



Statement of Intent 2020/21

**Paparererangi i Puketapu Ltd
New Plymouth Airport**

**SOI for the period
1 July 2020 to 30 June 2023**

New Plymouth Airport
192 Airport Drive
New Plymouth 4373
www.nplairport.co.nz

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 2020 to 30 June 2023 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:

- Review their SOI prior to the commencement of each financial year
- 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:

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

1.2 Responsibilities

The Aerodrome certification, operation and use are governed by the New Zealand Civil Aviation Authority (CAA) and New Plymouth District Council (the Council) is currently the Aerodrome Operator Certificate (AOC) holder. Whilst the Council holds the AOC, PRIP will manage New Plymouth Airport operations on behalf of the Council, will be responsible for ongoing Airport capital development, will be responsible for the maintenance of the Airport assets and core infrastructure and will ensure full operational 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

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www.nplairport.co.nz

2. PAPA RERERANGI i PUKETAPU LTD (PRIP)

2.1 Establishment of PRIP

In July 2017 the Council established Papa Rererangi i Puketapu Ltd (PRIP) as a Council Controlled Trading Organisation (CCTO) to manage the full operations of New Plymouth Airport. The Council retains ownership of the Airport Company, holds the Aerodrome Operator Certificate and is the sole Shareholder.

2.2 The Organisation

PRIP is 100% owned by the Council and operates as a 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 the Council.

In addition to the appointed Board of Directors, the Council can nominate an advisor who may attend PRIP Board meetings as an observer. 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 owns passenger terminals, aircraft hangars, airside infrastructure, car parking areas, roading and underground utilities. These facilities are sited on land occupied under a long-term lease from the Council, the length of this term determining that the land, for accounting purposes, sits with PRIP as a Company asset.

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.

PRIP's prime objectives are to:

- Operate the Airport in full compliance with the regulations set down by the New Zealand Civil Aviation Authority
- Ensure that the business is run on a sustainable commercial basis
- Optimise the use of its assets
- Generate a reasonable rate of return on investment

The key to this is to ensure the ongoing safe and successful operation of the Airport, whilst also facilitating the growth of tourism and trade by working collaboratively with key stakeholders to sustainably increase passenger numbers.

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

As Landlord, PRIP also has self-government with regards entering into any building or ground lease agreements on Airport land.

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 the Council, 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 organisation's 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 Council and meets regularly with the Airport Management to review the Company's performance and provides quarterly, half yearly and annual business performance reports to the Council.

The PRIP Directors are:

- Philip Cory-Wright (Chair)
- Shelley Kopu
- Rachel Farrant
- Christopher Myers

Also on the Board is an advisor from the Council, currently the Chief Operating Officer, who acts as an observer on behalf of the Council but has no voting rights.

Term of appointment

Under Clause 6.4 of the terms of the Company Constitution:

No person may be appointed as a Director for a term of greater than 3 years. Any Director may be reappointed at the expiry of his or her term of appointment, provided that no Director may be appointed for more than 3 consecutive terms.

Further under Clause 6.6:

A Director may be reappointed upon expiry of his or her term, in accordance with the applicable provisions of this Constitution.

All four Directors completed their first 3 years' term at the end of FY2020 and, therefore, Clause 6.4 of the Constitution is effected. The Shareholder has advised that for FY2021, the tenure of each Director will be extended for a further period with the length of the term to be agreed.

4. MANAGEMENT

Management of the Company is the responsibility of the Chief Executive who employs a small team comprising of an Operations Manager, Safety Manager, part-time Operations Officers and two administration / accounting assistants.

The Chief Executive is accountable to the Directors for implementing the Company's strategic direction, to ensure the ongoing safe and successful operation of the Airport in full compliance with CAA Rule Part 139 and to promote the Airport to the wider Taranaki community.

5. COVID 19 IMPACT

Since the draft of the FY2021 SOI was presented to the Council in February 2020, a virus outbreak called COVID-19 has resulted in a worldwide pandemic which has completely changed the aviation industry.

As a result of COVID-19, the New Zealand Government introduced a national lockdown under Alert Level 4 at midnight on 26 March which limited travel to essential workers only. Prior to this date, Air New Zealand had already started to trim back air services into New Plymouth and, coupled with low demand, the total number of passengers through the Airport began to decrease quite rapidly. From when the lockdown commenced until the end of March, the total number of passengers through the terminal was only 186 as compared to the airline's 6,121 passengers for the same five days in March 2019.

Air New Zealand announced the cessation of all regional services as well as many of the jet domestic flights between the main hubs as of 4 April and the terminal at New Plymouth Airport was closed from this date until the Alert Level was lowered to 2 on the 14 May.

