TE MANATŪ WAKA
MINISTRY OF TRANSPORT

OC220756

14 September 2022

Harry Peterson
fyi-request-19806-19a3f4c5@requests.fyi.org.nz

Tēnā koe Harry

I refer to your request, transferred to Te Manatū Waka Ministry of Transport on 24 August 2022, requesting the following under the Official Information Act 1982 (the Act):

> "*All documents and Cabinet Papers mentioning Whangārei in relation to infrastructure and health funding decisions from the date beginning October 2017*"

Five documents have been identified as within scope of your request. One of these documents is being released to you in full. Two documents have been refused under section 18(d) of the Act because they are already publicly available. Two are being released to you with some information withheld under the following sections of the Act:

9(2)(a)	to protect the privacy of natural persons
9(2)(i)	to enable a Minister of the Crown or any public service agency or organisation holding the information to carry out, without prejudice or disadvantage, commercial activities
9(2)(j)	to enable a Minister of the Crown or any public service agency or organisation holding the information to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations)

With regard to the information that has been withheld under Section 9 of the Act, I am satisfied that the reasons for withholding the information at this time are not outweighed by public interest considerations that would make it desirable to make the information available.

More details about these documents and decisions we have taken on their release are outlined in Annex 1. This also includes weblinks to the publicly available documents mentioned above.

Finally, one additional document has been identified as within scope of your request. Work on this document, however, was led by the Ministry of Business, Innovation and Employment (MBIE). As such, it is our understanding that MBIE will be providing you with a decision on the release of this document as part of its response to your request. This paper is:

- *Provincial Growth Fund: Upper North Island Supply Chain Strategy and Northland Rail Investment*

You have the right to seek an investigation and review of this response by the Ombudsman, in accordance with section 28(3) of the Act. The relevant details can be found on the Ombudsman's website **www.ombudsman.parliament.nz**

The Ministry publishes our Official Information Act responses and the information contained in our reply to you may be published on the Ministry website. Before publishing we will remove any personal or identifiable information.

Nāku noa, nā

Hilary Penman
Manager, Ministerial Services

Annex 1 - Document Schedule

#	Document	Decision on release
1	*New Zealand Upgrade Programme: An update on Transport Projects: CAB-21-SUB-0192*	Refused under Section 18(d). The document can be found here: www.nzta.govt.nz/assets/Roads-and-Rail/20-011/oc200406-update-on-the-transport-aspects-of-the-nz-upgrade-programme-briefing-paper-20200525.pdf
2	*Northland Shipyard and Floating Dry Dock*	Released with some information withheld under Sections 9(2)(a), 9(2)(i) and 9(2)(j).
3	*Options for Supporting Regional Air Connectivity*	Refused under Section 18(d). The document can be found here: www.transport.govt.nz/assets/Uploads/OIA-response/OIARequestReRegionalAirConnectivityAirwaysNZStructureAndIncentivesAndAirNavigationServices.pdf
4	*Briefing: Joint Venture Airports: Appropriation Issues*	Released with some information withheld under Sections 9(2)(a).
5	*Speaking points: Joint Venture Airports: Appropriation Issues*	Released in full.

Ministry of Transport
TE MANATŪ WAKA

BRIEFING

10 March 2021 OC210115

Hon Michael Wood
Minister of Transport

Action required at your earliest convenience

NORTHLAND SHIPYARD AND FLOATING DRY DOCK

Purpose

To update you on the Northland shipyard development and dry dock proposals.

Key points

- The Provincial Development Unit (PDU), a branch within MBIE which manages the Provincial Growth Fund (PGF), has led work on a proposal to construct a floating dry dock at Northport since 2017. The Ministry of Transport has had minimal involvement in this project.

- In 2018 and 2019 the PDU were considering two proposals:

  s 9(2)(i) [redacted];

  - a PGF application from Northport Ltd to fund a business case to understand the type of infrastructure required to accommodate a floating dry dock and shipyard.

- The Northport Ltd application was approved for $1.3m in mid-2019, and Northport delivered an interim report to the PDU in October 2019. Despite high uncertainty for Crown funding, Northport have been continuing with their consenting process to enable them to expand and develop their site. This expansion would have the flexibility to accommodate a dry dock, shipyard facilities and general port operations.

- The New Zealand Defence Force (NZDF) are supportive of having a larger dry dock in New Zealand, particularly if it could dock all their vessels and reduce their reliance on foreign dry docks for ship maintenance.

