



Papa Rererangi i Puketapu Ltd
New Plymouth Airport

Quarterly Report for the three months ended
30 September 2020

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Contents

1. Introduction.....	3
2. Responsibilities.....	3
3. Executive summary.....	4
4. PRIP establishment.....	5
5. Operational summary.....	6
6. Government’s wage subsidy	7
7. Airport terminal tenants.....	7
8. Airways New Zealand	8
9. Capital projects.....	9
a) Airport terminal redevelopment.....	9
b) Car parking	9
c) Internal roading improvements	9
d) Taxi and shuttle zone	10
e) Security fence and airside security.....	10
f) PRIP submission to the Crown Infrastructure Partners.....	10
10. Proposed Civil Aviation Bill	11
11. Stakeholder relations	11
12. Strategic outlook	12
a) Passenger numbers recovery.....	12
b) Car parking	12
c) Route development.....	13

1. Introduction

This report for the period ended 30 September 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 is consistent with a Statement of Expectations issued by 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 NPDC.

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, 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 impacts of the COVID-19 pandemic are continuing to affect Airport operations with passengers numbers and operational financials currently running at less than 50% of FY2020. This is set to persist for some time and it is envisaged that a return to pre COVID-19 levels could be two to three years away.

However, considering the much revised FY2021 budget targets, the first quarter of FY2020 has provided reasonable results with overall Airport revenue 5% below budget at \$835k, operating expenditure 3% below budget at \$674k and earnings before income tax and depreciation 15% above budget at \$161k.

The number of passengers passing through the Airport was dramatically down when compared to the same period last year but, despite the country going through another limited lockdown during the period, was on the forecast for the three months at 52,037.

The new terminal is fully operational and receiving great reviews. A reduced capital works programme is ongoing with a new car park, taxi and shuttle zone, roading improvements and airside security enhancements all due to be completed by the end of December 2020.

PRIP is continuing to offer support to the terminal tenants affected by the impacts of COVID-19 which, at this stage, will be extended until the end of the calendar year. A review of the situation will be undertaken in January 2021.

An aeronautical study has commenced on the proposal by Airways to withdrawal their air traffic services at New Plymouth Airport and stakeholder sessions are underway to determine risks associated with not having the service. The study is due to be finalised late 2020 before being submitted to the Civil Aviation Authority for review. The final outcomes should be known around April next year.

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 Service Level Agreement has changed during the first three years since PRIP was established and for FY2021 now only encompasses the supply of hardware and software for telecommunications and data services, together with operational support.

The loan facility agreement was established to fund the Airport Terminal redevelopment and other short term projects through a working capital facility and it was anticipated that, long term, PRIP would work through a recapitalisation process with NPDC.

However, following the impacts of the COVID-19 pandemic which has devastated the aviation industry since March 2020, airport revenue has been severely restricted. Therefore, the recapitalisation of the airport business was brought forward and NPDC agreed to a debt to equity swap on 30 June 2020.

This has greatly eased the situation and, with the recovery process continuing, PRIP will be in a position to cover interest payments associated with the loan during the current financial year and commence capital repayments in accordance with the loan facility repayment schedule.

The Aerodrome certification, operation and use are governed by the New Zealand Civil Aviation Authority (CAA) and NPDC is currently the Aerodrome Operator Certificate (AOC) holder.

Whilst the Council holds the AOC, 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 if it was the holder of the Aerodrome Operator Certificate holder in its own right.

PRIP will continue to 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.

5. Operational summary

The first quarter of FY2021 started well with Air New Zealand increasing capacity ahead of forecast, which resulted in July passenger numbers being 20% above the revised budget. However, with further lockdown restrictions from mid-August through to September, passenger numbers once again dropped off but did recover slightly towards the end of September. Overall, numbers for the period were on the reforecasted target at just over 52,000.

As the majority of Airport revenue is based on passenger throughput it was expected that income would be more or less on budget, however, with the Airport offering support to the terminal tenants, this has had a negative effect and revenue for the period ended at \$835,181, 5% below budget.

A tight rein on operational costs has continued from the last quarter of FY2020 and, despite the reduced PRIP salaries and Director fees returning to normal as of 1 July, costs were effectively managed for the period with the total at \$673,706, a 3% reduction on budget.

The additional safety measures in the terminal that were introduced as a result of COVID-19 have continued during the first quarter of FY2021 and Alert Level 1 and 2 guidelines were followed. Additional hand sanitisation points were installed and the Airport operations team have been on hand to assist users of the terminal wherever possible.

