

[In Confidence]

Office of the Minister of Transport

Cabinet Economic Development Committee

Essential Transport Connectivity Scheme: Support for Milford Aerodrome and two minor ETC funding matters

Proposal

- 1 This paper seeks Cabinet's agreement to:
 - 1.1 use \$3.175 million from the non-aviation sector pool of the Essential Transport Connectivity Scheme (ETC) to fund the operations of Milford Sound/Piopirotahi Aerodrome (the aerodrome) over the next two financial years to ensure its ongoing safe operation;
 - 1.2 transfer \$1 million from the non-aviation sector pool of the ETC to the aviation pool of the ETC to ensure sufficient funds are available to fund small-scale future aviation sector support arrangements; and
 - 1.3 extend the multi-year appropriation for the ETC to 30 June 2023, ahead of Cabinet decisions on whether to extend the scheme, which will be made after Budget 2022 decisions have been taken.

Executive Summary

Milford Aerodrome

- 2 The aerodrome is Government owned and operated by the Ministry of Transport (the Ministry).
- 3 The Ministry is not able to recover the costs of running the aerodrome from users due to reduced traffic levels, and must find another alternative to fund the operation.
- 4 I am seeking \$3.175 million over two years, repurposed from the non-aviation sector pool of the ETC Scheme, to cover the operational costs of the aerodrome.

ETC scheme

- 5 The ETC supports the continued operation of essential transport routes and services in the face of COVID-19 travel restrictions and reduced passenger demand and was established on 11 May 2020 [CAB-20-MIN-0219].
- 6 Funding was divided into two pools; \$15 million was allocated to the non-aviation sector (from the COVID-19 Response and Recovery Fund) and \$10.7 million to aviation sector (from the \$600 million aviation relief package).
- 7 \$1.286 million is remaining in the aviation sector pool, and \$10.035 million is remaining in the non-aviation sector pool. To ensure that future support to the aviation sector can be funded, I am seeking the transfer of \$1m from the non-aviation sector pool to the aviation sector pool.

- 8 I will shortly seek a decision from Cabinet regarding the future of the ETC scheme beyond the current end date of 30 April 2022. In the meantime, I request an extension of the existing multi-year appropriation for the ETC to 30 June 2023 to ensure this appropriation is available to be used beyond 30 June 2022. This extension does not commit Cabinet to extend the ETC scheme.

Part A - Milford Aerodrome

Background

- 9 The Ministry operates the aerodrome, located at the head of Milford Sound Piopiotahi (Milford) in the Fiordland National Park.
- 10 The aerodrome has various uses but one function it provides is as an emergency transport hub. Within the last five years, the aerodrome has been used a number of times for evacuation purposes due to adverse weather conditions, flooding in the Milford region, the closures of the Homer Tunnel, and a 5.2 magnitude earthquake.
- 11 Whilst the future of the aerodrome is being worked through as part of the Milford Opportunities Project (MOP), the Ministry needs to keep the aerodrome operational.
- 12 Before COVID-19, the Ministry's revenue from the aerodrome was approximately \$325,000, and this covered the cost of aerodrome management and maintenance. For the six months from 1 July 2021 – 31 December 2021, revenue from the aerodrome was \$43,000
- 13 Airways Corporation of New Zealand Ltd (Airways) supports the safe operation of the aerodrome by providing an aerodrome flight information service (AFIS). AFIS staff contribute to the overall flight safety of the airspace to and from Milford, including condition reporting, weather information, flight forwarding, and act as the airfield's eyes and ears.
- 14 Airways has also been adversely affected by COVID-19, and is unable to recover its costs of providing the AFIS from users of the aerodrome. As the AFIS service is required for the safe operation of the aerodrome, the Ministry has an agreement to cover any shortfall Airways experiences between its revenue and the cost of the provision of AFIS at the aerodrome.
- 15 The Ministry pays a monthly average of \$45,000 to Airways for the AFIS service
- 16 In 2020, the Ministry undertook an aeronautical study¹ at the aerodrome. Following the receipt of the aeronautical study, the Director of the Civil Aviation Authority (the CAA) has determined that the aerodrome should become a 'Qualifying Aerodrome' under Part 139 of the Civil Aviation Rules in order to properly manage the level of risk to aviation safety associated with the aerodrome.

