
AIRPORT RUNWAY EXTENSION – FUNDING PROPOSAL FOR RMA APPROVALS PROCESS

1. Purpose of report

The purpose of this report is respond to an approach from Wellington International Airport Limited (WIAL) to assist in funding the RMA approvals process for the lengthening of the runway at Wellington Airport to enable long haul flights to operate in and out of Wellington.

2. Executive summary

Improving Wellington's long haul connectivity is one of the most significant things that could support economic growth in the City and Region. The need for better long haul connectivity is a common feature of the Wellington Regional Strategy and Council's Economic Development Strategy. The work that has been undertaken by BERL calculates the immediate direct economic benefit to the region from a daily long haul service between Wellington and Asia at \$43.5m with 314 jobs created. This creates the environment where there would be opportunities for the business and education sectors to leverage off the opportunity afforded by direct long haul flights to and from Wellington. The potential economic benefit from doubling the number of international students in Wellington is estimated \$70.0 million per annum, these opportunities are unlikely to be realised without long haul connectivity.

The major constraint is the length of the runway at Wellington airport. While the existing strategies and work focuses on attracting carriers to operate direct flights to and from Wellington utilising the existing runway and reliant on developing aircraft capability, the ability of achieving direct long haul flights remains challenging. To move the discussion of the runway extension from an idea to an informed discussion with supporting business cases requires the project to go through the RMA approvals process. Planning consultants, retained by WIAL, have estimated that the cost of the RMA approvals process is \$2.0 million and the likely timeframe between 2-3 years from commencement to final decision. The runway extension is not a viable project for WIAL on its own and will require public funding to make it happen. WIAL are seeking funding support from Council of 50% of the cost of the RMA approvals process up to \$1.0 million.

The RMA approvals process will establish with certainty the ability to extend the runway and the cost to complete the project, the business case for investment and the funding options for the investment required will be developed alongside.

Without this work it needs to be recognised that the objective of achieving direct long haul through Wellington will be significantly constrained and the probability of success necessarily difficult.

3. Recommendations

Officers recommend that the Council:

1. *Receive the information.*
2. *Note the request received from Wellington International Airport Limited.*
3. *Agree to commit up to \$1.0 million to Wellington International Airport Limited to assist in funding the process to secure the necessary Resource Management Act approvals relating to extending the length of the Wellington Airport runway.*
4. *Agree that the Council contribution to the Resource Management Act approvals process will be funded from identified savings in the 2012/13 financial year.*
5. *Note that the Council contribution towards the cost of the Resource Management Act approvals process will be matched by Wellington International Airport Limited up to a total cost of \$2.0 million. Any costs beyond this will be met by Wellington International Airport Limited.*
6. *Note that in agreeing to provide funding to Wellington International Airport Limited to assist with the Resource Management Act approvals process there is no commitment from Council towards funding any runway extension.*
7. *Agree to delegate to the Chief Executive authority to finalise and enter into a funding agreement with Wellington International Airport Limited in accordance with this paper.*

4. Background

In 2011, Council adopted an updated Economic Development Strategy because of concerns about the urgent need for Wellington to respond to a range of challenges facing the city's economy. The aim of the strategy is to attract, retain and grow investment, business and talent, to create jobs and to support economic growth in Wellington City. The primary focus of the strategy is on priority areas to be progressed immediately to maximise the city's opportunities for economic growth

Improving the long haul connectivity of the city is an important component of the strategy and an enabler to the achievement of the aims of the strategy and in particular in the areas of; *Destination Wellington* and *The Connected Capital*.

The strategy identifies that improving long haul air services, especially with Asia, is critical to improving Wellington's access to international markets and to

attracting talented people, international students and investors. In addition there is an untapped potential value from leveraging foreign relations, especially with China, and facilitating business access to overseas markets.

Within the Wellington Regional Strategy 2012, having the capacity to attract long-haul flights to/from Asia and thereby building high level connections to Asia was a key area of focus to address a constraint on the economy.

Wellington International Airport Limited (WIAL) has been working on attracting a long haul service between Wellington and Asia over many years. In the Council LTP provision was made to continue to fund work in the area of attracting a long haul carrier to Wellington and in establishing the principles for a long haul attraction fund to be available to secure a long haul service in the event that a suitable opportunity was secured. While work continues in these areas it is apparent that this work is necessarily focussed on a very small part of the market due to the runway constraints of Wellington Airport and the probability of success is equally small. The alternative strategy, which can be carried out concurrently, is to seriously address the runway length.

