanaka Airport or should we be looking at the other air services in the district?	• Wanaka only • Wanaka and Queenstown • Entire district air services
	What activities are we best focussing on when considering change?	• Operations only • Long-term planning only • Governance only • Combinations of the above • All of the above
Service solution	How could the activities identified above be delivered?	• Status quo – management services agreement (MSA) • Enhanced MSA (this could include enhanced QLDC management) • Long-term lease • Enhanced MSA and long-term lease • Dedicated business unit • Council-controlled trading organisation (CCTO) • Sale to another organisation
	How governance could be delivered was considered separately.	• Status quo – full council • Council subcommittee • Independent board

Service delivery	Who can help us to deliver the services? E.g. in-house or out-sourced or alternative partnering arrangements.	• Status quo – QLDC plus QAC • QLDC • QLDC plus a new CCTO • QLDC plus another organisation • Another organisation

On the basis of the initial assessment of the longlist options (shown in Appendix B) and a subsequent workshop with elected representatives on 12 July 2016, the following shortlisted options were selected for further economic analysis:

- Option one: Status Quo or Do Nothing *(retained as a baseline comparator)*
  A new management services agreement is about to be implemented with a greater focus on health and safety. It will have a 3-year term, but includes a 3-month termination clause.

- Option two: Enhanced Planning and Governance *(do minimum option)*
  This option focusses on improving the long-term planning and governance of Wanaka Airport undertaken by QLDC with the management services agreement enhanced to also include a long-term lease to QAC. It has been assumed under this option that QLDC would continue to fund capital investment in Wanaka Airport.

- Option three: Lease to QAC *(the preferred way forward)*
  This option focusses on transferring the operations, long-term planning and governance of Wanaka Airport to QAC via enhanced management services under a long-term lease agreement. It has been assumed under this option that QAC would be incentivised to fund capital investment in Wanaka Airport through the lease agreement and their Statement of Intent.

- Option four: Sale to QAC *(an alternative way forward)*
  This option focusses on transferring the operations, long-term planning and governance to QAC via a sale and purchase agreement. Under this option the future direction of Wanaka Airport could only be controlled via the QAC Statement of Intent.

- Option five: District Air Services *(a more ambitious option)*
  This option effectively takes the preferred option for Wanaka Airport (option three or four) and includes the Glenorchy Aerodrome.

In summary, any of the longlist options that effectively had Wanaka Airport operating in competition to Queenstown Airport were seen as not delivering on the key benefit of improved, well-aligned and integrated air services for the district. One could argue that the competition may drive better performance from both airports and therefore improve air services for the district. However, as highlighted in the Valuation Report[14] the growth and potential of Wanaka Airport is restricted due to its close proximity to Queenstown Airport. It was therefore considered that the preferred way forward was to operate the two airports in a complementary manner.

3.2.1 Advantages and Disadvantages

The following assessment considers the advantages and disadvantages for each shortlisted option.

[14] Valuation Report, Wanaka Airport 933 Wanaka – Luggate Highway / SH6, Wanaka, August 2016.

Table 2: Advantages and disadvantages of the shortlisted options

Option	Advantages	Disadvantages
Option one: Status Quo *(do nothing)*	• No disruption to current management/services. • No need to carry out Special Consultation Process. • QLDC retains the ability to control direction of the airport.	• Unlikely to fulfil CAA requirements for Part 139 if airport was to become certified. • Strategic direction for airport remains unfocussed and undriven. • Lack of institutional knowledge. • Competing for funding against other council priorities.
Option two: Enhanced Planning and Governance *(do minimum)*	• More focussed approach to governance and better opportunity to achieve strategic aims. • Dedicated resource to drive management of the airport. • QLDC retains the ability to control direction of the airport.	• Not enough incentive offered for current management (QAC) to invest in significant change. • Still competing for funding against other council priorities.
Option three: Lease to QAC (CCTO) *(the preferred way forward)*	• QLDC would receive regular income from leasing agreement as well as 75.1% share of dividend payments. • QAC has expertise and experience to make quality investment decisions. • QLDC as owner of the asset would have ultimate control over direction of airport and investment decisions. • More focussed approach to governance and best opportunity to achieve strategic aims. • QAC better incentivised to increase profitability. • QAC already has personnel capable of meeting CAA requirements for Part 139.	• Special Consultation Process would be triggered. • Potential community concern around losing control of the airport. • Potential resistance from lease / licence holders and operators to increases in fees in order to match development aspirations. • A perceived profit ahead of outcomes for the Wanaka community.