Management oversight at the aerodrome needs to increase

- 17 Management of the aerodrome is currently provided by Airport Management Consultants Ltd (AMCL), which is run by a sole trader based in Arrowtown.
- 18 As a qualifying aerodrome, the aerodrome would be subject to a comprehensive aerodrome inspection programme to ensure that it conforms to all the CAA safety

¹ An aeronautical study is a tool used to review aerodrome and airspace processes and procedures to ensure safety criteria in place are appropriate. An aeronautical study may contain many elements; however, risk assessment, risk mitigation and risk elimination are key components.

requirements and that any deficiencies are identified, and effective remedial action is taken before small defects develop into significant safety hazards.

- 19 Due to the increased regulatory oversight the airport will be subjected to as a qualifying aerodrome, the Ministry wants better assurance of continuity and redundancy, should key personnel become unavailable for any reason.
- 20 In late 2021, the Ministry put out a tender for management of the aerodrome. The preferred bidder is a consortium led by Invercargill Airport with QAOSH Aviation Systems Ltd (QAOSH). QAOSH currently manage the *Te Anau Airport Manapouri*.
- 21 The Ministry has estimated that \$1.675 million is required per annum to operate the aerodrome over the next two financial years. For the 2022/23 financial year this amount can be partially offset by an expense transfer of \$175,000 from 2021/22 to 2022/23.
- 22 Funding for two years is being sought, as during the next two years, the MOP will be undertaking feasibility studies on a number of recommendations that came out of the Milford Master Plan, one of which was to close the aerodrome. Until that work is completed, the aerodrome needs to be operated safely. The funding will enable the Ministry to meet its health and safety obligation of ensuring that the airport operates in conformity to civil aviation requirements.
- 23 The funding proposed will not lead to a reduction in operators fees for using the aerodrome. It would mainly cover the costs of the Ministry and Airways. It may cushion operators from an immediate fee increase in the next 12 months whilst both the Ministry and Airways undertake funding reviews to ensure that they are able to recover the costs of operating the aerodrome from aerodrome users.

Options for funding the operation of the aerodrome

- 24 The Ministry needs \$1.675 million per annum for two years (2022/23 and 2023/24) to cover the costs of operating the aerodrome. This amount includes contracting the Invercargill Airport-led consortium to manage the aerodrome, maintaining the aerodrome assets, and covering depreciation and capital charges.

Option 1 – In-house management of the aerodrome (not recommended)

- 25 Bringing the management of the aerodrome in-house would cut almost 30 percent from the aerodrome's operating costs.
- 26 This option would be contrary to one of the recommendations of an earlier aeronautical study undertaken in 2017. The 2017 study highlighted the risks of leaving management of the aerodrome to policy advisers without the necessary expertise and who are based remotely in Wellington. It recommended that the Ministry contract professional management to run the aerodrome. This was endorsed by the CAA.
- 27 Bringing the management of the aerodrome in-house would not give effect to the Director of Civil Aviation's determination that the aerodrome should become a qualifying aerodrome.

Option 2 – Fund from Ministry baseline (not recommended)

IN CONFIDENCE

- 28 The Ministry's baseline funding is under significant pressure and it has very little discretionary funding available to cover any revenue reductions and additional costs associated with the aerodrome's operations.
- 29 There are significant additional demands on the Ministry this year associated with climate change and the Resource Management Act reform, for which no additional funding has been received. The Ministry's discretionary funding has already been allocated to this work, and the Ministry has funded 21 additional roles in 2021 alone.

Option 3 – Fund through a budget bid (not recommended)

- 30 The process for Budget 2022 is well underway and only initiatives that have been invited by the Minister of Finance may be submitted for Budget 2022. Budget bids have been submitted to the Minister of Finance and are currently being assessed by Treasury. Budget Ministers will decide on a Budget 2022 package to recommend to Cabinet between mid-February and the start of April 2022.
- 31 Given the potential oversubscription of the budget process, the fact that it is by invitation only and that this process is well underway, it is unlikely that putting a late bid in would be successful. An out of cycle bid is unlikely to be feasible under current settings.

