



Papa Rererangi i Puketapu Ltd
New Plymouth Airport
Statement of Intent
for the period 1 July 2018 to 30 June 2021

New Plymouth Airport
192 Airport Drive
New Plymouth 4373

1. INTRODUCTION

This Statement of Intent (SOI) is presented by Papa Rererangi i Puketapu Ltd (PRIP) in accordance with the requirements of Section 64(1) of the Local Government Act 2002. It represents the objectives, nature and scope of activities to be undertaken and performance targets by which PRIP will be measured.

It covers the three years of operations from 1 July 2018 to 30 June 2021 and supersedes the previous SOI. This SOI will also have priority over any conflicts between PRIP's constitution and the SOI unless a clause of the SOI breaches the Companies Act.

1.1 The Local Government Act

The Local Government Act 2002 requires Council Controlled Organisations to:

- a) Review their SOI prior to the commencement of each financial year
- b) Have a financial year ending 30 June each year

Schedule 8 of the Local Government Act 2002 states that the purpose of an SOI is to:

- a) State publicly the activities and intentions of the Council Controlled Organisation for the year and objectives to which those activities will contribute
- b) Provide an opportunity for the Shareholder to influence the direction of the organisation
- c) Provide a basis for accountability of the Directors to the Shareholder for the performance of the organisation

1.2 Responsibilities

The Aerodrome certification, operation and use is governed by the New Zealand Civil Aviation Authority (CAA) and New Plymouth District Council (NPDC) is currently the Aerodrome Operator Certificate (AOC) holder. Whilst NPDC will retain ownership of the AOC, PRIP will manage the New Plymouth Airport operations on behalf of NPDC, will be responsible for the redevelopment of the Airport terminal and ongoing capital development, will be responsible for the maintenance of the Airport assets and core infrastructure and will ensure full compliance with the CAA Rule Part 139.

PRIP's primary goal is to operate the Airport on a sustainable commercial basis, to optimise the use of its assets and generate a reasonable return on investment to ensure the ongoing safe and successful operation of the Airport.

1.3 Contact details

Chairman	Philip Cory-Wright
Chief Executive	Wayne Wootton
Address:	Papa Rererangi i Puketapu Ltd New Plymouth Airport 192 Airport Drive 4373

2. PAPA RERERANGI I PUKETAPU LTD (PRIP)

2.1 Establishment of PRIP

In July 2017, NPDC established Papa Rererangi i Puketapu Ltd (PRIP) as a separate Council Controlled Trading Organisation (CCTO) to manage the full operations of New Plymouth Airport and to oversee a major redevelopment of the Airport's terminal and surrounding infrastructure. NPDC still retains ownership of the Airport company, the Aerodrome Operator Certificate and is the sole Shareholder.

2.2 The Organisation

PRIP is 100% owned by NPDC and operates as standalone company governed by an independent skills-based Board of four Directors, including a Chairperson, and employs its own Chief Executive and staff. PRIP operates under an SOI agreed to by its Directors and NPDC.

In addition to the appointed Board of Directors, the Shareholder may nominate an advisor who will attend, as an observer, Board meetings. This is currently the Council's Chief Operating Officer who will ensure strong communications and alignment between the Council and PRIP.

All Airport operations and assets are managed by the PRIP Chief Executive who has overall responsibility for implementing the company's strategic direction and reports to the company's Board of Directors.

The organisation is classed as a semi-commercial investment within the Council's Investment Policy.

PRIP's prime purpose is to operate the Airport on a sustainable commercial basis, to optimise the use of its assets and generate a reasonable return on investment to ensure the ongoing safe and successful operation of the Airport, whilst facilitating tourism and trade by working with the airlines to increase passenger numbers and develop other commercial activity.

The Airport provides services to allow the safe and efficient facilitation of travellers and freight and, ancillary to this, it leases terminal space and land at the Airport.

In the management of the Airport operations, PRIP has the autonomy to set the following charges at the Airport:

- all fees and associated charges in respect to vehicle parking
- all landing and parking charges from regular passenger transport services
- all landing and parking charges from general aviation aircraft
- all revenue from tenant's leases and rents, licences, concession based contracts and lessees outgoings

The Airport is viewed as an essential infrastructure asset for the District and the Taranaki Region and has a key role to play in the economic performance, growth and development of the area. PRIP will work collaboratively with NPDC, the Venture Taranaki Trust, the Taranaki Chamber of Commerce and other key stakeholders, ensuring a combined approach to achieve the region's desired strategic goals.

3. GOVERNANCE

Governance sits with the Board of Directors of PRIP and the Board is responsible for the strategic and overall direction of the company, laying down solid foundations for management and oversight.

The Board employs a Chief Executive who monitors the organisations performance against pre-established Board criteria and has overall responsibility for implementing the company's strategic direction.

The Board has four directors appointed by the Shareholder and meets regularly with management to review the company's performance and provides quarterly, half yearly and annual business performance reports to the Shareholder.