- MBIE officials have not provided Ministers with any formal advice on these projects since July 2019, effectively halting the projects until future decisions are taken.

- A key roadblock to progress has been the availability of funding, whether Crown or private. If this project interests you, we could work further with the relevant agencies to support progress. A Government-led business case process would likely need to be undertaken to get a view on the public benefits of a dry dock and how it might align with broader Government objectives.

Recommendations

We recommend you:

1 **refer** this briefing with the Minister for Infrastructure Hon Grant Robertson, Minister for Economic and Regional Development Hon Stuart Nash, and the Minister of Defence Hon Peeni Henare. Yes / No

2 **discuss** the dry dock proposal with the Minister of Infrastructure Hon Grant Robertson to ascertain the level of appetite for potentially funding this further work and to determine which agency is best to lead any future work Yes / No

3 **direct** Ministry of Transport officials to work with the Provincial Development Unit (Ministry of Business, Employment and Innovation) and Ministry of Defence to support progress on the dry dock proposals. This may include the need to undertake a business case to better understand the merits of a dry dock and alignment with Government objectives Yes / No

Harriet Shelton **Manager, Supply Chain**	Hon Michael Wood **Minister of Transport**
..... / ...... /	..... / ...... / ......

Minister's office to complete: ☐ Approved ☐ Declined

☐ Seen by Minister ☐ Not seen by Minister

☐ Overtaken by events

Comments

Contacts

Name	Telephone	First contact
Harriet Shelton, Manager, Supply Chain	s 9(2)(a)	✓
Callum Gill, Adviser, Supply Chain	s 9(2)(a)	

Background

Timeline of key events

1. Over the Christmas break, you read the $1.3m PGF funded interim report on the Northland Shipyard and Floating dry dock, and subsequently commissioned the Ministry to provide an update on the projects. These projects have been led by the Provincial Development Unit (PDU), and have had very limited involvement from the Ministry of Transport despite their transport implications.

2. PDU informed us that various reports since 2012 have suggested building a modern dry dock at various alternate locations to the existing Devonport dry dock, such as Northport, Port Taranaki in New Plymouth, Shakespeare Bay near Picton, and Port Chalmers near Dunedin.

3. We understand from Northport that the New Zealand Shipping Federation (NZSF) and KiwiRail approached Northport about the concept of a New Zealand owned and operated dry dock in Northland at least 6 years ago. Around this time in 2015, the dry dock idea was included in Northport's 'Vision for Growth' 30-40 year port expansion strategy. Northport's position is that they are happy to be the landlord of a dry dock but not the operator.

4. Shortly after the 2017 Election, Northport presented its strategy to Hon Shane Jones (former Minister of Regional Economic Development, Associate Transport) and Rt. Hon Winston Peters (Deputy Prime Minister). At the time, the dry dock proposal in particular gained political support as a way to enhance Northland's regional economy and support job growth in the region. The National Party have also publicly stated its support for the proposal.

5. In April 2018, s 9(2)(i) s 9(2)(i) and NZDF Chief Joint Defence Services met with Northport to discuss the potential for a shipyard and dry dock facility at the Northport. The concept was discussed with Northport directors and it was agreed that Northport would provide as much assistance to this project as possible

6. In July 2019, Regional Economic Development Delegated Ministers (RED Ministers)[2] were briefed on two proposals relating to a dry dock in Northland. s 9(2)(i)

7. The second proposal came from Northport, seeking PGF funding for a business case and engineering design study to understand what type of infrastructure would be required to accommodate the installation and ongoing operation of a float dry dock as part of its wider growth strategy. RED Ministers approved this application for $1.3 million in mid-2019, and an interim report delivered by Northport to the PDU in October 2019.

8. In April 2020, Northport submitted an application for funding its shipyard works to the Crown Infrastructure Partners as part of the Government's economic response to COVID-19. The project cost for the shipyard development was estimated to be s 9(2)(i) s 9(2)(i) and would enable a dry dock to be acquired at a future date. The Ministry understands it never made it to the Crown Infrastructure Partners shortlist of projects.

[1] s 9(2)(i)

[2] RED Ministers were Hon Shane Jones (Regional Economic Development), Hon Grant Roberston (Finance), Hon Phil Twyford (Transport) and Hon David Parker (Economic Development).

9. Northport have been provided a cost estimate that a new floating dry dock would cost approximately s 9(2)(i) [redacted], which would be required to enable and support the operation of a new dry dock.

10. The content of this briefing summarises advice provided to us from the PDU, the NZDF and our conversations with Northport.