Option	Advantages	Disadvantages
Option four: Sale to QAC (*an alternative way forward*)	Generally, as per Option 3 plus: • QLDC capital available for alternative core infrastructure investments. • QLDC would still be majority shareholder.	Generally, as per Option 3 plus: • Asset would no longer be wholly owned by QLDC (24.9% would be owned by AIAL). • Greater potential community concern around losing control of the airport. • Amendment to the Long Term Plan required. • Review by Office of the Auditor-General required.
Option five: District Air Services *(a more ambitious option)*	As per Option 3 or 4 plus: • Opportunity to align air services district-wide.	As per Option 3 or 4 plus: • Movement away from the recently notified Glenorchy Airstrip Reserve Management Plan. • Potential community concern around commercialisation of Glenorchy Aerodrome.

3.3 The Preferred Option

For the purposes of the analysis, the following assumptions have been made:

1. That the wider district benefits will be very similar for all the options other than Option 1 (do nothing). Therefore, we have conducted the economic analysis from the council perspective.
2. That the capital investment undertaken by QAC is only undertaken if there is a positive return on that investment. Therefore, we can assume that under Options 3, 4 & 5 there will be insignificant impact on the QAC dividend.
3. The value of the Wanaka Airport has been taken as per the Valuation Report.
4. The lease rental has been modelled at percentage of the gross income as recommended by the valuation consultant for Option 3 but at a lower rate for Option 2 where QAC would have limited control over the investment programme.
5. The capital investment undertaken by Option 2 is likely to be less than that under Options 3 and 4 as it will be subject to competing priorities across council for funding.

All of the numbers used in our modelling are high level estimates only as final values will be subject to negotiations, hence they may vary significantly.

Table 3: Summary of shortlist options assessment

	Option 1: Status Quo	Option 2: Enhanced Planning & Governance	Option 3: Lease to QAC	Option 4: Sale to QAC	Option 5: Lease to QAC (incl. Glenorchy)
Appraisal Period (years)	30	30	30	30	30
Capital Costs	0.0	30.4	0.0	0.0	0.0
Whole of life costs	0.0	38.3	1.4	28.9	1.4
Cost-benefit analysis of monetary costs and benefits					
Present Value of monetary benefits	0.0	5.0	6.7	20.2	6.7
Present Value of costs	0.0	18.0	1.1	7.8	1.1
Net present value	0.0	-13.0	5.6	12.4	5.6
Multi-criteria analysis of non-monetary benefits					
Benefits	None	Low	Medium	Med-High	High
Risks	Low	Medium	Low	High	Medium
Dis-benefits	Low	Medium	Med-High	High	Med-High
Preferred option	5	4	1	3	2

The options analysis is sensitive to significant drivers and the following scenarios were tested:

1. Sensitivity to lease and sale price variations.
   At 100% of net income, the NPV of the lease option is \$11.3M, still below the sale option. The NPV of the lease and sale options are approximately equal at a sale price of \$6.7M.
2. Sensitivity to reduced dividend returns to QLDC.
   A 10% reduction in the QAC dividend would be necessary under the sale option to make it equivalent to the lease option.

The preferred option is a long-term lease to QAC. The airport would remain wholly owned by QLDC, however QAC would be better incentivised to work towards increasing revenue opportunities. It ensures that:

- Queenstown and Wanaka airports are run in a complementary manner.
- Ownership is retained by QLDC.
- Control over the future direction of the airport is maintained via lease and MSA conditions and the QAC statement of intent (SOI).
- A positive NPV is achieved.
- It enables a future decision on the sale of the airport if cash is needed or the value is maximised.

The other shortlisted options were rejected because they either failed to significantly increase the level of governance and therefore would be unlikely to progress the identified opportunities for growth, or because they resulted in loss of ownership of the asset.