WIAL would like to commence work on obtaining the necessary RMA approvals for a runway extension to the north of the airport into Evans Bay. The runway extension was included within the airport's 2030 Master Plan which was consulted on in 2009. The length of the extension required to enable long haul flights to land and depart Wellington with full loads is approximately 300 metres and would involve reclamation into Evan's Bay. To move this project from being a conceptual part of the Master Plan, and enable detailed design work, costings, business cases and funding options to be developed, WIAL believe it is necessary to seek the necessary RMA approvals for the project.

WIAL has approached the Council for financial support to begin the RMA approvals process. WIAL have had planning consultants scope out the work required to support the RMA approvals process and have estimated the overall cost of the process to be \$2.0 million. WIAL are seeking to partner with Council to jointly fund this process and are seeking a matching contribution from Council of 50% of the cost up to the estimated cost of \$2.0 million. The overall cost of extending the runway will be significant and WIAL identify that as a purely airport investment the business case would not be viable without support from local and/or central government. Whilst there will be some financial benefits to the airport the major benefits will accrue economically to Wellington City, the Wellington Region, the lower North Island and Nationally.

Council, through PWT, commissioned an extensive report on the economic impact of a Wellington long haul air link from Business and Economic Research Limited (BERL) in December 2008. The BERL report was refreshed in July 2012, both reports identify significant economic value would be derived from a direct long haul connection between Wellington and Asia.

5. Discussion

Details of the Proposal

WIAL has written to Council outlining their intention to commence the process of seeking the necessary RMA approvals to extend the runway to address the physical constraints of the airport runway length to enable economically viable long haul services to be operated through Wellington. WIAL have engaged planning consultants to determine the information requirements and planning timeframes, it estimated that the whole RMA approvals process could take two to three years from commencement to receiving a final decision. The estimated cost of the RMA approvals process is \$2.0 million and WIAL are seeking Council support for funding of 50% of this amount to enable the work on obtaining RMA approval to commence.

The process would involve a range of work streams including; engineering designs; aviation design to ensure compliance with aviation standards; coastal processes; landscaping; traffic design; noise and recreation impacts; archaeology and cultural effects; alternatives; and consultation. WIAL state that proceeding with the approval process is a necessary first step to lift the proposed extension from a conceptual level to a definable project. This would provide certainty around the ability to deliver the project and enable work to be completed on the business case and funding of any extension.

The cost of the RMA approvals process has been estimated at \$2.0m and to this end the contribution sought from Council is a matching contribution with WIAL up to a total cost of \$2.0 million with WIAL meeting any costs beyond this amount.

A copy of the request from WIAL is attached as Appendix 1 to this report.

Economic benefits

BERL were commissioned to assess and report on the economic impact on the Wellington economy of a single direct long haul service between Asia and Wellington operating daily.

Some of the key findings include; growth in the Wellington economy of \$43.5m per annum from the spending of visitors; the creation of an additional 314 full-time equivalent jobs; an increase in the global connectivity of Wellington from 37% of the world's population to over two thirds assisting existing businesses, attracting new investment and skilled migrants; and the potential to leverage off the airlink to significantly increase the numbers of international students in the Wellington Region, effectively doubling the size of this sector in Wellington. BERL state that Wellington should be able to leverage off a direct long haul service to attract similar international student numbers as Christchurch, rep earthquake, namely 10,000 students generating another \$70 million and contributing a further 1,170 jobs. There would also be some benefits from increased airfreight capacity, though these are not expected to make a significant impact on the regional economy.

The table below summarises a range of the key indicators from the report that support Council's Economic Development Strategy.

Key Economic Indicators/Factors	
Visitors	
• Number of overseas visitors	38k p.a. based on a service operating one flight daily
• Associated spending in Wellington economy	\$43.5m p.a.
• Associated increase in employment	314 FTE
International Students	
• Current number of international students in Wellington	4,800
• Current contribution to Wellington economy	\$70 million p.a.
• Current Associated employment	1,170 FTE
Migration	Expected net inward migration increase

BERL assessed the estimates for passenger flows to and from Wellington and concluded that there will be sufficient passenger flows to establish a viable long-haul service. A long-haul service between Wellington and Asia will improve overseas connections for Wellington business, government and other sectors and can be expected to generate qualitative benefits that could lead to economic growth.¹ WIAL in their funding request identify the catchment population for Wellington airport of 1.1 million people which generate 415k long haul passengers of which 140k are to and from Asia and a further 150k are to and from Europe.