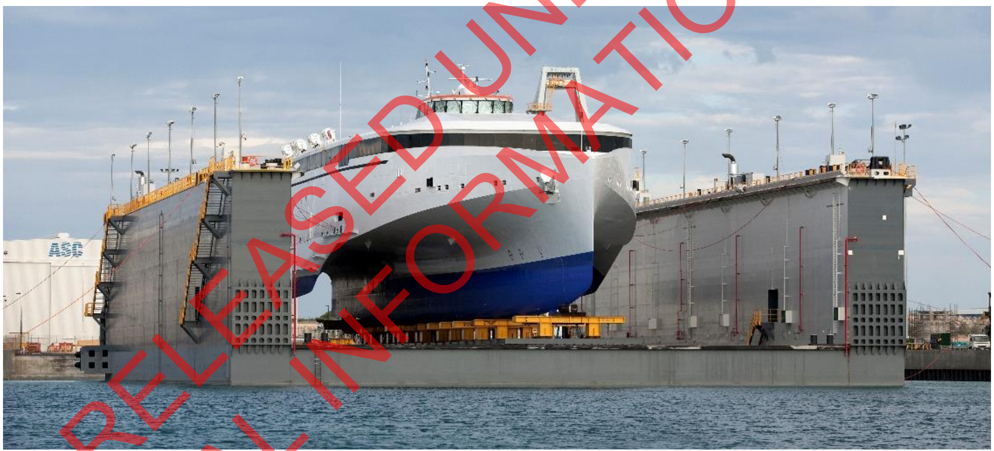
What is a dry dock?

11. A dry dock is a narrow basin or vessel that can be flooded to allow a ship to be floated in, then drained to allow a ship to come to rest on a dry platform. Dry docks are used for the construction, maintenance, and repair of ships, boats, and other watercraft. Floating dry docks can be located away from the port and are not fixed to the harbour, unlike graving docks which are fixed in place along the harbour.

12. A shipyard (also called a dockyard) is a place where ships are built and repaired. Larger shipyards contain many specialised cranes, dry docks, warehouses and painting facilities.

13. As per SOLAS[3] requirements, all merchant vessels require a complete survey of the hull in a dry dock twice within 5-year period and an intermediate survey within not more than 36 months.

Example of a floating dry dock in use



Drivers for supporting a new dry dock facility in New Zealand

14. New Zealand's largest dry dock, Calliope graving dock, is situated at Devonport Naval Base, and is operated by Babcock under contract to the Royal New Zealand Navy (RNZN). At the time of its construction in 1888, it was the largest dry dock in the Southern Hemisphere.

[3] The SOLAS Convention – International Convention for the Safety of Life at Sea. It is administered by the International Maritime Organisation (IMO) and is generally regarded as the most important of all international treaties concerning the safety of merchant ships. The first version was adopted in 1914, in response to the Titanic disaster.

The Royal New Zealand Navy and many domestic operators cannot service their vessels locally

15. The New Zealand Defence Force (NZDF) has no plans to significantly invest in Devonport dry dock within the next 10 years. While it remains fit for purpose to service most of its fleet, our RNZN vessels are increasingly too big to fit into the dry dock and have to travel abroad for maintenance.

16. For example, Devonport's Calliope graving dock is not be able to service the *HMNZS Canterbury*, *HMNZS Manawanui*, and the RNZN's new vessel, the *HMNZS Aotearoa*. Ships that cannot be serviced in Devonport must be serviced elsewhere, typically Singapore or Australia. This presents a strategic risk to key assets being deployed outside of New Zealand and also presents a burden on transit time, productivity, and financial cost to the Navy.

17. The NZDF have indicated to us that they are supportive of New Zealand having a larger dry dock which can service its assets. At this time, they are not willing to financially support a new dry dock as it is not a core priority and arrangements to go offshore are considered to be sufficient. However, the outbreak of COVID-19 has made going offshore less desirable and more complicated.

18. These issues apply to the five Cook ferries operated by KiwiRail, Bluebridge, and other large commercial ships (fuel tankers, cement carriers etc).

Availability and security of overseas docks

19. The nearest dry docks are located in both Australia (Sydney) and Singapore. The Sydney dry dock is operated by the Royal Australian Navy, and New Zealand commercial ship operators often struggle to secure bookings due to preference given to Australian Navy vessels.

