



Papa Rererangi i Puketapu Ltd
New Plymouth Airport

Report for the period ended
31 March 2020

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1. Introduction

This report for the period ended 31 March 2020 is presented by Papa Rererangi i Puketapu Ltd (PRIP) in accordance with the requirements of Sections 64 and 65 of the Local Government Act 2002 referencing the company's Statement of Intent and PRIP's monitoring and reporting requirements respectively.

2. Responsibilities

PRIP was established in July 2017 and is 100% owned by New Plymouth District Council (NPDC). The company operates as a Council Controlled Trading Organisation (CCTO) through an independent skills-based Board of Directors and employs its own Chief Executive and staff.

PRIP operates under a Statement of Intent (SOI) agreed to by its Directors and NPDC.

PRIP's prime purpose is to operate New Plymouth Airport on a sustainable commercial basis and to ensure the ongoing safe and successful operation of the Airport. PRIP owns passenger terminals, aircraft hangars, airside infrastructure, car parking areas, roading and underground utilities. These facilities are sited on land occupied under lease from the New Plymouth District Council.

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.

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.

The Airport is viewed as an essential infrastructure asset for New Plymouth and has a key role to play in the economic performance, growth and development of the Taranaki region. As part of this, PRIP will work collaboratively with the airlines, NPDC, Venture Taranaki, the Chamber of Commerce and other local key stakeholders to work towards the region's common strategic goals.

3. Executive summary

From an operational perspective, the Airport facilities were maintained during the period to avoid any disruption of scheduled commercial flights other than for weather or airline related problems and the Airport was managed in full compliance with the approved operating procedures of the Civil Aviation Authority Rule Part 139.

Work on the new terminal project progressed well during the period and the dawn blessing by Te Atiawa and Puketapu Hapu went ahead as planned on Friday 13 March. The new terminal opened its doors to the travelling public on Tuesday 17 March and, despite the first few flights being grounded due to the excessive winds, passengers did eventually start to transit through the terminal and appeared very pleased with the new facilities.

For the most part, the Airport operations for the third quarter of FY2020 were continuing well with revenue for the year at less than 1% below budget but 30% above the same period last year and operational expenditure 3% below budget and 12% above last year. Earnings before income tax and depreciation were running at 3% above budget and 55% above the equivalent nine months of FY2019.

However, during the quarter an unprecedented situation occurred following the outcome of a worldwide pandemic due to COVID-19. The New Zealand Government introduced strict measures on travel around the country and also closed its borders to international travel. This resulted in the Airport being closed at the end of March.

This has had a serious impact on the financial standing of PRIP and measures are underway to reduce operational expenditure and to establish a financial package to support the Airport company during the recovery period.

4. PRIP establishment

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

The loan facility agreement is in place to fund the current Airport Terminal redevelopment and other short term projects through a working capital facility. All capital and interest repayments associated with this loan were covered during the period through Airport operational revenue and there has been no reliance on the general ratepayer.

With regards the Airport's compliance with the New Zealand Civil Aviation Authority (CAA) Part 139, a three party agreement is in place between PRIP, NPDC and the CAA allowing PRIP to manage the Airport operations on behalf of NPDC as the Aerodrome Operator Certificate holder.

5. Operational summary

For the most part, the Airport operations for the third quarter of FY2020 were continuing well with revenue for the year at less than 1% below budget but 30% above the same period last year and operational expenditure 3% below budget and 12% above last year. Earnings before income tax and depreciation were running at 3% above budget and 55% above the equivalent nine months of FY2019.

Air New Zealand continued to add extra capacity into region and, despite the demise of Jetstar in November 2019 and two days' disruptions due to fog in February, passenger numbers were tracking at less than 2% below budget.

However, following the outbreak of Coronavirus in the Chinese city of Wuhan in late 2019 and the resulting worldwide pandemic, the New Zealand Government introduced a national lockdown at midnight on 26 March which severely restricted travel around the country to essential workers only and closed New Zealand's borders.

Many businesses in New Zealand immediately started to suffer and aviation in particular was severely affected. This has had a knock-on effect throughout the industry and airports around the country suddenly became faced with the reality of very little or no revenue at all.

Prior to the lockdown being implemented, 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 decreased quite rapidly. From when the lockdown commenced until the end of March, the total number of passengers through the terminal was 186 as compared to the airline's 6,121 passengers for the same five days in March 2019.

Air New Zealand announced that they would cease all regional services as well as many of the jet domestic flights between the main hubs and the terminal at New Plymouth Airport was closed at the end of March.