Option 4 – Fund from the non-aviation sector pool of the Essential Transport Connectivity Scheme (ETC) (recommended option)

- 32 Funding for the operations of the aerodrome for 2020/21 and 2021/22 was provided from the aviation relief package. The aviation relief package also provided funding for the aviation sector pool of the ETC.
- 33 Cabinet has agreed to extend the ETC scheme to 30 April 2022 to align with the planned Step 3 of Reconnecting New Zealanders and to ensure essential transport services are maintained while domestic travel recovers from the impact of the current, and any future, COVID-19 restrictions (CAB-21-MIN-0520 refers).
- 34 Extending the current ETC agreements is expected to cost an average of \$0.558 million per month (a total of \$2.230 million from 1 January to 30 April 2022). After these funding extensions, there is expected to be \$11.3 million remaining in the ETC (\$1.286 million in the aviation sector pool, and \$10.035 million in the non-aviation sector pool).
- 35 There are sufficient funds in the ETC to cover future ETC expenditures as well as the operation of the aerodrome. Furthermore, the aerodrome does not fit the eligibility criteria for funding under the ETC as the airport is primarily used by tourists and does not receive scheduled services. There is also a conflict of interest for the Ministry as the administrator of the ETC to award funding to itself. Cabinet approval is therefore required to use this source of funding for the aerodrome.

Part B – two minor ETC funding matters

ETC scheme - transfer of funds from the non-aviation sector pool to the aviation sector pool

- 36 The ETC enables the government to respond quickly, on a case-by-case basis, where the failure of a transport service would have significant social and economic outcomes and would impact New Zealand's post-COVID resilience and recovery.

- 37 The ETC scheme is due to end on 30 April 2022. Continued cases of COVID-19 in the community and the impact this may potentially have on domestic travel, along with the continued absence of international tourists, mean that there may be a continued need for the support for the aviation sector in the intermediate term (i.e., post-30 April 2022) if operating conditions deteriorate from what they are currently or remain unchanged. The Ministry will provide advice on the future of the scheme to Cabinet in late March 2022.
- 38 Sufficient funding is available for the current aviation sector recipients through to the end of April, should they continue to qualify (with an estimated surplus of less than \$200,000 left). However, this is potentially insufficient to fund any new aviation sector claimants should they emerge; while the non-aviation sector pool has much more funding than it is expected to need.
- 39 To avoid the risk of having insufficient funds for new aviation sector claimants (and needing to return to Cabinet on such a small matter) I am seeking the transfer of \$1 million from the non-aviation sector pool to the aviation sector pool to ensure sufficient funds remain available to provide any future support needed to the aviation sector.

ETC scheme – extension of the multi-year appropriation pending Cabinet’s decision on the future of the ETC

- 40 The ETC scheme is due to expire on 30 April 2022. While international borders are opening and there are no longer any restrictions on domestic travel, operators advise that current levels of domestic demand are low. This is likely to be a consequence of people avoiding travel as the Omicron peak works its way down the country.
- 41 I will bring a detailed paper to Cabinet on the future of ETC in the coming weeks. However, a decision under that paper will be after the Budget moratorium takes effect on 11 April. The existing multi-year appropriation for the ETC scheme expires on 30 June 2022, and if not extended before the Budget moratorium, will expire on that date. Accordingly, I would like to take this opportunity to extend the current ETC appropriation through to 30 June 2023.
- 42 This will ensure that, if Cabinet does decide to extend the ETC, the existing multi-year appropriation is available for use. Extending the appropriation is administrative only; it does not prejudice Cabinet decisions or commit Cabinet to extend the ETC scheme, and does not require any additional funding.

Financial Implications

- 43 The Milford Airport proposal requests that \$3.175 million from the non-aviation sector ETC pool be repurposed to support the operation of the aerodrome.
- 44 The first ETC funding proposal requests that \$1 million from the non-aviation sector ETC pool be transferred to the aviation sector ETC pool to ensure that potential future aviation funding needs can be met. This does not require any changes to appropriations. However, Cabinet’s approval is sought as the original decisions for the ETC clearly established separate non-aviation sector and aviation sector components within the appropriation.

- 45 The second ETC funding proposal requests that the current ETC multi-year appropriation which expires on 30 June 2022 is extended to 30 June 2023. This does not require any additional funding.

Risks

- 46 There is uncertainty from operators on what government plans are for the aerodrome's future because the MOP master plan recommends removing the fixed wing runway.
- 47 MOP has received government funding to undertake feasibility studies on the various recommendations contained in the master plan. The study is expected to take two years.
- 48 There are a number of high-profile stakeholders, including Save Milford Airport and Destination Milford Sound who have a vested financial interest in the continued operation of the airport, and who may view any additional government investment as an endorsement or support for their position. This is not the case, as the proposal seeks support for two years to keep the aerodrome operational whilst the MOP works out detailed feasibility studies on the master plan recommendations.