20. The alternative option is a month long return trip to Singapore (plus time in dock), which has been estimated to cost operators between $500,000 and $850,000 for the fuel costs alone. This does not include labour costs, steaming time and opportunity cost of foregone revenue. There are also downstream impacts on the New Zealand economy as shipping downtime impacts overall freight movements.

Environmental impacts of the state quo

21. Devonport is constrained by its location in a residential area and the graving dock is a listed heritage site. This puts limits on its operating hours and the noise it can This puts limits on its operating hours and the noise it can generate. Expanding the site into Auckland Harbour would require significant consenting and would likely be met with resistance by locals and heritage authorities.

22. The Climate Change Commission's report on reducing emissions[4] within the transport sector noted the significance of New Zealand not having a large enough dry dock facility for many of its vessels. This limits the opportunity for retrofit technologies on coastal ships, including relatively simple emission reduction activities such as hull cleaning and application of hull coatings, requires vessels to make a voyage to suitable facilities in Singapore or Sydney. They note that there is additional expense, vessel downtime and emissions from fuel consumption for the international voyage.

[4] Climate Change Commission, "Chapter 4b: Reducing emissions - opportunities and challenges across sectors", *Transport, buildings and urban form*, p.20

s 9(2)(i) [redacted]

s 9(2)(i) [redacted]

23. s 9(2)(i) [redacted]

24. s 9(2)(i) [redacted]

25. s 9(2)(i) [redacted]

26. s 9(2)(i) [redacted]

27. s 9(2)(i) [redacted]

s 9(2)(i) [redacted]

s 9(2)(i) [redacted]

28. s 9(2)(i) [redacted]

29. s 9(2)(i) [redacted]. As far as we are aware, little work has been done to date on identifying and quantifying the wider benefits of such an investment.

30. s 9(2)(j) [redacted]

Next steps with the project

31. We understand that the next step would have been for the PDU to prepare a Cabinet paper to progress the work, but this was never undertaken due to the emergence of Covid-19 and the subsequent reprioritisation of PGF managed funds, effectively meaning this project is on hold.

32. While Northport are still progressing with their consenting process to ensure this can become possible, they do not want to be the owner or operator of a dry dock. A key roadblock has therefore been securing funding for this project, through either Crown or private means.

33. We suggest that if you are interested in progressing this project, you talk with Minister for Infrastructure Hon Grant Robertson, Minister for Economic and Regional Development Hon Stuart Nash, and Minister of Defence Hon. Peeni Henare, about how the PDU could restart discussions with Northport s 9(2)(j) [redacted]. You could consider also sharing this briefing with them.

34. The Ministry could also work further with the NZDF and PDU to continue progress. Depending on this, a Government-led business case process would need to be undertaken to get a view on the wider benefits of a dry dock for and how it might align with broader Government objectives. We suggest you discuss this with the Minister for Infrastructure to ascertain his level of comfort of funding this type of project, and to discuss which agency is best to lead this work.

35. It is possible that the new coastal shipping activity class in the Government Policy Statement 2021 could fund a business case of this nature. However, Waka Kotahi is still working through the nature and scope of the activity class with assistance from the Ministry.

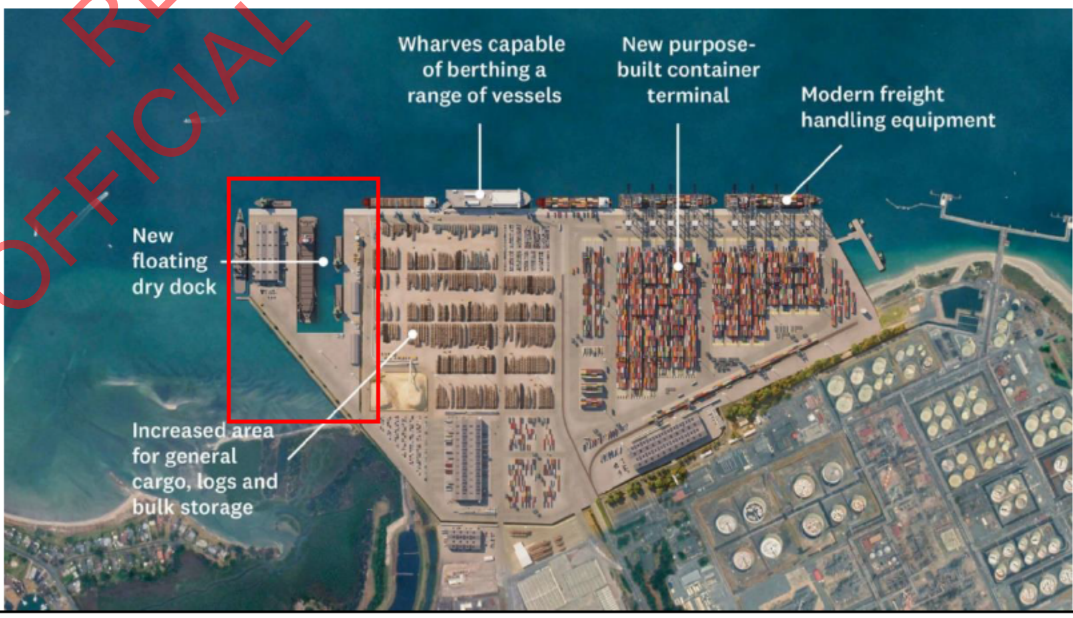
Appendix 1: Northport's development plans – "Vision for Growth"