4 Commercial Case

The procurement strategy is for the provision of management services under a long-term lease contract. This contract will need to comply with section 6 of the *Airport Authorities Act* which requires the airport authority (QLDC) to consult with and have regard to the directions of the Civil Aviation Authority of New Zealand.

The required services are day-to-day management of the asset(s) being leased as well as governance of a future growth programme in line with the district demand for air services and balanced with the needs of the community. The lease terms will need to be structured so as to incentivise or require future investment.

While QLDC owns a majority controlling share of QAC, there is a minority shareholder and so any terms of a lease will need to be defensible to ratepayers.

To avoid wasted effort, part of the commercial work should involve QAC. To avoid any perception of a conflict of interest, QAC should be a consulted party in how QLDC could structure any commercial terms for the transfer. QAC should not play a role in the compilation of information for QLDC to adopt, but its position can be considered by QLDC. This is because, while it is not considered that there is a true conflict (QAC being a CCTO), AIAL's shareholding means that there is a potential perception issue for QLDC to manage.

Key considerations for inclusion in the negotiations are:

- Incentives for encouraging investment in Wanaka Airport.
    - Accept a lower rental on the preface that QAC would introduce capital and strategic management, with the projection that long-term QLDC would receive improved returns and the community would be better served.
    - A longer term should give QAC the confidence to invest. Particularly if they are to install underground infrastructure.
    - Lower ground rentals could be agreed for areas that have had capital investment by QAC. E.g. 10% of gross income for a period of say 20 years.
    - Specific KPI's could be set with regular review periods.
- Local involvement in setting strategic direction for Wanaka Airport.
    - Specific KPI's could be set with regular review periods.

A recommended lease rental arrangement is for it to be tied to the net income of Wanaka Airport. It is proposed that the percentage of rent payable to QLDC for the ground lease net income should be a lot higher than the percentage of rent payable for the landing fee net income. Balancing this out at 60% vs 40% in favour of QLDC gives a return on asset value, and also gives the operator a decent return and incentive.

Experience from the Queenstown Marina shows that it was very difficult to write up a lease agreement to mirror this type of approach. The issue being expenses, because if expenses are not efficiently managed by the operator, either intentionally or unintentionally (e.g. wages over inflated), then it will skew the rental return. So another way to look at this, with a far simpler method of calculation, is say 35% to 40% of total gross income, and agree that at the outset.

5 Financial Case

The financial analysis model and the associated methodology is based on a lease rental return to QLDC that is tied to the gross income of Wanaka Airport. The financial modelling has assumed a low return to QLDC based on the proposed models suggested by the valuation consultant.

The proposed funding arrangements are that QAC would fund all future capital investments and operating expenditure other than depreciation and existing debt servicing costs.

The financial analysis of the preferred option demonstrates that it is affordable and is an improved situation for both QLDC and QAC.

The final figures will need to be determined through negotiation but any variations are unlikely to be material.

Table 4: Financial analysis

	2017/18	2018/19	2019/20	2020/21	……..	LTP Total
Capital expenditure	0	0	0	0		**0**
Operating expenditure	190,000	170,000	160,000	160,000		**1,090,000**
Total expenditure	190,000	170,000	160,000	160,000		**1,090,000**
Revenue	200,000	250,000	280,000	320,000		**2,510,000**
Capital required	0	0	0	0		**0**
Surplus / (Deficit)	10,000	80,000	120,000	160,000		**1,420,000**

These figures are indicative only and will be subject to final negotiations with QAC.

6 Management Case

Consultation

Meredith Connell (legal experts), were asked to set out a timeline that would enable QLDC to consult the public and make a decision on determining the future governance model before the end of the triennium.

The timeline for achievement of various milestones, which has been updated following the issue of the Meredith Connell memo, is shown below.