4. RESPONSIBILITY TO THE SHAREHOLDER

4.1 Statement of Intent

In accordance with the Local Government Act 2002, the company will submit a Statement of Intent (SOI) for the coming financial year to the Shareholder, New Plymouth District Council. The SOI sets out the company's overall objectives, intentions and financial and performance targets for the following three years.

4.2 General information flows and reporting

The Board aims to ensure that the Shareholder is informed of all major developments affecting the company's state of affairs, while at the same time recognising that commercial sensitivity may preclude certain information from being made public.

Whilst noting that PRIP will operate in a different market to Council, the company is aware that New Plymouth Airport operates in a public environment and, as such, PRIP will exercise due care and attention to the Council's sensitive expenditure policy.

Within these constraints, information is communicated to the Shareholder through the following:

- Quarterly reporting against the SOI's performance measures and financial forecasts to be provided to the Council's Performance Committee within 90 days of the end of the quarter.
- Delivery of a half-year report to the Council's Performance Committee within 90 days of the end of the first six months of the financial year.
- Delivery of a Board-approved annual report to the Council's Audit and Risk Committee and made available to the public within 90 days of the financial year end.
- Regular meetings between the PRIP Chief Executive and NPDC's Chief Operating Officer (COO) to ensure strong communications and alignment between the Council and PRIP. To further strengthen this relationship, the Council's COO may also attend PRIP Board meetings as an observer.
- Other ad-hoc reports and briefings to inform well in advance of any material for significant events, transactions or other issues that would be considered contentious or attract wide public interest – operating a *"no surprises policy"*.

4.3 Specific reporting

a) Airport Terminal Redevelopment

The Airport is currently undergoing a major redevelopment with the construction of a new terminal and associated infrastructure and PRIP has established a management structure to deliver the project in a timely manner and within the budget parameters. The project team comprises a Project Director and Project Manager reporting to the PRIP Chief Executive, who is accountable to the Board for the project's successful delivery.

The project was approved by NPDC on 4 April 2017 based on a business case compiled at that time and the Board will ensure that Council is informed of any material departure from the assumptions used in the business case.

b) NPDC / PRIP agreements

There are various agreements that have been established between NPDC and PRIP for the ongoing operation of the Airport namely:

- Service Level Agreement
- Facility Agreement
- General Security Deed
- Deed of Lease

PRIP will abide by these agreements in good faith and the Board will report any breaches of the agreements to Council officers on a timely basis.

c) New Zealand Civil Aviation Authority (CAA) requirements

As holder of the Aerodrome Operator Certificate (AOC), NPDC is responsible for meeting all aviation operations and health and safety obligations under CAA Rule Part 139 and is to establish a Safety Management System (SMS) in accordance with CAA Advisory Circular AC100-1 and Rule Part 139.75.

PRIP has signed an agreement with NPDC to manage all of the Airport operations on a day-to-day basis including the establishment and management of an SMS. This agreement has been approved by the CAA and PRIP will keep Council officers informed, at all times, of any changes in the status of these obligations or any other matters relating to the CAA Rule Part 139.

5. CAPITAL EXPENDITURE PROPOSALS

On 4 April 2017 the Council approved a new terminal and associated infrastructure with an estimated project cost range of between \$21.7m and \$28.7m, excluding prior terminal feasibility options costing circa \$1.5m and the cost of any future changes to aviation security requirements.

The project budget range was originally determined from a preliminary design only and was based on a mid-point figure plus or minus a margin of 15%. The latest estimate, following completion of the developed and detailed design stages and the inclusion of a secure departure lounge, has suggested the total project cost will be towards the top of the budget range.

The project has been delayed during the design process and construction of the enabling works did not commence until December 2017. This has had the effect of pushing back the completion date for the build and it is now anticipated that the new terminal will be operational by the end of 2019.

In addition to the construction of a new Airport terminal, further capital works totalling \$3m are proposed over the three year period of this SOI including an extension to the apron, runway rehabilitation works, services upgrades and the construction of a fire station. Capital expenditure for these projects was included in the Airport terminal redevelopment business case and will be subject to feasibility studies and sound business cases being presented to the Board for approval.

Capital expenditure

	2018/19 \$000	2019/20 \$000	2020/21 \$000
Terminal redevelopment	17,000	6,700	-
Proposed capital projects	1,300	1,000	700
Total	18,300	7,700	700

It is to be noted that the Airport terminal redevelopment expenditure for FY2018 is estimated at \$5m.

As part of the establishment of PRIP, an Intragroup Asset Transfer Deed was agreed and PRIP will take control of and manage the Airport assets on behalf of NPDC. An asset management plan will be established and a rolling programme of maintenance and capital improvements will be developed.

If any capital works are required in the future that cannot be funded from Airport operations, NPDC as the 100% Shareholder, will make the decision on any contribution for the works.