36. Northport has extensive development plans for the next 30-40 years. The proposed developments include increased cargo operations along with potential provision for marine servicing incorporating a dry dock. These plans would extend the current port footprint both east and west, lengthening the harbour frontage to 1390m and increasing the total land area to 75 hectares. Note the satellite pictures taken from their Vision for Growth website below.

37. Northport have already undertaken three years of community consultation with the proposed plan, and are now moving into the consent process with the inclusion of a shipyard facility to cater for a floating dry dock.

Northport as it exists today (note the refinery to the right)

Planned upgrades to Northport over the coming 30-40 years. Note the location of the dry dock facility to the left and the new container terminal on the right. The red square shows the shipyard facility.



Ministry of Transport
TE MANATŪ WAKA

BRIEFING

Joint Venture Airports - Appropriation issues

Reason for this briefing	This briefing advises you of an oversubscription of the 2017/18 Joint Venture Airport Appropriation and the implications of this.
Action required	Sign the attached Cabinet paper seeking agreement to incur unappropriated expenditure and to convert the annual Joint Venture appropriation to a multi-year appropriation from 2018/19 onwards.
Deadline	13 June 2018.
Reason for deadline	All unappropriated expenditure must be considered by Cabinet before 30 June 2018. In order to meet this deadline this paper needs to be lodged with the Cabinet Office by 10am on 14 June 2018 in order to be considered at the Cabinet Economic Development Committee on 20 June 2018.

Contact for telephone discussion (if required)

Name	Position	Telephone	First contact
Amanda Wilson	Graduate Adviser	s 9(2)(a)	
Ngaire Best	Manager, Governance and Commercial	s 9(2)(a)	✓
Paul Laplanche	Chief Financial Officer	s 9(2)(a)	

MINISTER'S COMMENTS:

Date:	31 May 2018	**Briefing number:**	OC180347
Attention:	Hon Phil Twyford, Minister of Transport	**Security level:**	In-Confidence
Copy to:	Hon Grant Robertson, Minister of Finance Hon Julie-Anne Genter, Associate Minister of Transport		

Minister of Transport's office actions

☐ *Noted* ☐ *Seen* ☐ *Approved*

☐ *Needs change* ☐ *Referred to*

☐ *Withdrawn* ☐ *Not seen by Minister* ☐ *Overtaken by events*

Purpose of report

1. This briefing:

   1.1. advises you of expected claims totalling $1.122 million against the 2017/18 Joint Venture (JV) Airport appropriation of $0.500 million

   1.2. seeks your agreement to take a paper to Cabinet to endorse incurring unappropriated expenditure of up to $0.700 million in 2017/18

   1.3. seeks your agreement to seek a conversion of the annual JV appropriation to a multi-year appropriation from 2018/19 onwards.

Background

2. The Ministry of Transport (the Ministry) administers the Crown's interest in five regional airports (Whangarei, Whakatāne, Taupō, Whanganui and Westport) which are operated as joint ventures (JV) between the Crown and local councils. This arrangement is set out in the deeds agreed to between 1957 and 1973 with individual councils and the Crown.

3. Under the JV agreements the Crown is liable for 50 percent of any operating losses and capital expenditure subject to pre-approval.

4. As per a delegation signed in 1985, the Secretary of Transport has the authority to approve work and provide the Crown's share (50 percent) of capital expenditure and operating losses at the Airports. The limit on this delegated authority is $0.300 million for any individual transaction.