Options

With respect to the request from WIAL for financial support for the RMA approval process to lengthen the runway there are essentially two options:

1. Agree to provide financial support as requested by WIAL; or
2. Do not provide financial support

Up until 2012 Council was operating a strategy of funding PWT and WIAL at a rate of \$200k per annum to develop a long haul airlink between Asia and Wellington. As part of the 2012-2022 Council Long Term Plan (LTP) it was recognised that this approach on its own was unlikely to deliver the desired

¹ BERL/AIRBIZ report on Economic impact of a Wellington long haul airlink, December 2008

airlink without being able to offer interested long haul carriers some form of financial support to establish and maintain the route. As part of the LTP, Council agreed the principle of funding a Long Haul Attraction Fund that would be available in the event that an offer to operate a direct long haul service between Asia and Wellington.

These initiatives continue to be relevant strategies, however the physical constraint of the runway length at the airport is a significant barrier. The new generation aircraft that promised to be able to operate at a level that negated the lack of length at Wellington airport are not delivering these capabilities in real performance terms.

While the existing strategies are seen as only having a lower probability of success, due to the small numbers of aircraft that could use Wellington for long haul, they remain an important part of the overall strategy to ensure airlines are fully aware of Wellington as a destination and to capitalise on any more immediate opportunities.

It is certain that WIAL will not go ahead with the RMA approvals process if they are required to fund the full cost. The direct economic benefits to WIAL from a runway extension are unlikely to ever be sufficient to justify WIAL investing in this project on its own. The main economic benefits accrue to the Wellington City and Regional economy and public investment is required to progress this project.

Officers recommend supporting the funding request from WIAL to go through the RMA approvals process for the runway extension. Out of this process certainty around the ability to extend the runway, the development work required, the cost of the project and the business/funding case will be able to be completed.

Risks

This proposal is about the RMA approvals process and the risks are those that relate to the process itself and in particular that the cost estimates do not factor in any escalation around appeal processes.

From a financial perspective Council would not be exposed to this risk directly as the Council commitment would be for up to \$1.0 million with any costs associated with the RMA approvals process beyond this being a cost for WIAL.

Association with funding the RMA approval process may be perceived to be a conflict with Council's regulatory responsibilities. Such a perception would not be correct, as a natural user of natural and physical resources there are established protocols in place to ensure Council's multiple roles are clearly separated. In addition, it is noted that any consents will be lodged by WIAL and not the Council.

5.1 Consultation and Engagement

While the proposal from WIAL has not been consulted on, there has been significant consultation on long haul by Council through the long term and annual plan processes, the Wellington 2040 strategy and International Relations. Long haul has also been consulted on through the Wellington Regional Strategy.

Direct feedback from key stakeholder groups included:

Wellington Employers' Chamber of Commerce

*"Attracting direct international flights beyond Australia is critical for Wellington – not just for business and tourists alike but to make Wellington an attractive place for businesses to set up here. Together with WIAL, the Council has an important role in securing these flights, as potential airlines need to know that the city is behind bids to attract them."*²

Property Council – Wellington Branch

In the publication by the Wellington branch of the Property Council, *The future of our Capital – Growing our assets*, it was identified that *"The growth of the airport facilities and runway capacity is paramount to Wellington's growth"*. The document makes a range of recommendations including the following which directly relate to long haul connectivity. The Property Council *"Support the expansion of Wellington Airport's runways and commercial activity as a vibrant and successful transport hub"* and will seek to *"Assist the airport where possible to ensure it attracts new airline, flights and strengthens existing business"*.

Wellington Regional Strategy 2012 (WRS) – Growing a sustainable economy

The WRS identifies six focus areas to support, promote and facilitate sustainable economic growth for the region. The third of the focus areas is "Building world-class infrastructure", which identifies that the regions prosperity is heavily dependent on the level of connectedness and in turn on the quality of our foundation infrastructure. The WRS identifies having the capacity to attract long-haul flights to/from Asia and thereby building high level connections to Asia as a key component of Building world-class infrastructure.

The resource management process itself will involve extensive consultation with all stakeholders

5.2 Financial considerations

WIAL has indicated that the estimated cost of the RMA approvals process is \$2.0 million. They are seeking a commitment from Council to meet 50% of this cost up to a total of \$1.0 million.

² Wellington Employers' Chamber of Commerce, submission to Council LTP 2012, May 2012

There is no funding included in the current year plan for 2012/13 or the LTP related to this investment. The options to fund the investment include:

1. Fund the \$1.0 million commitment from the projected 2012/13 operating surplus through identified savings; or
2. Include the cost of the investment in the 2013/14 annual plan.