Many businesses in New Zealand have suffered to the extent that operational costs have had to be rigorously trimmed to survive. Aviation in particular has been severely affected and it is doubtful whether some airlines will ever recover. This has had a knock-on effect throughout the industry and airports around the country have been faced with the reality of very little or no revenue at all. PRIP has been in regular consultation with Air New Zealand and other regional airports on a passenger recovery model based on the latest information available. Passenger recovery has been difficult to accurately forecast as the airline has made frequent adjustments to their schedule to meet the Government's gradual easing of the lockdown.

The situation is expected to improve but will take a long time to reach pre COVID-19 levels. Forecasting within the industry predicts that domestic air travel will increase to a level of around 60% to 70% of pre COVID-19 numbers during FY2021, on the assumption that there are no further outbreaks and international travel (particularly with Australia) resumes within the same time period. Domestic travel is forecast to reach up to 90% of pre COVID-19 levels by the end of FY2022, however, a full recovery is not expected to be achieved until early FY2024.

Consequently, PRIP has been working through a number of scenarios and has completely reviewed its financial model over the next three years based on cutting back on operational expenditure, postponing or shelving capital works and attempting to put a best estimate on potential revenue.

Passenger assumptions:

- Gradual increase in movements for the first half of FY2021 but capacity limited at 50% due to social distancing protocols on aircraft
- Further increases during second half of FY2021 and relaxation of capacity restrictions
- Seat capacity rising to circa 65% of pre COVID 19 levels by June 2021 and 90% by June 2022
- Numbers reaching pre COVID-19 levels during FY2024 – three to four year recovery period

Financial assumptions:

- Airport revenue increasing in line with increases in passenger numbers
- Landing charges to be reviewed July 2021 – subject to consultation with Air New Zealand
- Review of car parking charges during FY2021 – in line with other regional airports
- Terminal rental returns in line with increases in passenger numbers
- Reduction in FY2021 operational expenditure

Capital Expenditure:

- \$9m reduction in capital expenditure over the next three years with projects shelved:
 - Runway extension
 - Apron extension
 - Phase 2 car park and internal roading works
 - Phase 2 utilities improvements

Taking into account the above, this FY2021 SOI has been amended to reflect the best estimates from forecasting as at the end of June 2020.

6. RESPONSIBILITY TO THE COUNCIL

6.1 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 Council. The SOI sets out the Company's overall objectives, intentions and financial and performance targets for the following three years.

A draft SOI is to be submitted to the Council Officers by 1 March. The draft SOI will be considered at the CCOs Committee Meeting and, following feedback from the meeting, the final SOI is to be provided to the Council Officers by 30 June.

6.2 General information flows and reporting

The Board aims to ensure that the Council 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 the Council, the Company is aware that New Plymouth Airport operates in a public environment and, as such, PRIP will exercise due care and attention in accordance with the Company's policies and procedures and the Council's sensitive expenditure policy.

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

- Quarterly reporting against the SOI's performance measures and financial forecasts to be provided to the Council Officers for reporting to the CCO's Committee within two months of the end of the quarter.
- Delivery of a half-year report to the Council Officers for reporting to the CCO's Committee within two months of the end of the first six months of the financial year.
- Delivery of a Board-approved annual report with an unqualified Audit Opinion to the Council Officers for reporting to the CCO's Committee within three months of the financial year end. This report to be made available to the public once adopted by the Council.
- Regular meetings between the PRIP Chief Executive and the Council's Chief Operating Officer (COO) to ensure strong communications and alignment between the Council and PRIP.
- 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"*.

6.3 Specific expectations

a) Airport Terminal Development

The Council approved the new terminal development on the basis of the information presented in the business case to the Council on 4 April 2017.

The project was successfully completed and the new terminal opened for business on 17 March 2020. However, due to the New Zealand Government's country lockdown in response to the worldwide COVID-19 pandemic, the terminal was closed on 3 April 2020 and remained so until 14 May 2020.

Air New Zealand resumed a skeleton air service during late May but capacity was heavily restricted due to social distancing guidelines on the aircraft. Frequency of services started to increase towards the end of FY2020 and it is hoped that further increases in the domestic schedule, with capacity restrictions easing, will occur during FY2021. At this time passenger numbers are not expected to recover to pre-COVID 19 levels for three to four years.

Following an operational utilisation period of 12 months, PRIP was due to undertake a post-project review, including a "Benefits Realisation" report and it was expected that this report would be presented to the Council's CCO's Committee prior to the end of June 2021.

However, due to the current financial situation as a result of the impact of COVID-19, PRIP has undertaken a complete review of the company financial model and this have been presented to Council in connection with a recapitalisation package.

b) Capital Projects

PRIP will continue to assess the need for future Airport infrastructure redevelopment based on the strategic direction of the company and the anticipated growth in Airport usage.

Projects will be subject to robust business cases and PRIP will have in place appropriate controls to ensure that the projects are appropriately managed and delivered within programme and on budget.