Legislative Implications

- 49 There are no legislative implications.

Impact Analysis

- 50 The proposal does not require any regulatory change.

Climate Implications of Policy Assessment

- 51 A Climate Implications of Policy Assessment (CIPA) is not required for this proposal.

Population Implications

- 52 There are no population implications.

Human Rights

- 53 There are no human rights implications.

Consultation

- 54 The Treasury was consulted on Milford Aerodrome aspects of this paper and supported the recommended option. The Ministry of Business Innovation and Employment (MBIE-Tourism), and the Department of Conservation were also consulted. The views of MBIE-Tourism have been incorporated in the paper.
- 55 No consultation has been undertaken with the many other non-government stakeholders who have perspectives on the future of Milford Sound/Piopiotaahi including local government and iwi Māori, as the issue under consideration is funding to enable the safe operation of the aerodrome for the next two years whilst the MOP processes are worked through.
- 56 The Treasury was also consulted on the two minor ETC funding parts of this paper and supports the recommended approaches.

Communications

57 The funding is primarily intended to enable the Ministry to continue providing services and operations at the aerodrome. I do not intend to publicise the provision of support to Milford aerodrome, nor the transfer of funds within the ETC scheme.

Proactive Release

58 I will bring a detailed paper to Cabinet on the future of ETC scheme at the end of the Budget moratorium. I intend to release this Cabinet paper proactively after Cabinet has made a decision on whether to extend the ETC scheme beyond its current expiry date of 30 April 2022.

Recommendations

The Minister of Transport recommends that the Committee:

- 1 **note** that the Ministry of Transport (the Ministry) is unable to fund the operation of the Milford Sound/Piopiotaahi Aerodrome (the aerodrome);
- 2 **note** that Cabinet has agreed to extend the Essential Transport Connectivity Scheme (ETC) to 30 April 2022 (CAB-21-MIN-0520 refers);
- 3 **note** that the ETC is made up of an aviation sector and non-aviation sector pools and is likely to have \$1.286 million in the aviation pool and \$10.035 million in the non-aviation pool left on 30 April 2022;
- 4 **agree** to provide funding for the aerodrome by transferring \$3.175 million of the expected ETC non-aviation sector pool underspend;
- 5 **approve** the following fiscally neutral changes to appropriations to provide funding for the aerodrome, with no impact on the operating balance and/or net core Crown debt;

	\$m – increase/(decrease)				
Vote Transport	2021/22	2022/23	2023/24	2024/25	2025/26 & Outyears
Minister of Transport					
Departmental Output Expense:	3.175	-	-	-	-
Transport – Policy advice, ministerial servicing, governance, and other functions (funded by revenue Crown)					
Non-departmental Other Expense:	(3.175)	-	-	-	-

IN CONFIDENCE

Maintaining Essential Transport Connectivity					
--	--	--	--	--	--

- 6 **agree** to the following changes to appropriations to reflect the expected timing of the operational costs of the aerodrome, with no impacts on the operating balance and/or net core Crown debt across the forecast period:

Vote Transport Minister of Transport	\$m – increase/(decrease)				
	2021/22	2022/23	2023/24	2024/25	2025/26 & Outyears
Departmental Output Expense: Transport – Policy advice, ministerial servicing, governance, and other functions (funded by revenue Crown)	(3.175)	1.500	1.675	-	-

- 7 **note** that following the transfer above, \$6.86 million remains in the non-aviation ETC pool;
- 8 **note** that following the transfer above \$1.286 million remains in the aviation ETC pool, this may not be enough to meet future funding needs for the aviation sector;
- 9 **agree** to transfer \$1 million from the non-aviation sector ETC pool into the aviation sector ETC pool within the Maintaining Essential Transport Connectivity appropriation to allow this funding to be utilised to support the aviation sector.
- 10 **note** that further advice regarding the future of the ETC will be provided to Cabinet shortly, before the expiry of the existing ETC scheme on 30 April 2022;
- 11 **agree** to extend the expiry date of the multi-year appropriation: Maintaining Essential Transport Connectivity to 30 June 2023 to provide flexibility for future decisions regarding the ETC.
- 12 **agree** that the proposed change to appropriations for 2021/22 in recommendations 5, 6 and 11 above be included in the 2021/22 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply;

Authorised for lodgement

Hon Michael Wood
Minister for Transport