On the basis that we are forecasting an operating surplus for 2012/13 of in excess of \$1.0 million and that to fund the \$1.0 million investment within the 13/14 plan would require either an increase in rates of around 0.4% or an equal reduction in spending of \$1.0 million within the plan, it is recommended that the funding commitment to WIAL be funded from the 2012/13 forecast operating surplus and be attributed to the forecast savings in interest costs that are one of the primary drivers of the forecast surplus.

In agreeing to support WIAL with funding the RMA approval process for the runway extension there is no commitment from Council for any funding of the runway extension itself. Investment in the runway extension would be subject to Council consideration of the detailed business case and funding options for the runway extension that would follow the outcome of the RMA approvals process.

5.3 Climate change impacts and considerations

There are no direct climate change impacts arising from the RMA approvals process. The impact of aviation on climate change is addressed within Council's Climate Change Action Plan.

5.4 Long-term plan considerations

There is no impact on the LTP from the RMA approvals process.

6. Conclusion

Work will continue to attract a long haul service between Asia and Wellington, however, the probability of securing services is significantly reduced by the physical constraint of the runway length at Wellington airport and the lack of suitable planes with the capability to operate with viable payloads from the existing runway.

Extending the runway length has been discussed extensively over a long period of time. It is the view of WIAL that to seriously progress these discussions the RMA approvals process for the runway extension needs to be undertaken, until this is completed the discussions will remain hypothetical.

Public funding is required for this project as essentially an investment in a runway extension would not provide an economic return to WIAL, the major benefits from the runway extension will be to the Region, the City and nationally and public funding is required to make it happen.

Contact Officer: *Danny McComb, Manager Funding and Investment*

SUPPORTING INFORMATION

1) Strategic fit / Strategic outcome

The policy supports Council's overall vision of Wellington Towards 2040 and in particular Council's Economic Development Strategy

2) LTP/Annual Plan reference and long term financial impact

The proposal is not provided for within the LTP, funding the proposal from the 2012/13 forecast operating surplus results in no long term financial impact.

3) Treaty of Waitangi considerations

Iwi partners will be consulted through and as part of the RMA approvals process

4) Decision-making

This is not a significant decision.

5) Consultation

a) General consultation

There has been general consultation on long haul and this is identified within the paper, however the specific proposal has not been consulted on.

b) Consultation with Maori

There has been no direct consultation with Maori on this specific proposal as it is not considered necessary, Iwi partners have been advised of this paper. Maori will be consulted as part of the RMA approvals process.

6) Legal implications

Council's lawyers have not been consulted during the development of this report as it has not been seen as necessary.

7) Consistency with existing policy

This paper and proposal is consistent with Council's existing policies



20 May 2013

Kevin Lavery
Chief Executive Officer
Wellington City Council
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Dear Kevin,

Runway Extension Consenting Proposal

Wellington Airport has for some time been investigating the costs and benefits of investing in an extension of the airport's runway. The current runway length is sufficient for accommodating narrow-body aircraft serving airports on the East Coast of Australia, but lacks the take-off distance required by larger aircraft operations to more distant ports such as the global hubs located in Asia.

The shortfall in runway length relates to the requirement for aircraft to carry additional fuel to reach distant ports. The extra fuel adds weight to the aircraft and this drives the need for a longer runway to build up the speed required for take-off. Although different aircraft have different operating requirements in terms of take-off distance needed to reach the Asian hub airports, a runway extension of approximately 300m is likely to be required to enable economically viable flights providing a direct connection between Wellington and airports such as Singapore, Hong Kong and Guangzhou.

Wellington's strong demand, relatively high existing fares and low levels of competition make the city an attractive proposition for an international airline. The airport has a catchment population of around 1.1 million people for whom Wellington is the most convenient gateway when compared with Auckland and Christchurch. This catchment generates around 1.2 million international trips per annum of which 415,000 are to/from long haul destinations (over 1,100 per day). Of this number, 150,000 are to/from Asia and 140,000 to/from Europe with all having to travel via an additional flight to an intermediate point such as Auckland adding significant time and cost to their Wellington journey.

The strong demand for long haul services is supported by a highly mobile and affluent Wellington market. Wellington has the highest GDP per capita in New Zealand, higher wages and a relatively low cost of living versus the other main centres. These features add to the attractiveness of serving the Nation's Capital and home of Government. A further positive consideration for potential airlines is the growing attractiveness of Wellington as a host of international events and the many visitor attractions located in the catchment including Te Papa, the most visited Museum in Australasia.