5. The three types of claims that a JV airport can make under the various deeds the Crown has with local councils are:

   5.1. operating losses – as joint owners, if the airport makes a year-end operating loss the Crown is responsible for half of the loss

   5.2. capital expenditure – capital expenditure over $0.010 million requires pre-approval before any work can commence. The time between approving work and the airport completing the work/invoicing can be quite large and can move the payment of capital expenditure into future financial years, creating pressure on future appropriations

   5.3. small capital expenditure – capital expenditure under $0.010 million in value does not need to be pre-approved.

6. In 2015/16 the appropriation moved from a multi-year appropriation to an annual appropriation of $0.500 million, with the scope of the appropriation being limited to "enhancements to JVs terminals and runways and the Crown's share of operating losses".

7. Historically, $0.500 million has been enough to cover capital expenditure and/or losses for the JVs. However, a delay in receiving audited financial statements resulted in a number of historic operating losses and capital expenditure being claimed this year. This was unforeseen and as a result the 2016/17 unclaimed Joint Venture Airport accumulated balance of $0.955 million was not carried forward to 2017/18.

8. Not applying for an expense transfer between years, together with the JVs not claiming historical amounts and having increasing operating losses, has put pressure on the appropriation this year and in the coming years.

Claims in 2017/18

9. Late in the 2017/18 financial year the Ministry received claims totalling $1.122 million which is $0.622 million over the current annual appropriation. This additional expenditure will result in unappropriated expenditure of $0.700 million, including a contingency of approximately $0.078 million.

10. Of the $1.122 million in claims, over half ($0.703 million) relates to Whakatāne Airport alone. This amount includes three years' worth of operating losses and capital expenditure claims dating back to 2007. A number of the capital claims either did not receive pre-approval or are over the pre-approved limit.

11. Whanganui Airport has also made claims totalling $0.357 million. This amount includes three years' worth of operating losses totalling $0.270 million. This airport has been delayed in providing audited financial statements and, therefore, have been unable to invoice the Ministry until this financial year.

12. A breakdown of all claims received is detailed in Table 1 below.

Table 1: 2017/18 Joint Venture airport claims and liabilities

Airport	Year	Type of Claim	Amount ($m)
Whakatāne	2015 to 2017	Operating losses	$0.185
	2007 to 2017	Small capital expenditure	$0.025
	2007 to 2017	Capital expenditure	$0.493**
Whanganui	2015 to 2017	Operating losses	$0.270
	2014 to 2016	Small capital expenditure	$0.008
	2015 and 2017	Capital expenditure	$0.079***
Westport	2016 and 2017	Operating losses	$0.046
	2016 and 2017	Small capital expenditure	$0.009
	2017	Capital expenditure	$0.008
Total			**$1.122***

***individual claims do not equal the total due to rounding**

**** includes the full $0.069 million requested for a runway lighting project that is expected to be over budget. Some of this may be incurred in 2018/19.**

***** includes the full $0.057 million for a new garage and security system. Some of this may be incurred in 2018/19.**

13. The Ministry has received a number of capital expenditure claims totalling $0.226 million which either did not receive pre-approval or were over the pre-approval limit. Whilst the Crown is not necessarily legally obliged to pay these claims, there has been a past precedent set and the Ministry recommends incurring this amount and clarifying expectations with the airports to ensure that this does not happen again. Cabinet will need to agree to pay this amount and include it in the unappropriated expenditure amount.

14. The Ministry has assessed these claims and is comfortable that they represent legitimate capital expenditure and would have been pre-approved if a business case had been submitted prior to commencement of work.

2018/19 Joint Venture Airport appropriation

15. Based on estimated operating losses and known capital works, total claims on the 2018/19 appropriation are expected to be approximately $0.513 million. This is over the annual appropriation limit and hinders the Ministry's ability to approve and fund any further capital work.

Table 2: Estimated 2018/19 JV Airport claims

Airport	Type of Claim	Status	Amount ($m)
Whakatāne	Operating losses	Estimate	$0.076
	Capital expenditure - Runway End Safety Area	Not yet approved	$0.125
	Capital expenditure - runway lighting (additional funding sought)	Not yet approved	$0.019
Whanganui	Operating losses	Estimate	$0.150
	Capital expenditure - runway recoat	Pre-approved	$0.100
	Capital expenditure – garage construction and new security system	Pre-approved	$0.028
Westport	Operating losses	Estimate	$0.015
Total			**$0.513**

16. The Ministry is committed to paying operating losses and pre-approved capital expenditure claims totalling approximately $0.369 million for 2018/19. There is also an additional $0.144 million in capital claims that the Ministry is aware of but has not yet been approved. These claims include:

16.1. Whakatāne Airport has requested $0.125 million of funding for a Runway End Safety Area (RESA), a regulatory requirement following the Supreme Court decision relating to Wellington International Airport Limited and additional funding of $0.069 million for a runway lighting project that is expected to be over budget. Part of the $0.069 will be incurred in 2017/18 and part will be incurred in 2018/19 as the project is due to be completed in July 2018. The Ministry anticipates that approximately $0.019 million of this work will fall into the 2018/19 financial year. At this stage, without Cabinet approval to move to a multi-year appropriation, the Ministry is unable to approve the RESA or the additional funding for runway lighting.