Major projects will be subject to:

- Feasibility studies
- Full financials and cost benefits
- Suitability reports from external consultants
- Expert advice and specialist input
- Consultation and input from Puketapu Hapu
- Feedback from the airlines and Airport stakeholders as appropriate

It is anticipated that with some redevelopment projects PRIP will be unable to meet the scale of capital expenditure from operational cash flow. In these cases the project(s) will be subject to consultation with the Council in case assistance with funding is required.

For the period of this SOI and as a result of the COVID-19 pandemic, some capital projects have had to be shelved but the remainder that are still under consideration are listed in Section 7: CAPITAL EXPENDITURE PROPOSALS.

c) NPDC / PRIP agreements

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

- Service Level Agreement
- Loan Facility Agreement
- General Security Deed
- Intergroup Asset Transfer
- Deed of Lease of Airport Land

Changes to the Service Level Agreement have resulted in accounting, budgetary and Audit control being taken on directly by PRIP. The Airport company has the responsibility for all financial controls and processes, Companies Office returns, IRD requests, procurement policy and practices, managing Audit issues, fraud and risk assessment and meeting reporting deadlines as per the Council's timetable.

Following the completion of the Terminal Redevelopment project during FY2020, the requirement for a dedicated communications officer from the Council was deemed not to be necessary and the Service Level Agreement was further amended. The Council now manage PRIP's information technology side of the business with administration support for communications, public relations and human resources on an 'as and when required' basis.

The loan facility agreement has been amended three times during FY2020. The first variation in September 2019 was to change the limits of Tranche A (non-current) and Tranche B (working capital) but keeping the total of the two Tranches the same. The second variation in May 2020 was as a result of the financial impact on PRIP due to the COVID-19 pandemic and this increased the Tranche B limit by \$1.9m. The third variation was to take into account the recapitalisation of PRIP on 30 June 2020.

PRIP will continue to abide by the above agreements, including any variations, in good faith and will report any breaches to the Council officers on a timely basis.

d) New Zealand Civil Aviation Authority (CAA) requirements

As holder of the Aerodrome Operator Certificate (AOC), the Council is responsible for meeting all aviation operations and health and safety obligations under CAA Rule Part 139, including the ongoing management of an Airport Safety Management System (SMS).

PRIP has signed an agreement with the Council to manage all of the Airport operations on a day-to-day basis. This agreement has been approved by the CAA. In accordance with the agreement, PRIP's Chief Executive is designated on the AOC as the Aerodrome Chief Executive, having direct accountability to the CAA.

Following a complete review of the Aerodrome Exposition during FY2020, PRIP Management were successful with their application to the CAA for a five year renewal of the AOC. The Airport's AOC now has a new expiry date of 30 April 2024.

PRIP will keep the Council officers and the CAA informed at all times of any changes in the status of these obligations or any other matters relating to CAA Rule Part 139.

e) Iwi, Hapu and other Maori organisations relationships

PRIP will continue to build upon the strong relationship with Puketapu Hapu that has developed over the past three years during the Airport Terminal Redevelopment project. This will be of particular importance with future projects such as the main runway extension proposal. PRIP is aware of future decisions that may impact on local Iwi and Hapu and will ensure an appropriate level of consultation at all times.

PRIP is aware of the statutory obligations of the Council and will act at all times in a manner that is consistent with these and also those pursuant to agreements with third parties, including Iwi, Hapu, or other Maori organisations.



1 The Airport Exposition consists of five manuals that govern how PRIP operates the Airport in accordance with the Civil Aviation Rule Part 139: Operations / Safety Management System / Rescue Fire / Aerodrome Emergency Plan / Wildlife Hazard Management

7) CAPITAL EXPENDITURE PROPOSALS

Following the completion of the new Airport Terminal, PRIP's focus will be on infrastructure redevelopment within the Airport precinct and airside improvements. Depending on the scale of the projects, Board approval will be subject to feasibility studies and sound business cases being developed.

Projects under consideration during the three year period have been amended since the draft SOI presented to Council in March 2020 and now represent a reduction in expenditure of \$9m over the three year period.

Projects include:

- Runway shoulder surfacing
- Improvements to the Airport entrance on Airport Drive
- Completion of Phase 1 of internal roading improvements and car parking
- Utilities upgrades, including a new waste water treatment facility
- Roothing improvements
- Enhanced perimeter fence security and perimeter track upgrade
- Construction of a new aircraft stand to the apron

The scale of the above projects may preclude full funding through Airport operational cash flow and in these instances the Council, as the 100% Shareholder, may be required to make a decision on a contribution to the works.

One key project that has been removed from the capital expenditure list is the main sealed runway extension. This was considered as vital for the long-term sustainability of the Airport and to safeguard the facility for the benefit of the Taranaki region, however, with the post COVID-19 recovery possibly taking three to four years and the need to realise financial savings, the project has been shelved for the time being.

