



Papa Rererangi i Puketapu Ltd
New Plymouth Airport

Quarterly Report for the three months ended
30 September 2019

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1. Introduction

This report for the period ended 30 September 2019 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

The first quarter of FY2020 has provided good results with overall Airport revenue just above budget at \$1.48m, operating expenditure below budget at \$782k and earnings before income tax and depreciation above budget at \$697k, a 30% increase over the equivalent period in FY2019.

The number of passengers passing through the Airport was 1.5% down as compared to the same period last year but 2% ahead of the FY2020 budget. Jetstar have announced that the airline will cease all New Zealand regional operations from the end of November 2019. Whilst the stopping of the flights will be seen as a negative impact from a customer service point of view, the effect on the FY2020 Airport revenue budget will not be too excessive. Air New Zealand's passenger numbers are currently tracking 5% ahead of forecast and, with the airline proposing to add additional capacity, the overall negative revenue impact could well be reduced.

From an operational perspective, PRIP was successful in renewing the Aerodrome Operator Certificate (AOC) following a complete review of the Airport's operations manuals and an extensive two day audit by the Civil Aviation Authority (CAA). There were no findings and the new AOC has an expiry date of 30 April 2024. The CAA also took to opportunity to review the Airport's Safety Management System which has now been endorsed as present, suitable and operating – a first for any New Zealand regional airport.

The new terminal project is progressing very well with internal works well underway, however, an extension of time has been granted to the main contractor following additional work required after changes to roofing and steelwork. The Project team's original completion date was previously noted as early 2020 and the revised programme will see the building structure largely completed in December, with the outstanding activities to be completed in January being the installation of the chevron ceiling, some floor finishes and the café fit-out.

4. PRIP establishment

PRIP is supported by NPDC with Airport operations in areas such as media communications and information technology. The Airport Company has a loan facility agreement in place with the Council 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 are covered through Airport operational revenue and there is 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

The following key performance measures are noted for the period ended 30 September 2019.

Revenue for the first quarter of FY2019 was 3.6% above budget at \$1.479m, representing a 40% increase in the equivalent period last year. This was as a result of new landing charges being introduced at the beginning of July following consultation with the Airport's substantial customers.

Operating expenditure at \$782k was 3% below budget and, coupled with better revenue than forecast, meant that earnings before income tax and depreciation at \$697k was 4.2% above budget for the quarter and 30% above the same period of FY2019.

The total passenger numbers for the first quarter of FY2020 was recorded at 114,446 which was 1.5% down on the first three months of FY2019 but 2% ahead of the FY2020 budget.

Air New Zealand, despite a forecasted drop in numbers for FY2020 over FY2019, actually recorded an additional 2,017 passengers above the equivalent period last year. However, Jetstar numbers were considerably lower as a direct result of a cut in services between New Plymouth and Auckland from two to one return per day. For the first quarter of FY2020, Air New Zealand is tracking 5% ahead of the Airport's original forecast for the airline.

During the first quarter, the Airport facilities were effectively maintained to avoid any disruption of scheduled commercial flights other than for weather or airline related problems.

The table below summarises the performance for the first quarter of FY2020. It is to be noted that the operating revenue takes into account monthly passenger number fluctuations and the increase in landing charges due to come into effect later in the financial year once the new terminal is fully operational.

<u>Period ended 30 September 2019</u>				
	Full year Budget	Period Actual	Period Budget	Previous year
Operating revenue	\$ 6,127,294	\$ 1,479,274	\$ 1,428,289	\$ 1,052,247
Operating expenditure	\$ 3,059,360	\$ 781,846	\$ 758,790	\$ 517,189
EBITDA	\$ 3,067,934	\$ 697,428	\$ 669,499	\$ 535,058
Depreciation & amortisation	\$ 1,500,000	\$ 346,306	\$ 375,000	\$ 315,370
Finance expense	\$ 1,200,000	\$ 238,574	\$ 170,000	\$ 73,385
Passenger numbers	441,701	114,446	112,146	116,217

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 being finalised, the commercial airlines indicated that passengers numbers were predicted to fall from FY2019 levels, with Air New Zealand anticipating a 3% drop and Jetstar 6%. This had the effect of reducing the forecasted SOI FY2020 passenger numbers from 471,000 to 441,700 and a consequent drop in revenue.