The table below summarises the overall performance for the nine months of FY2020 from 1 July 2019 to 31 March 2020.

<u>Period ended 31 March 2020</u>	FY2020 SOI	Full year forecast	Period Actual	Period Budget	Previous year
Operating revenue	\$ 6,620,000	\$ 6,127,294	\$ 4,254,239	\$ 4,470,611	\$ 3,480,208
Operating expenditure	\$ 3,440,000	\$ 3,059,360	\$ 2,189,752	\$ 2,252,688	\$ 2,072,485
EBITDA	\$ 3,180,000	\$ 3,067,934	\$ 2,064,487	\$ 2,217,923	\$ 1,407,723
Depreciation & amortisation	\$ 1,500,000	\$ 1,500,000	\$ 999,116	\$ 1,125,000	\$ 1,005,989
Finance expense	\$ 1,200,000	\$ 1,200,000	\$ 626,843	\$ 770,000	\$ 345,492
Net profit before tax	\$ 480,000	\$ 367,934	\$ 438,528	\$ 322,923	\$ 56,242
Passenger numbers	471,000	441,701	311,075	331,469	343,063

6. Financial performance against Statement of Intent

The FY2020 Statement of Intent (SOI) outlining PRIP's anticipated financial performance was based on the assumed forecasted passenger growth and proposed Airport commercial activity at the time. Based on previous growth figures, a 3% increase on the FY2019 numbers was used, resulting in forecasted annual passengers for FY2020 of 471,000.

However, subsequent to the FY2020 SOI, the commercial airlines indicated that passenger numbers were predicted to fall from FY2019 levels and, with Jetstar ceasing regional New Zealand air services at the end of 2019, a more recent reforecast put the total number of passengers for the year at 434,500.

With no flights for at least April and possibly into May and June, a further revised reforecast has indicated that passengers will be minimal for the last quarter of FY2020 as compared to 114,000 for the same period of FY2019. Overall the FY2020 annual passenger numbers are likely to be in the region of 324,000 instead of the 471,000 as detailed in the FY2020 SOI.

These are only forecasts at the moment and are heavily reliant on the Alert Level being lowered, however, the general effect of the downturn during for the first nine months of FY2020 and then the serious impact of COVID-19 will lead to passenger numbers and financial figures being much lower than as stated in the FY2020 SOI.

7. Stakeholder relations

NPDC, as the 100% Shareholder, has nominated an advisor who attends the PRIP Board meetings as an observer. The Council's Chief Operating Officer (CCO) holds this position and, as well as the Board meeting attendance, the CCO meets regularly with the Chief Executive of PRIP to ensure strong communications and alignment between the Council and the Airport company.

PRIP management is also working in close collaboration with the Venture Taranaki Trust and the Chamber of Commerce to promote the district from tourism and economic development perspectives and, with the new terminal coming on stream in early 2020, to showcase the Airport as a strategic gateway to the Taranaki region. During the period, New Plymouth Airport became a Chamber of Commerce Regional Partner.

PRIP will continue to build upon the strong relationship with Puketapu Hapu that has developed with the Airport over the years and, in particular, with the close involvement during the Airport Terminal Redevelopment project.

During the quarter, the project team and Airport management worked closely with the Hapu to formulate a plan for the opening of the new terminal and in particular the dawn blessing on Friday 13 March. Further the Hapu have responded to management's request for the naming of the boardroom which will be called 'Ihirangi'. The literal translation being the sun's rays or a beam of light from the sky.

Moving forward a critical project of concern for the Hapu is the Airport's proposal to extend the sealed main runway. Following the feasibility study, which included a multi criteria analysis (MCA) workshop, options for a runway extension have been suggested, however, due to the COVID-19 situation and a need to reduced Airport costs, further work on the project has been shelved for the foreseeable future.

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 also 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.

8. Terminal redevelopment project

During the period local building contractor Clelands Construction and their many subcontractors, worked tirelessly to ensure that the new terminal was ready for the dawn blessing by Te Atiawa and Puketapu Hapu on Friday 13 March. The emotional ceremony was attended by over 500 people with all involved praising the new terminal and the significant cultural elements in both the structural form and the internal artwork.

The new terminal went operational and opened for service at 5.30am on 17 March, however, high winds prevented the planned first departures. When flights did eventually resume on the day, the Airport team were on hand to welcome passengers, meeters and greeters into the building, handing out goodie bags and slices of a celebratory cake.