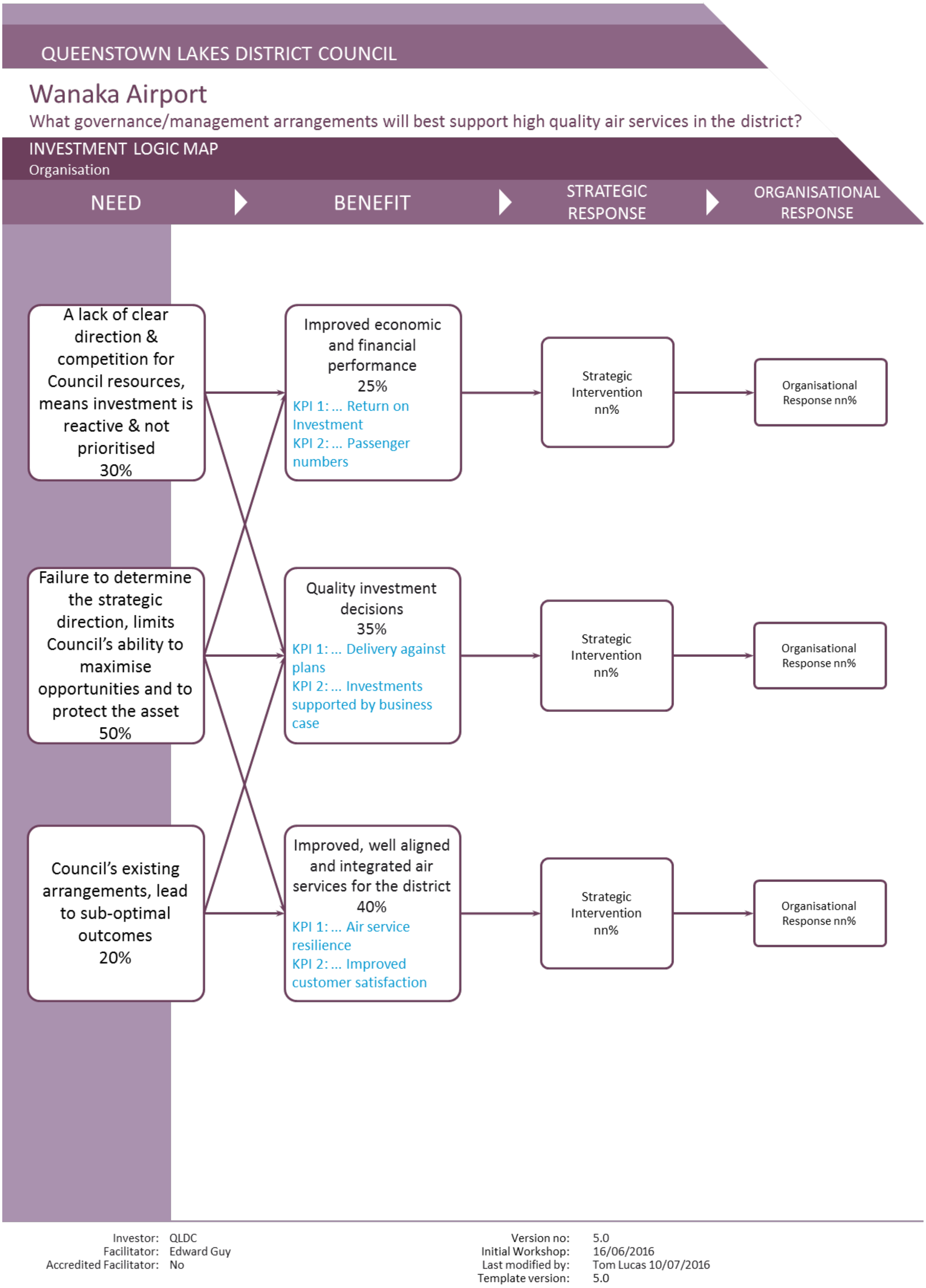
a) **26 August – early September 2016**: Drafting statement of proposal and finalising reports.
b) **13 September 2016**: Council workshop to consider business case and preferred option.
c) **29 September 2016**: Council meeting. Adoption of statement of proposal and commencement of special consultative procedure (SCP) by resolution, including delegation of any hearings committees (this will either have to await the new Councillors, or be delegated by reference to status (e.g., the Wanaka Ward Councillors and the Mayor), so that it does not matter who is elected.
d) **Mid October 2016:** SCP begins.
e) **Post-election**: Dates for submissions to close, hearings, and final decision can be made once the availability of the new Council is known.

Negotiation with QAC

In parallel with the consultation process, it is proposed that Council staff are authorised to begin negotiations with QAC to try and reach commercial terms that are acceptable to both parties. Ideally a position should be reached that is acceptable to both parties and ready for the new Council to consider at the time of hearings.