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The regional economic benefit for long haul flights to Asia with connections to Europe is clear. Wellington Airport already contributes a total economic impact of \$1.5 billion per annum and 10,000 jobs to the Wellington region. The additional tourism generated by a single direct daily service to an Asian hub alone has been estimated to contribute \$43.5m in direct annual GDP growth with substantial further benefits expected from the additional economic activity stimulated throughout the region – specifically sectors such as high value exports and international education.

The recent contraction of the public sector in Wellington and muted economic performance has highlighted the region’s relative reliance on central government. Businesses are choosing to relocate to economies which are providing stronger growth and more opportunities to grow through connectivity with rapidly expanding international markets. Wellington stakeholders do an admirable job of marketing the region to international markets, but these efforts are constrained by poor connectivity. Wellington is an invisible destination for many overseas visitors to New Zealand as tourists tend to focus travel around gateway entry points such as Auckland and Christchurch. Highly skilled migrants tend to locate within the city they first enter a country or where there are strong employment opportunities and international students are most attracted to study in cities that provide the best connections to their home countries.

A direct long haul service is arguably the most significant thing the Wellington region can do to realise its economic potential. This proposition has been the focus of many City and Regional economic strategy documents including most recently the Wellington City Economic Development Strategy adopted in December 2011. Currently Wellington is losing businesses to cities able to provide better international connectivity and this is slowing the Capital’s economic growth. Wellington only attracts 22% of New Zealand’s international visitors with the majority coming from Australia and there is significant scope to increase this proportion through improved connectivity as has been the experience in other centres which have successfully introduced direct long haul services. Better exposure to the international student market is another potential growth contributor expected to be positively influenced by convenient services linking Wellington to the world.

The direct economic benefit of a single long haul service from inbound tourism alone has recently been estimated by BERL and is summarised in the table below:

Long haul service benefit – Inbound Tourism alone

Overseas Tourist Arrivals	38,000 per annum
Indirect Economic Expenditure	\$43.5M per annum
FTE Employment	314

Source: BERL Economic Impact of a Wellington Long Haul Air Link, July 2012

In addition to this direct and immediate benefit BERL has identified significant potential for further growth from the increased ability to attract international students and the attraction (and retention) of investment in various industry sectors generating further employment in the city and region.

Whilst the economic benefits of direct services will deliver significant growth opportunities at a macroeconomic level, the expenditure required to extend the runway to enable them cannot be funded by the airport alone. From a community perspective this should not be seen as a reason to abandon the project. To do so would be to accept that Wellington will never be in a position to achieve the connectivity and economic positioning enjoyed by other cities. Instead, we propose to work with WCC to progress the consenting process for a runway extension.

WCC currently participates in a two prong strategy targeting the commencement of long haul services. The City contributes an annual amount of \$200,000 which is used by WIAL and PWT to develop relationships with airlines and communicate to them the opportunity that our city represents. Additionally, the City has partnered with WIAL to offer a suite of incentives to the airline which commences direct services thereby elevating the Wellington commercial opportunity up the list of airports available to airline operators.

These initiatives remain an essential part of the long haul strategy as both of these activities will be required to attract and commit airline investment into the city. However, these activities do not address the physical constraints imposed by the runway length. Manufacturers are beginning to deliver new generation aircraft such as the Boeing 787 and Airbus A350 and real-world performance is proving to be less favourable than originally envisaged. With new aircraft also faced with load restrictions to reach Asian airports from Wellington's current runway it is becoming more likely that an extension will be required to operate economically viable direct services.

Proceeding with the consenting process for an extension is a necessary first stage in addressing the runway length shortfall. Moving through the consenting phase will lift the proposal from a conceptual level to that of a definable project. An approved consent would establish certainty regarding the permissible length of the extension, thereby enabling detailed prices to be calculated for completion of the project, and a thorough calculation of the resulting benefits.

A runway extension to the North was referred to in the Airport's 2030 Master Plan released and consulted on in 2008. Planning consultants have indicated that the consenting process timeframe would be expected to take two – three years from commencement to final decision depending upon the consenting path (Local Authority or Board of Enquiry). The process would address items such as: engineering design, aviation

design / compliance standards, coastal processes, landscape, traffic design, noise, recreation, archaeology, cultural effects, alternatives and consultation. The cost estimate relating to this work is \$2m.

WIAL seeks WCC support for the funding of 50% of this cost up to a maximum contribution of \$1 million to enable the consenting phase of the project to proceed subject to WIAL Board approval. City investment in this initiative will enable the immediate commencement of the required works to address the physical constraint standing between Wellington and the significant economic benefits derived from enhanced international connectivity.

Yours sincerely,



Steve Sanderson
Chief Executive
Wellington Airport