An official opening by the Prime Minister, to be attended by local Iwi, dignitaries and invited guests, was planned for Thursday 19 March, however, due to the developing situation with the Coronavirus pandemic, the event was cancelled. It is intended to reschedule the event but no date has yet been confirmed.

Unfortunately, by the end of March, the terminal was closed in response to the national COVID-19 Alert Level 4 lockdown. Although there has been limited feedback on the building, comments received have been very positive and there has been no adverse commentary in the press, despite the temporary cessation of its use or the uncertain immediate outlook for domestic air travel.

During the period, work commenced on a project to improve the internal roading layout and construct a new car park once the old terminal has been demolished. However, this work was stopped and put on hold once the Alert Level 4 lockdown was initiated.

Even though there was a programme delay in completion of the new terminal, the project has been delivered to scope and to budget and all those involved are very proud to have given Taranaki another magnificent building that will be worthy of many awards and bring much credit to the region.

9. Civil Aviation Rule (CAA) Part 139

In compliance with the CAA Rule Part 139 and in particular with regards to the Airport's Safety Management System, a new safety manager has joined PRIP. Paul Tench comes from a background in aviation safety having worked for the Royal Air Force in the UK for a number of years and more recently in the capacity of Safety Manager for another New Zealand regional airport.

10. Proposed Civil Aviation Bill

Council was advised in the previous quarter report that the Ministry were proposing to introduce a new Civil Aviation Bill to replace the existing Airport Authorities and Civil Aviation Authority Acts. Included in the new Bill are changes that would substantially effect the method by which Airports determine landing charges and in particular would:

- repeal Section 4A of the Airport Authorities Act which allows airport companies, following consultation, to 'set charges as they think fit'
- remove the requirement for airport companies to operate or manage their airports as commercial undertakings
- amend the Airport Authorities Act to require all airport companies to consult with the airlines on certain capital expenditures

Following consultation by Airport management with colleagues around the country, a lobby group of four airport chief executives met with the Minister of Transport with the aim to ensure he understood the gravity of the changes regarding the ability for regional airports to set prices and the merits of maintaining the statutory mandate for airports to operate commercially.

The Minister acknowledged that there was a power imbalance in negotiations with airports in favour of the national airline. He also said that the outcomes the lobby group foresaw were not sought or intended by the Government – this was taken as a positive sign.

PRIP continues to watch the proposed Civil Aviation Bill with interest, however, due to the current situation, there has been no further developments. PRIP will keep the Council informed on any progress with the draft Bill.

11. Strategic outlook

a) Revenue and passenger numbers

Revenue for the fourth quarter of FY2020 was forecast at \$1.56m, made up of \$1.1m from landing charges and \$460k in non-aeronautical income (car parking fees and tenant rents/concessions). Under a reforecast following COVID-19, the fourth quarter revenue is now expected to be very low and may only be circa \$50,000. This assumes that land lease tenants still honour their agreements and the Alert Level is lowered during the period to the extent which would allow a limited air service.

Looking forward to FY2021, the situation will improve but will take a long time to reach pre COVID-19 levels. Air New Zealand are currently operating at around 1% of their previous domestic capacity and have indicated that this will increase to 2% if the Alert Level is lowered to Level 3. This will see a limited introduction of other regions on the network, however, New Plymouth will not be included at this stage of the recovery and will have to wait until the Government moves to Alert Level 2.

Current forecasting amongst airports is predicting that domestic air travel will increase to a level of around 60% to 70% of pre COVID-19 numbers over the next 15 to 18 months, assuming that international travel (particularly with Australia) resumes within the same time period. Domestic travel levels are forecast to reach up to 80% to 90% of pre COVID-19 numbers within 24 to 30 months.

Consequently, PRIP will undertake a complete reforecast of its financial model and will be revising its draft FY2021 Statement of Intent to reflect the changes.

b) Car parking

Car parking is the biggest portion of the Airport's non-aeronautical revenue and the ability to create sufficient parking spaces and set appropriate charges are critical elements.

As previously advised, a car parking management strategy has been developed and Phase 1 of this strategy to improve the internal roading layout and construct a new car park on the site of the old terminal commenced during the period.

The new design will see Katatore Road (Airport perimeter road) become two-way along its full length, removing the need for service vehicles to drive directly across the frontage of the new terminal through the drop-off/pick up area. The design also provides for improved taxi and shuttle facilities, both in number and location, and an outdoor public airside viewing area.