7 Next Steps

This business case seeks formal approval from QLDC by way of adoption of the draft statement of proposal. On adoption of the statement of proposal at Council's 29 September meeting, the Special Consultation Process would then be initiated.



Appendix A – Investment Logic Map

Wanaka Airport - What governance/management of the Wanaka airport will best support high quality air services in the district?

Longlist Options Assessment

	Scope Options (What)								
	Location			Activity					
	SL-1	SL-2	SL-3	SA-1	SA-2	SA-3	SA-4	SA-5	SA-6
Description of Option:	Wanaka only	Wanaka and Queenstown	Entire district air services	Operations	Long term planning	Governance	Operations and Long term planning	Long term planning and governance	Op.s, Long term planning & governance
Investment Objectives									
Improved, well aligned and integrated air services for the district 40% KPI 1: Air service resilience KPI 2: Improved customer satisfaction	Partial	Yes	Yes	No	Partial	Partial	Partial	Yes	Yes
Improved economic and financial performance 25% KPI 1: Return on Investment KPI 2: Revenue KPI 3: Profitability KPI 4: Passenger numbers	Yes	Yes	Yes	Partial	Partial	Partial	Partial	Partial	Yes
Quality investment decisions 35% KPI 1: Annual program delivery KPI 2: Delivery against longer term plan KPI 3: Investments supported by business case	Partial	Yes	Yes	No	Partial	Partial	Partial	Yes	Yes
Critical Success Factors (as these CSFs are crucial (not desirable) any options that score a 'no' are automatically discounted from further analysis									
Strategic fit and business needs - *significance policy, economic development, transport strategy*	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes
Potential value for money - *right solution, right time at the right price*	Yes	Yes	Partial		Partial	Partial	Partial	Partial	Yes
Supplier capacity and capability - *is it a sustainable arrangement (external)*	Yes	Yes	Yes		Yes	Yes	Yes	Yes	Yes
Potential affordability - *is there funding available*	Yes	Yes	Partial		Yes	Yes	Yes	Partial	Yes
Potential achievability - *ability and skills to deliver (internal)*	Yes	Yes	Yes		Yes	Yes	Yes	Yes	Yes
Summary of Advantages and Disadvantages:									
Overall Assessment:	Possible	Preferred	Possible	Discount	Possible	Possible	Possible	Possible	Preferred
Short-listed options:									
Status Quo	Status Quo - Do Nothing			Status Quo - Do Nothing					
Do Minimum	SL-2 Wanaka and Queenstown			SA-5 Long term planning and governance					
Preferred	SL-2 Wanaka and Queenstown			SA-6 Op.s, Long term planning & governance					
Preferred - alternative	SL-2 Wanaka and Queenstown			SA-6 Op.s, Long term planning & governance					
More Ambitious	SL-3 Entire district air services			SA-6 Op.s, Long term planning & governance					

Appendix B – Longlist Options Assessment

Wanaka Airport - What governance/management of the Wanaka airport will best support high quality air services in the district?