16.2. Whanganui Airport has started work on the demolition of two buildings and construction of a new garage and security system. This capital expenditure was pre-approved in September 2017 however, the project was delayed and the work will not be completed in the 2017/18 financial year. This means that approximately $0.028 million of this work will fall into the 2018/19 appropriation.

16.3. Westport Airport has suffered erosion and storm damage and has indicated that significant work will be required to repair its seawall. The seawall protects the runway and is required to ensure that the airport remains in operation. This is an ongoing issue and the Crown has already funded half of the existing seawall. Initial estimates show that this work could cost approximately $1.000 million and should this occur the Ministry will be looking to either submit a bid to Cabinet or increase the JV airport appropriation to fund this work.

17. In addition, Taupō Airport is also seeking funding for a feasibility study to assess the options for renewing its terminal. This will not impact on the appropriation as it aims to fund this through its reserves.

Risks

18. Prior to the Wellington International Airport Limited ruling, Whakatāne Airport was flying larger planes at peak times. This practice has now stopped as a consequence of the Director of Civil Aviation's directive following the Supreme Court's decision regarding Wellington International Airport Limited. Without approval and funding to complete the RESA, Whakatāne Airport will continue to be unable to fly larger planes during peak times. Air Chathams currently has a larger plane ready for use and Whakatāne Airport is concerned that given the negotiations that Air Chathams is carrying out at other airports they may take this plane away to use for other routes, reducing future business for Whakatāne Airport.

19. Whakatāne Airport has advised that the additional funding of $0.069 million for a runway lighting project is to meet civil aviation certification requirements and is required to be completed by the end of July 2018.

Next steps

20. The Ministry recommends incurring the additional $0.700 million through Imprest Supply. This is to allow for a contingency should any other liabilities present. This will need to be included in the Appropriation (2017/18 Confirmation and Validation) Bill for validation by Parliament and reported in the Ministry's annual report for 2017/18. This is required under section 26C of the Public Finance Act.

21. The Ministry will provide you with a letter to send to the Minister of Finance requesting the inclusion of the JV airport appropriation in the Appropriation Bill. This will likely occur in September 2018.

22. To mitigate the risk of exceeding the 2018/19 annual appropriation, we are also seeking approval from Cabinet to re-establish the previous multi-year appropriation (MYA) and

transfer funding from the annual JV appropriation to the newly established MYA for the years 2018/19 to 2022/23.

23. To mitigate the risk of an oversubscription happening again, the Ministry will work with the JV airports to have greater oversight of their future capital plans and operating losses to assist in the planning of the JV airport appropriation. The Ministry will also be reissuing expectations to the JV Airport's to ensure that all key documents, including audited financials, are produced in a timely fashion.

Recommendations

24. The recommendations are that you:

(a) **sign** the attached Cabinet paper seeking agreement to incur unappropriated expenditure of up to $0.700 million and to re-establish a multi-year appropriation from 2018/19 — Yes/No

(b) **lodge** the attached Cabinet paper with the Cabinet office by 10am on 14 June 2018 in order to be considered at the Cabinet Economic Development Committee on 20 June 2018 — Yes/No

(c) **note** the potential for the 2018/19 Joint Venture Airport appropriation to exceed the annual appropriation

(d) **note** that unappropriated expenditure will need to be validated by Parliament in accordance with section 26C of the Public Finance Act

(e) **note** that the Ministry of Transport will provide you with a letter to send to the Minister of Finance requesting that the Joint Venture Airport unappropriation be included in the Appropriation (2017/18 Confirmation and Validation) Bill.