However, due to COVID-19 and the restrictions under Alert Level 4, works have been put on hold.

As advised, and in line with the original business case for the terminal redevelopment, a further review of car parking charges will be undertaken over the next few months.

c) Route development

With the current COVID-19 situation, route development will now be focussed on the recovery of domestic air travel. PRIP, Venture Taranaki and the Chamber of Commerce will be working with Air New Zealand over the coming months to re-establish air links with the main centres of Auckland, Wellington and Christchurch. This is envisaged to be a long process with the recovery possibly taking up to three years.

d) Runway extension

At the current time the Airport's main runway 05 – 23 (1,310m long) is the shortest runway in the country on which Air New Zealand operate their ATR72 aircraft and, under certain weather conditions, take-off and landing weight restrictions may apply.

The matter is further complicated in that the runway does not have runway end safety areas (RESA's) at either end of the sealed section. New Plymouth Airport is exempt from RESA's under "grandfather rights" as granted by the Civil Aviation Authority. However, if the runway is extended the "grandfather rights" would be revoked and the construction of compliant RESA's would have to be incorporated into the project.

The overall project is broken down into four stages:

- **Stage one** is to carry out a multi-criteria analysis of several options, including a realignment proposal – **this stage is now completed.**
- **Stage two** will be far more complex and will involve:
 - Planning requirements
 - Public consultation
 - Stakeholder engagement
 - Concept design
 - Noise contour analysis
 - Preliminary geotechnical work
 - Analysing reverse sensitivity issues of existing properties

- **Stage three** will be the detailed design of the preferred option
- **Stage four** will be tender and construction

It was noted in the stage one multi criteria analysis that the construction of a runway on an alternative alignment could potentially provide the best outcome, however, the cost benefit of this option is extremely low due to the very high cost of the work and lack of support from Air New Zealand.

For some time now proposals to extend the runway both in easterly and westerly directions have been looked at, but not in great detail. Issues complicate the extensions due to a significant cultural feature at the western end and a drop-off in surface levels to the east.

However, based on current growth predictions and aircraft fleet changes as advised by the airline, further work is being explored to look at an optimum extension option on the existing alignment, utilising both ends of the runway, and it has been signalled by Air New Zealand that the airline may be supportive of this option on safety grounds.

It is paramount that there is continued consultation with Puketapu Hapu to ensure that the best outcome is achieved whilst minimising the cultural impact.

A provision had been allowed in the FY2021 capital budget to continue with the assessment of an extension of the existing sealed runway and to move into Stage 2 of the project, however, in light of the COVID-19 situation, the runway extension project has been shelved for the time being.

e) Security

As part of a Civil Aviation requirement, the fencing to the operational area for 300m either side of the terminal was replaced in 2016/17 with 2.44m high fencing and, from a strategic and security point of view, PRIP has now established a rolling programme of works to upgrade all of the Airport perimeter fencing to the same standard, approximately 7,000m in total.

During the period, work has continued on this security upgrade and improvements to the Airport perimeter access track have also been carried out. The current air ambulance gate beside the Taranaki Air Ambulance Trust has been upgraded from a manual access controlled swing gate to an automatic roller gate with access controlled by the Airport's Cardex security system.

The rolling programme is currently on hold due to COVID-19 but the security enhancement works will resume as soon as possible.

f) Sustainability

In the 2nd quarter report, PRIP advised that the Zero Carbon Bill was being considered by the Environment Selection Committee.

The proposed power enables the Minister to request certain organisations to provide information on climate change adaptation, with the aim to ensure that organisations prepare effectively for climate change and report publicly on their work. This Bill will include PRIP as the Airport company meets the criteria through being a Council Controlled Trading Organisation (CCTO) and a lifeline utility.

New Plymouth Airport has joined New Zealand Airports sustainability committee and currently has a committee member on the group along with four other airports, being Auckland, Wellington, Christchurch and Dunedin. The committee is currently looking at strategies and what role New Zealand Airports could play in developing and facilitating a nationwide sustainability programme for airports.

Management are ensuring measures are in place within the new terminal to accurately capture baseline data to begin measuring the current position. The Airport and Air New Zealand have both adopted a Green Lease agreement as part of the airline's new lease arrangements at New Plymouth Airport.

Further management have recently engaged a sustainability consultant to aid in the creation of a carbon audit template for the capture and measuring of baseline data. This measuring, monitoring and targeted reduction philosophy is being rolled out to other Airport tenants within the new terminal as a result of the Green Lease appendix within their individual leases.