Longlist Options Assessment

	Service Solution Options (How)										Service Delivery Options (Who)				
	Management / ownership							Governance							
	SS-1	SS-2	SS-3	SS-4	SS-5	SS-6	SS-7	SG-1	SG-2	SG-3	SD-1	SD-2	SD-3	SD-3	SD-4
Description of Option:	Status Quo - Do Nothing	Enhanced MSA	Dedicated business unit	Long term lease	MSA & Long term lease	CCTO	Private sale	Status Quo - Council	Subcommittee	Independent board	QLDC	QLDC + QAC	QLDC + New CCTO	QLDC + Other	Other
Investment Objectives															
Improved, well aligned and integrated air services for the district 40% KPI 1: Air service resilience KPI 2: Improved customer satisfaction	No	Partial	Partial	No	Partial	Partial	No	No	Partial	Partial	Partial	Yes	Partial	Partial	No
Improved economic and financial performance 25% KPI 1: Return on Investment KPI 2: Revenue KPI 3: Profitability KPI 4: Passenger numbers	No	Partial	Partial	Partial	Partial	Yes	Partial	No	Partial	Partial	Partial	Yes	Yes	Yes	Partial
Quality investment decisions 35% KPI 1: Annual program delivery KPI 2: Delivery against longer term plan KPI 3: Investments supported by business case	No	Partial	Partial	Partial	Partial	Yes	Partial	No	Partial	Partial	Partial	Yes	Partial	Partial	Partial
Critical Success Factors (as these CSFs are crucial (not desirable) any options that score a 'no' are automatically discounted from further analysis															
Strategic fit and business needs - *significance policy, economic development, transport strategy*	No	Yes	No	Partial	Yes	Yes	No	No	Yes	Yes	No	Yes	Partial	No	No
Potential value for money - *right solution, right time at the right price*		Partial		Partial	Partial	Yes			Yes	Yes		Yes	Partial - nearly a no!		
Supplier capacity and capability - *is it a sustainable arrangement (external)*		Yes		Yes	Yes	Yes			Yes	Yes		Yes	Yes		
Potential affordability - *is there funding available*		Partial		Yes	Yes	Yes			Yes	Yes		Yes	Yes		
Potential achievability - *ability and skills to deliver (internal)*		Yes		Yes	Yes	Yes			Yes	Yes		Yes	Yes		
Summary of Advantages and Disadvantages:															
Overall Assessment:	Continued for VFM	Possible	Discount	Possible	Possible	Preferred	Discount	Continued for VFM	Possible	Possible	Discount	Preferred	Possible	Discount	Discount
Short-listed options:															
Status Quo	Status Quo - Do Nothing							Status Quo - Do Nothing			Status Quo - Do Nothing				
Do Minimum	SS-5 MSA & Long term lease							SG-2 Subcommittee			QLDC + QAC				
Preferred	SS-6 CCTO							SG-3 Independent board			QLDC + QAC				
Preferred - alternative	SS-6 CCTO							SG-3 Independent board			QLDC + New CCTO				
More Ambitious	SS-6 CCTO							SG-3 Independent board			QLDC + QAC				

Appendix C – Shortlist Options Assessment

Wanaka Airport - What governance/management of the Wanaka airport will best support high quality air services in the district?

Investor: QLDC
Facilitator: Edward Guy/Tom Lucas
Initial Workshop: 16-06-16
Version No.: 1
Last Modified by: Tom Lucas 19/09/16

	Activity options				
	Status Quo	**Do Minimum**	**Preferred**	**Preferred - Alternative**	**More Ambitious**
Scope Options (What) - Location	Status Quo - Do Nothing	SL-2 Wanaka and Queenstown	SL-2 Wanaka and Queenstown	SL-2 Wanaka and Queenstown	SL-3 Entire district air services
Scope Options (What) - Activity	Status Quo - Do Nothing	SA-5 Long term planning and governance	SA-6 Op.s, Long term planning & governance	SA-6 Op.s, Long term planning & governance	SA-6 Op.s, Long term planning & governance
Service Solution Options (How) - Management / ownership	Status Quo - Do Nothing	SS-5 MSA & Long term lease	SS-5 MSA & Long term lease	Transfer Assets	SS-5 MSA & Long term lease
Service Solution Options (How) - Governance	Status Quo - Do Nothing	SG-2 Subcommittee	CCTO	CCTO	CCTO
Service Delivery Options (Who)	Status Quo - Do Nothing	QLDC	QLDC + QAC	QAC	QLDC + QAC

		Relative Importance of objective	0%	72%	82%	76%	84%
Benefit 1	Improved, well aligned and integrated air services for the district KPI 1: Air service resilience KPI 2: Improved customer satisfaction	40%	0	3.60	4.00	3.60	4.20
Benefit 2	Improved economic and financial performance KPI 1: Return on Investment KPI 2: Revenue KPI 3: Profitability KPI 4: Passenger numbers	25%	0	3.40	4.20	4.20	4.20
Benefit 3	Quality investment decisions KPI 1: Annual program delivery KPI 2: Delivery against longer term plan KPI 3: Investments supported by business case	35%	0	3.80	4.20	3.80	4.20