Construction works in the Airport precinct have continued with a new car parking area, new taxi / shuttle bus zone and internal roading improvements. Whilst this work has been ongoing the taxis and shuttles have been operating out of the main car park which has caused minor disruption, however, the Airport facilities have remained fully operational and there has been no diversion of regular passenger transport services resulting from Airport operations.

All operating costs associated with the day-to-day operations of the Airport and the loan facility interest charges have been covered from revenue, however, PRIP is still reliant on the NPDC loan facility agreement to fund capital expenditure. It is expected that once operations have recovered to a sufficient level this will allow programmed capital expenditure to be serviced from Airport income.

The table below summarises the overall performance for the three months of FY2021 ended 30 September 2020.

<u>Period ended 30 September 2020</u>				
	Full year Budget	Period Budget	Period Actual	Previous year actual
Operating revenue	\$ 3,828,111	\$ 879,174	\$ 835,131	\$ 1,541,836
Operating expenditure	\$ 2,777,329	\$ 693,975	\$ 673,706	\$ 756,858
EBITDA	\$ 1,050,782	\$ 185,199	\$ 161,425	\$ 784,978
Depreciation & amortisation	\$ 2,400,000	\$ 600,000	\$ 382,375	\$ 165,943
Finance expense	\$ 540,000	\$ 135,000	\$ 117,214	\$ 238,574
Other income	\$ 38,500	\$ 48,751	\$ 51,655	\$ -
Net profit (Loss)	-\$ 1,850,718	-\$ 501,050	-\$ 286,509	\$ 380,461
Passenger numbers	227,000	52,134	52,037	116,217

6. Government's wage subsidy

As a result of the continuing impact of COVID-19 on Airport revenue, PRIP has been eligible to apply for the two extensions of the Government's wage subsidy.

PRIP duly applied and the following was granted by the Ministry of Social Development with payment being received as follows:

Wage subsidy extension 1 (8 weeks)	\$ 44,004.80
Wage subsidy extension 2 (2 weeks)	\$ 11,001.20

7. Airport terminal tenants

Passenger numbers for the first quarter of FY2021 were only 54% of those experienced in the same period of FY2020 and, with Airport terminal tenants reliant on passenger throughput, their businesses are suffering with the loss of considerable income.

Therefore, PRIP has continued to work with these tenants and, taking a collaborative approach to retain the operators in the new terminal, has offered support packages to assist during the three month period. It is anticipated that this assistance will continue for the remainder of 2020.

8. Airways New Zealand

It was advised in the last report that Airways New Zealand had announced they were proposing to withdraw their air traffic services at seven airports as a result of the COVID-19 impact on their revenue and the need to right-size their operation in light of a severely restricted revenue stream.

Seven ports are affected:

Manned towers

- Napier
- New Plymouth
- Invercargill
- Rotorua
- Gisborne

Flight Information Service (FIS)

- Kapiti Coast
- Milford Sound

New Plymouth Airport, in compliance with the Civil Aviation Rule Part 139, is responsible for the provision of air traffic services (ATS) and this is contracted to Airways under a service level agreement. The service is funded by the user (airlines and general aviation) and not by the Airport. Currently the Airport's Exposition states that air traffic control is provided for scheduled operations of aircraft with 30 or more passenger seats.

New Plymouth Airport is currently working with Napier and Gisborne airports on a combined approach to an aeronautical study and, with Airways, will share the overall cost. The study is being conducted by an independent consultant and the report is programmed to be completed and submitted to the CAA for their review by the end of 2020.

In the meantime, Airways have stated that the current levels of service will be maintained, including the manning of the tower, until the study is finalised and outcomes are known, which is currently envisaged to be fully completed by April 2021.

9. Capital projects

In accordance with the FY2021 Statement of Intent, the reduced capital works programme for the year is ongoing.

a) Airport terminal redevelopment

Comments on the new terminal continue to be very positive and the Airport came a close second behind Nelson Airport in a recent nationwide survey conducted by Mediaworks to find the country's most favourite airport.

The new terminal has also been successful in reaching the finals of the 2020 New Zealand Building Industry Awards and the 2020 Best Awards from the Designers Institute of New Zealand.

There are a few teething issues with the new building and Clelands Construction are currently working through these but they are not affecting operations.

b) Car parking

Work commenced on a project to construct a new car park following the demolition of the old terminal and work is progressing well with completion expected late November. The entrance to the car park also acts as a card controlled security access for delivery vehicles to the new terminal service area.