PRIP's FY2020 budget was set using the revised numbers and this is being used to track against actuals as in the operational summary above. At this stage there has been no adjustment to 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 is continuing to work constructively and collaboratively with the Puketapu Hapu, who are mana whenua of the land the Airport is sited on. This relationship has developed and strengthened through the Hapu's involvement in the new terminal design.

Regular meetings are being held with the Hapu and the Project team and the Hapu are focused on the creation and manufacture of the new terminal's internal art works. This is currently on programme and will be installed early 2020.

A critical project of concern for the Hapu is the Airport's proposal to extend the sealed main runway. During the period, a multi criteria analysis (MCA) workshop was held which was attended by members of Puketapu Hapu, other key stakeholders with specialist consultancy input.

Puketapu Hapu were very appreciative of being invited to be involved at the beginning of such an important project and there was an excellent briefing given of the history of the land and the Hapu's beginnings.

Representatives from Air New Zealand attended the workshop and were also very thankful of being able to attend at the early stages of the project.

8. Terminal redevelopment project

The main focus for PRIP at the current time is the completion and delivery of the new Airport terminal. The Project team, under the direction of the PRIP Chief Executive, are closely monitoring all aspects of the build to ensure that the development is delivered to the required quality and scope and within budget.

Work on the project is progressing well with mechanical and electrical works well advanced, roof projections and clerestory windows completed, the plywood linings to the back of house area 90% complete and the concrete plinths for the out-bound and in-bound baggage handling systems cast.

Steel wall framing and linings for the in-bound baggage handling, administration, retail shop, café preparation and storage areas is advancing and the angled steel staircase has been installed providing access to the eastern mezzanine floor, plant room and Airport offices.

Glazing is fully complete on the airside face of the building and at the half-way point on the southern, landside face, advancing quickly now that gutters and framing for the overhanging canopies is nearing completion and scaffolding is being progressively removed.

Installation and painting of the gib ceilings and wall linings to the main concourse is ongoing and construction of the arrivals wind lobby has been completed. Contractors working for Air New Zealand are currently working on the airline's regional lounge fit-out and will move into their main office space and check in areas in due course.

At the end of August the Project team received a formal programme revision from Clelands Construction and, despite the company's best efforts to pro-actively employ additional labour to attempt to recover the lost time, have now advised that they cannot achieve the original practical completion date.

The extension of time has arisen due to issues with a change in specification for the roof and alterations to the steelwork design to cater for extreme coastal wind loadings. Both of these have led to additional work and time delays plus, with the roofing changes, a very large increase in labour time due to, literally, thousands of more fixings for the plywood roof being required.

The project team have accepted the requested extension of time and it is noted that the claimed costs for the extension will be accommodated within the total build budget, which is still on target to be within the business case figure of \$28.7m.

The Project team's original completion date was previously noted as early 2020 and the revised programme will see the building structure largely completed in December, with the outstanding activities to be completed in January being the installation of the chevron ceiling, some floor finishes and the café fit-out.

Air New Zealand have maintained from the beginning of the project that unless the hand-over can be assured for the beginning of December, any move from the existing terminal would have to wait until late January / early February to avoid the holiday season. Therefore, the Project team are now working with the airline on a mid-February go-live date for the new terminal to become operational.

Further, discussions are also currently taking place with the Prime Minister's office to ascertain if the Prime Minister would be available to officially open the new terminal and dates in late February and March have been put forward.

The Project team are aware of the need to keep Airport customers and the community well-informed of the status of the project and, in conjunction with the Council's communications team, are continuing to work on a series of communication bulletins that are being released through the press and social media giving details of project progress.

9. Civil Aviation Rule (CAA) Part 139

The CAA aerodrome operator certificate (AOC) was due to expire after a five year certification at the end of September 2019 and, in support of the application for renewal, a complete review of the five manuals that make up the Airport Exposition has been undertaken. The Airport Exposition is a document that details how the Airport operates in compliance with the CAA Rule Part 139.

The AOC is owned by NPDC and is managed on behalf of the Council by PRIP and, following an extensive two day audit by the CAA in September, the AOC has been renewed. The CAA have informed the Airport that the Authority were very impressed with the operations and how PRIP are managing the Airport on behalf of the Certificate owner, with the audit going very well and no findings. The aerodrome operator certificate has been approved and renewed, with a new expiry date of 30 April 2024.

Further, the Airport's Safety Management System received a glowing report and PRIP have now moved from present and suitable to present, suitable and operating – a first for any New Zealand regional airport.