6. OPERATIONS

The Airport is an essential infrastructure transport hub for New Plymouth and the Taranaki region and provides facilities that are safe, efficient and welcoming to all users.

It is essential that PRIP positions the Airport for future aviation growth by close collaboration with the airlines and key stakeholders to facilitate the expansion of tourism, trade and domestic air travel and to play a key role in the economic performance and development of the region.

Another key aspect is that PRIP establishes long-term sustainable relationships with Puketapu Hapu and, in particular, the ongoing consultation with the Hapu over future proposals to extend the runway, which will depend on fleet changes to larger aircraft by the airlines.

Prior to the establishment of PRIP, the Airport supported the Taranaki Air Ambulance operations with an exemption from landing charges and PRIP will continue to honour this exemption subject to an annual review. If any capital works are required at the Airport to facilitate the air ambulance operation, PRIP will have the option available to generate revenue from the service to recoup the capital costs.

The operational performance of PRIP will be judged against the following measures:

6.1 Operational performance

- 1) Maintain the Airport facilities to avoid any disruption of scheduled commercial flights other than for weather or airline problems
- 2) Meet all the operating, maintenance, capital expenditure and interest costs from Airport revenue
- 3) Manage New Plymouth Airport in full compliance with the approved operating procedures of the Civil Aviation Authority Rule Part 139.
- 4) Complete the Airport terminal redevelopment project and have the new building operational by the end of 2019.

6.2 Passenger numbers

	2018/19	2019/20	2020/21
Passenger numbers	455,000	470,000	496,000

7. FINANCIALS

7.1 Ratio of PRIP's capital to total assets

For the next three years, the ratio of total capital to total tangible assets is expected to range from 0.29 to 0.34:1. PRIP's capital includes:

- Retained earnings
- Capital account

Total tangible assets include:

- Current assets
- Property, plant and equipment

7.2 Accounting policies

The accounting policies will be consistent with:

- The Financial Reporting Act 1993
- New Zealand Generally Accepted Accounting Principles (NZGAAP)
- Accounting Standards Review Board pronouncements

7.3 Financial performance

The following outlines PRIP's anticipated financial performance for the three year period ending 30 June 2021 assuming forecasted passenger growth, current and known future aircraft type and size, and other commercial activity within the Airport confines:

Financial performance

	2018/19 \$000	2019/20 \$000	2020/21 \$000
Operating revenue	5,101	6,496	7,979
Operating expenditure	2,840	2,905	2,971
EBITDA	2,261	3,592	5,009
Depreciation, Interest & Tax	2,095	3,235	3,822
Net profit	166	357	1,187

As outlined in Section 5, the forecasted financial figures are different from the business case model due to the terminal redevelopment project being delayed, higher passenger numbers and resulting revenue, the latest project estimate being towards the top of the budget range and increases in Airport operating costs including an enhanced rescue fire service.

7.4 Forecast statement of financial position

	2018/19 \$000	2019/20 \$000	2020/21 \$000
Assets			
Current assets	2,471	4,658	6,693
Property, plant and equipment	36,785	42,524	41,295
Total assets	39,256	47,182	47,988
Liabilities			
Current liabilities	1,178	1,296	1,666
Non-Current borrowings	24,850	32,300	31,550
Total liabilities	26,028	33,596	33,216
Net assets/liabilities	13,228	13,586	14,772
Total equity	13,228	13,586	14,772

7.5 Commercial value of the organisation

In keeping with the spirit of the Act, the value of the investment is the capital. This rationale is based on the fact that PRIP is a going concern and that the total assets are carried at fair value and assessed for impairment annually. This estimate will be re-assessed in the same manner on an annual basis.

	2017 \$000	2016 \$000	Movement \$000
Infrastructure and buildings	6,214	5,964	250
Runway	8,800	9,113	(313)
Furniture and fittings	198	175	23
Total	15,212	15,252	(40)

7.6 Profit distribution policy

With the focus to be more commercially sound, profitability from the Airport operations is expected to improve over the coming years.

Consistent with the Airport terminal redevelopment business case, provisions will be made for PRIP to pay a dividend to the Shareholder of \$160,000 over the next three years.

In the first instance surplus funds generated from the Airport operations in excess of this figure will service and repay borrowings. The business case assumptions assume that free cash flows will be used as dividends once the gearing ratio reaches 30%.

A capital review has been agreed once the Airport terminal redevelopment project has been completed which will further inform the profit distribution policy. It is expected that PRIP will target a shadow investment grade credit rating.

7.7 Procedures for share acquisitions

Any subscription, purchase or acquisition by PRIP of shares in a company or organisation will be consistent with the objectives of PRIP and will be made in consultation with Council.

7.8 Information to be provided

PRIP will make the following available to NPDC if there are any material changes:

- Information that would normally be available to assess the value of the Shareholder's investment.
- Details of any new developments which would involve a significant movement away from the current activities of the business.
- Information and details on any new developments which have not been covered in the Statement of Intent for the year.