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

Forecasted capital expenditure

Capital Projects

Capital Projects	2020/20 \$000	2021/22 \$000	2022/23 \$000
Runway surfacing	550 (1)		
Drainage	100 (3)	50 (4)	50 (5)
Perimeter fence security upgrade	300 (1)	275 (1)	
Perimeter track	140 (1)	110 (1)	
Car parking - Phase 1	350 (1)		
Roading improvements	200 (1)	150 (5)	
Airport entrance	900 (4)		
Utilities updrades	450 (4)	250 (5)	
Community sponsorship	50 (5)	50 (5)	50 (5)
Apron resurfacing			700 (5)
TOTAL	3,040	885	800

(Figures in brackets represent the project budget classification as per NPDC criteria.)

It is to be noted that the stated three year list of projects and forecasted budgets are only conditional at this stage and will be subject to business cases being presented by management to the Board for final approval.

8) 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.

Prior to the establishment of PRIP, the Airport supported the Taranaki Air Ambulance Trust (TAAT) operations with an exemption from landing charges and PRIP will continue to honour this exemption subject to an annual review. Further, the Board of Directors have agreed to continue with an annual sponsorship arrangement with TAAT which will be reviewed in October 2023.

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:

8.1) Operational performance

- Maintain the Airport facilities to avoid any disruption of scheduled commercial flights other than for weather or airline related problems.
- Meet all the operating, maintenance, capital expenditure and interest costs from Airport revenue.
- Manage New Plymouth Airport in full compliance with the approved operating procedures of the Civil Aviation Authority Rule Part 139.

8.2) Passenger Numbers

The figures below are based on the forecast recovery as detailed in Section 5: COVID-19 IMPACT



9) FINANCIALS

9.1) 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 0.76:1 to 0.78:1.

Total capital includes:

- Retained earnings
- Capital account

- Total tangible assets include:
- Current assets
- Property, plant and equipment

9.2) Recapitalisation

On the 30 June 2020 NPDC, as the 100% shareholder, subscribed for \$22m of new equity capital. This was used by PRIP to reimburse \$22m of debt owed to NPDC.

9.3) 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
- The Company Accounting Policies stated in pages 13 to 25 of the Annual Financial Statements to 30 June 2019

9.4) Financial performance

The following outlines PRIP's revised forecast financial performance for the three year period ending 30 June 2023 following the impact of COVID-19. It assumes passenger growth as in Section 8.2, current and known future aircraft type and size and other proposed commercial activity within the Airport confines.

The financial performance figures also include the benefits of the recapitalisation process as set out in Section 9.2 above.

Financial performance

	2020/21 \$000	2021/22 \$000	2022/23 \$000
Revenue	3,601	5,425	6,513
Expenditure	2,420	2,989	3,079
EBITDA	1,182	2,436	3,435
Depreciation, interest, tax	2,863	2,995	3,105
Net profit	-1,682	-559	29

9.5) Forecast statement of financial position

Assets	2020/21 \$000	2021/22 \$000	2022/23 \$000
Current assets	1,771	3,749	6,476
Tax asset	61	61	61
Property plant equipment	59,353	58,572	57,652
Loan assets	699	631	559
Total asset	61,883	63,013	64,747

Liabilities	2020/21 \$000	2021/22 \$000	2022/23 \$000
Current liabilities	240	290	298
Current borrowings	5,296	5,871	-
Non-current borrowings	8,290	8,600	15,271
Total liabilities	13,826	14,761	15,569

Total equity	48,057	48,252	49,178
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9.6) 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.

	2018/19 \$000	2017/18 \$000	Movement \$000
Land	16,208	14,138	2,070
Infrastructure and building (landside)	5,183	5,513	330
Runway, taxiways and apron (airside)	8,098	8,433	355
Furniture and fittings	313	254	59
Total	29,802	28,338	1,464

It is to be noted that the above commercial value of the organisation does not include the capital development value of the new terminal as this is still subject to Audit. The new value will be recognised in the 2019/20 financial year and stated in the FY2022 Statement of Intent.

9.7) Profit distribution policy

Following the impact of COVID-19, PRIP will not be in a position to pay dividends for a number of years, however, profitability from the Airport operations is expected to recover and improve in time.

It is intended that provisions will be made for PRIP to pay a dividend to the Council based on surplus funds once revenue received from Airport operations has met operational requirements and serviced and repaid borrowings. It is assumed that free cash flows will be distributed as dividends once the gearing ratio reaches 20 - 30%, subject to capital expenditure requirements.

9.8) 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 the Council.

9.9) Information to be provided

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

- Information that would normally be available to assess the value of the Council'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.

9.10) Accounting designation

The Company is designated as a Public Benefit Entity for accounting purposes.