'Safety is Everyone's Business' is a heavily embedded philosophy within the New Plymouth Airport's Safety Management System. The Airport is driving this culture internally through the day-to-day operations and externally to the rest of the Airport community through Airport User Group and Stakeholder meetings.

10. Strategic outlook

Car parking

The requirement to increase commercial or non-aeronautical revenue was signalled as a main priority in the new airport terminal project business case to ensure that the Airport could fund the redevelopment without any reliance on the general ratepayer. 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 is being developed to explore options to increase the number of car parking spaces, including a review of the existing layout and various options to either extend or construct new areas. The strategy is aimed at taking a more holistic Airport precinct approach and considers the whole customer experience from when entering the gate on Airport Drive.

With the terminal redevelopment nearing completion it is important that the overall Airport car parking strategy dovetails with the requirements of the new building and, with car park usage reaching high levels on certain days, the requirement for additional parking is becoming a high priority.

Therefore, options are currently being explored to create 65 new spaces for the car rental operators which will free up space currently occupied by the rental companies in the main public car park.

As advised, and in line with the business case, a further review of car parking charges will be undertaken mid-2020, once the Airport terminal redevelopment is completed.

Route development

Originair

It has previously been advised that third tier airline operator, Originair, commenced a direct air service between Nelson and New Plymouth in September 2017. The service operated for 12 months and was extended to include a cross island direct service to the Hawke's Bay. The airline was utilising the air operator certificate (AOC) of another airline that, unfortunately, went into liquidation and Originair had to stop all air services.

Over the past 10 months, Originair has been applying for its own AOC and this should be approved by the Civil Aviation Authority by the end of the year. In the meantime, the airline has been running proving flights and recommenced a charter service into New Plymouth using another airline's AOC. Originair is proposing to resume their scheduled services on approval of their own AOC and once the new terminal is operational.

Air New Zealand

As previously advised, further route development work has been ongoing with Air New Zealand regarding air services between New Plymouth and Wellington. As a result, an additional return service is being trialled on certain days of the week and this will be reviewed towards the end of the year.

Following the statement by Jetstar Airways to cease New Zealand regional services at the end of November, Air New Zealand have announced that they will add additional capacity on the sectors previously serviced by Jetstar for the month of December. For New Plymouth this will add an extra 19 return flights between the Airport and Auckland for the month and this will be reviewed by the airline to see if the additional capacity can continue into the New Year.

Jetstar

Jetstar are proposing to cease all New Zealand regional air services at the end of November 2019 due to mounting losses of \$20m since commencing operations at the beginning of 2016.

Jetstar started at New Plymouth in February 2016 with the original intention to operate three daily return services to Auckland. Their first two years of service generated an extra 60,000 passengers per year but, following average load factors and a cut to two returns per day, numbers started to decline. A further cut to one return per day from mid-2019 reduced passenger numbers to less than 10% of the Airport's total throughput.

Whilst the stopping of the flights will be seen as a negative impact from a customer service point of view, the effect on the FY2020 Airport revenue budget will not be too excessive. Air New Zealand passenger numbers are currently tracking 5% ahead of forecast and, with the airline proposing to add additional capacity, the overall negative revenue impact could well be reduced.

During the development of the airport terminal project business case, one of the scenarios modelled was Jetstar ceasing operations with a loss of 60,000 passengers. It was proven that, even in what was termed as the worst case scenario with a 15% drop in passenger numbers, the business case was still sound. With Jetstar's percentage of total passenger numbers lower than modelled, Air New Zealand already ahead of forecasted numbers and proposing to add further capacity, the overall drop in passenger numbers will be far less than modelled in the business case.

A review of the FY2020 passenger numbers will be undertaken at the half-year mark to understand the full effect of Jetstar ceasing operations and whether, with Air New Zealand potentially increasing capacity, a reforecast of the Airport revenue for FY2020 is required.

Runway extension

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

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.

PRIP is keen to pursue all runway extension possibilities as it is vital to consider the long-term sustainability of the facility. This strategic proposal is an important aspect in safeguarding the Airport for the benefit of the Taranaki region and, with funding assistance from the Government's Provincial Growth Fund, PRIP has embarked on a runway extension feasibility study.

The overall project is broken down into four stages:

- a multi-criteria analysis (MCA) of options
- concept design, including planning requirements, land acquisition, stakeholder engagement and public consultation
- detailed design
- tender and construction