Ngaire Best
Manager, Governance and Commercial

MINISTER'S SIGNATURE:

DATE:

Office of Hon Phil Twyford

Member of Parliament for Te Atatu

Minister of Housing and Urban Development
Minister of Transport

Cabinet Committee Background Information and Talking Points

Cabinet Committee: *Cabinet Economic Development Committee*

Paper Title: Joint Venture Airports - Appropriation issues

Portfolio: *Transport*

Officials Attending:

- *Peter Mersi, Chief Executive, Ministry of Transport*

Background Information:

- *This paper seeks approval to incur unappropriated expenditure of up to $700 million in 2017/18 in the Joint Venture Airport annual appropriation which will require subsequent validation by Parliament under Section 26C of the Public Finance Act 1989.*

- *This paper also seeks approval to convert the annual Joint Venture Airport appropriation to a multi-year appropriation from 2018/19 onwards.*

- *I have consulted with the Minister of Finance, the New Zealand First Party, the Green Party of Aotearoa and my caucus colleagues about my proposal.*

Joint Venture airport's background:

- *The Ministry of Transport (the Ministry) administers the Crown's interest in five regional airports (Whangarei, Whakatāne, Taupō, Whanganui and Westport) which are operated as joint ventures (JV) between the Crown and local councils. This arrangement is set out in the deeds agreed to between 1957 and 1973 with individual councils and the Crown.*

- *Under the JV agreements the Crown is liable for 50 percent of any operating losses and capital expenditure (subject to pre-approval). Operation of the airports remains the responsibility of the individual councils.*

- *In 2015/16 the appropriation moved from a multi-year appropriation to an annual appropriation of $0.500 million per annum with the scope of the appropriation being limited to "enhancements to JVs terminals and runways and the Crown's share of operating losses."*

2017/18 Joint Venture airport claims:

- *Late in the 2017/18 financial year the Ministry was made aware of a liability totalling $1.122 million, which is $0.622 million over the current annual appropriation. This additional expenditure will result in unappropriated expenditure of $0.700 million, including a contingency of approximately $0.078 million.*

- *The 2017/18 claims are made up of $0.703 million from Whakatāne Airport, $0.357 million from Whanganui Airport and $0.063 million from Westport Airport. Included in these amounts are a number of historic operating losses and capital expenditure.*

- *Of this $1.122 million, $0.226 million was made up of claims that either did not receive pre-approval or were over the pre-approval limit. As this amount was unapproved the Ministry does not necessarily have a legal obligation to pay this portion of the claims.*

- *The Ministry has assessed these claims and is comfortable that they represent legitimate capital expenditure and would have been pre-approved if a business case had been submitted prior to commencement of work.*

- *As a moral obligation to support the Joint Venture airports, the Ministry has advised me that they recommend incurring this amount as part of the total incurred expenditure and I am seeking your agreement on this approach.*

- *I have been assured by the Ministry that it will be setting clear expectations with the Joint Venture airports and have greater oversight of future capital plans and operating losses of the Joint Venture airport's to ensure that this does not happen again.*

- *To date no funding has yet been paid from the 2017/18 Joint Venture Airports annual appropriation. As a result I am seeking an additional amount of up to $0.700 million to be incurred against the appropriation. If this additional expenditure is approved, it will flow through to net debt and will need to be included in the Appropriation (2017/18 Confirmation and Validation) Bill for validation by Parliament. The Ministry will also report this in its annual report for 2017/18. This is required under section 26C of the Public Finance Act.*

- *Other appropriations in Vote Transport are expected to not be fully utilised and will be returning to the centre, and this amount will be more than the $0.700 million.*

2018/19 Joint Venture airport claims:

- *Based on estimated operating losses and known pre-approved capital works, it is likely that the 2018/19 Joint Venture Airport appropriation of $0.500 million will also be stretched and, as a result, the Ministry is unable to approve any further work at this stage.*

- *To mitigate the risk of exceeding the 2018/19 annual appropriation and to provide flexibility in out years, I am requesting the current annual appropriation be converted into a multi-year appropriation and to transfer funding from the non-departmental capital Joint Venture Airport – Crown contribution appropriation to the newly established multi-year appropriation for the years 2018/19 to 2022/23.*

- *The Ministry will also be working with the Treasury to determine whether the current level of funding for the Joint Venture airports is adequate.*

Financial implications:

- *The $0.700 million unappropriated capital expenditure will flow through to net debt for 2017/18 and will be met by imprest supply.*
- *Other appropriations in Vote Transport are expected to not be fully utilised and will be returning to the centre, and this amount will be more than the $0.700 million.*
- *The proposed changes to establish a multi-year appropriation and transfer funding from the Joint Venture Airport annual appropriation will be fiscally neutral.*