	Status Quo	Do Minimum	Preferred	Preferred - Alternative	More Ambitious
Cost					
Investment cost (Range)	No change	$30k - $70k	$50k - $100k	$70k - $130k	$50k - $130k
Operational costs (per annum) (Range)	No change	$150k - $250k	0	0	0
Net Present Value		-11 to -15	5 to 6	11 to 14	5 to 6
Time					
From approval to proceed to implementation (Range)	N/A	2 - 4 months	3 - 6 months	3 - 9 months	3 - 9 months
Risks					
Political (reputation and image risks)	M - not seen to be making the best use of assets	M - not seen to be making the best use of assets	H - adverse local media coverage likely	VH - High profile community concerns almost certain	VH - High profile community concerns almost certain
Economic (external & internal financial risk)	H - not maximising the return from this strategic asset	H - not maximising the return from this strategic asset	L - improved performance from commercial setup	M - improved performance from commercial setup	L - improved performance from commercial setup
Sociocultural (community focused risks)	L - minimal impact on community	L - minimal impact on community	M - marginal decrease in community support	M - marginal decrease in community support	M - marginal decrease in community support
Technological (systems risks)	M - some reduction in service delivery standards	M - some reduction in service delivery standards	L - negligible impact on service delivery standards	L - negligible impact on service delivery standards	L - negligible impact on service delivery standards
Environmental (natural risks)	M - noise, odour and water quality risks	M - noise, odour and water quality risks	M - noise, odour and water quality risks	M - noise, odour and water quality risks	M - noise, odour and water quality risks
Legal (compliance risks)	M - accountability ultimately sits with QLDC	M - accountability ultimately sits with QLDC	L - accountability sits with QAC	L - accountability sits with QAC	L - accountability sits with QAC
Legal (legal challenge)	L - already in place	L - limited contractual changes	M - technical legal challenge or breach - moderate	H - some legal contraints imposed - likely	M - technical legal challenge or breach - moderate
Business risks (resources and funding)	L - already in place	M - additional resources required: staff, time, cash	I - shifted to QAC	I - shifted to QAC	I - shifted to QAC
Service risks (change management)	I - no change required	L - limited change from the status quo	M - commercial terms impact on success	M - commercial terms impact on success	H - more complicated as it is reserve land
Dis-benefits					
Reduced control regarding future direction of the airport	I - no change required	L - limited change from the status quo	M - statement of intent and lease conditions	H - statement of intent is only control	M - statement of intent and lease conditions
Higher fees for lease/license holders and operators	L - some increases will be required	H - increases will be required to make a lease worthwhile	H - increases will be required to make a lease worthwhile	H - increases will be required to make a return on capital	H - increases will be required to make a lease worthwhile
Taxation changes	m - change required	m - change required	m - change required	m - change required	m - change required
Dependencies					
Ability of third party to raise capital	I - no change required	I - no change required	M - limited to the development of the airport	M - depends on fair value of the asset	M - limited to the development of the airport
Benefits:					
1 Capital is made available for other council priorities	No change	Limited capital from lease receipts	Limited capital from lease receipts	Capital funds made available	Limited capital from lease receipts
2 Encourages greater investment in the Wanaka Airport	No change	Limited investment likely to be encouraged	Commercial & council drivers to encourage development	Ownership may encourage even more development	Commercial & council drivers to encourage development
3 Flexibility and adaptability going forward	Does not preclude any options going forward	Long-term lease reduces flexibility	Long-term lease reduces flexibility	No change	Commercial & council drivers to encourage development
Ranking					
1-3	5	4	1	3	2

Overall Assessment:

Lease to QAC (preferred) is favoured due to its good delivery of benefits with a relatively low level of risk. This option could be expanded on in the future to consider the Glenorchy Aerodrome and hence this option (more ambitious) is ranked as the next preferred. Sale to QAC (preferred - alternative) is considered to have a very high level of risk around the community concerns of selling a strategic asset which is unlikely to outweigh the financial benefits. The enhanced status quo (do minimum) lacks the focus and direction necessary to run a specialised commercial activity such as an airport, which will limit benefits and financial returns.

Recommendation:

That the Lease to QAC (preferred) option is progressed adopted and progressed with QAC. The integration of Glenorchy Aerodrome under this arrangement should be considered at a later date.