As part of the works an airside viewing area has been created to the east of the new building which will enhance the customer experience by providing non-passengers the ability to see the airside view of the terminal building and a very close view of family and friends as they arrive or leave – something unique for regional airports.

c) Internal roading improvements

Works are ongoing to improve the Airport internal roading layout which will see the perimeter road changed to two-way for its whole length, avoiding the need for service vehicles and returning rental cars to use the new road in front of the terminal. This will improve safety in the vicinity of the terminal forecourt.

As part of the works a new access will be created to the eastern side of the public car park, changes to the entrance and exit to the car rentals area will be carried out and a much needed realignment where the perimeter road meets Airport Drive will be constructed.

d) Taxi and shuttle zone

In conjunction with the internal roading improvements a new taxi and shuttle zone has been created with separate areas for pre-booked and on-demand taxis, a shuttle stand area and a space for coaches. The zone is accessible from a newly constructed footpath leading from the eastern side of the terminal.

PRIP is also considering the installation of a covered walkway to the taxi and shuttle zone and this is currently with the Airport Board for approval due to there being no budget allowance in the FY2021 capital works programme.

e) Security fence and airside security

This project is ongoing and includes the installation of a new 2.44m high security fence, new personal access and vehicle gates, airside walkway barriers, new bollards, swing gates to the aircraft stands and upgraded apron flood lighting.

Also included are works to improve the passenger experience to and from the terminal with a new wider concrete footpath, new stainless steel wire fencing and upgrading of the old signage, all to match the overall look and feel of the terminal.

f) PRIP submission to the Crown Infrastructure Partners

PRIP in conjunction with NPDC made a submission during FY2020 to the Crown Infrastructure Partners (CIP) for funding support as part of a Government construction stimulus package for 'shovel ready' projects.

The application was for 100% grant funding for a programme of eight projects totalling \$15.3m, consisting of six projects within the Airport confines that were included in the Airport CAPEX programme and two projects on Airport Drive that are related to developments by NPDC.

The CIP advised that due to the low value of programme the submission had been handed over the Provisional Growth Fund team and, despite all of the projects being in the late stages of design or ready for construction, the funding application had not been successful.

10. Proposed Civil Aviation Bill

Previous reports have advised Council on the draft Civil Aviation Bill being proposed by the Minister of Transport (MOT) to amalgamate the Civil Aviation and the Airport Authorities Acts.

Following the outcome of the General Election and as an update, the MOT has a goal of putting the Civil Aviation Bill through the Cabinet approval process and possibly drafting and introduction to the new Parliament either before the end of 2020 or early 2021.

In this timeframe the Ministry has advised that a further exposure draft for stakeholders to review and provide another round of commentary will not be possible. However, the MOT has raised the possibility (without commitment) that officials could recommend to the Select Committee that additional engagement might be undertaken at that stage of the legislative process.

PRIP continues to watch the proposed Civil Aviation Bill with interest and will keep the Council informed on any progress.

11. 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 during the year, 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.

PRIP is aware of the potential that future decisions 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.

12. Strategic outlook

a) Passenger numbers recovery

PRIP has been in regular consultation with Air New Zealand and other regional airports on passenger recovery models based on the latest information available. This has been difficult to accurately forecast as the airline has made frequent adjustments to their schedule to meet demand.

Initially Air New Zealand was forecasting capacity to recover to around 50% of pre COVID-19 levels by the end of FY2021 but, with the country being at Alert Level 1, Air New Zealand gradually introduced more capacity into the network than previously planned. For New Plymouth Airport aircraft movements quickly increased and during the early part of FY2021 stood at around 50% as compared to the same period in FY2020.

However, following Auckland moving back to Alert Level 3 and with the rest of the country at Alert Level 2 from mid-August through to September, the airline reduced capacity to meet demand with further pressure being put on numbers as social distancing rules on aircraft were reintroduced, effectively limiting passengers to a maximum of 50% of the aircraft's capacity. As soon as the Alert Levels were lowered back to 1 for the whole of the country from mid-September, Air New Zealand once again ramped up capacity and overall for the three months passenger numbers were on forecast.

By the end of the first quarter commercial aircraft movements at New Plymouth were between 14 and 20 per day as opposed to 18 to 30 per day for the equivalent period of FY2020.

Recent updates from Air New Zealand are suggesting that, assuming the country-wide Alert Level remains at 1, the speed of the recovery will continue and that a return to circa 80% of pre COVID-19 capacity, originally forecast during the latter part of FY2022, could well now be achieved before the end of the 2020 calendar year.

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 is currently underway to improve the internal roading layout and construct a

new car park on the site of the old terminal, with works due to be completed before the end of 2020.

As advised, and in line with the original business case for the terminal redevelopment, a further review of car parking charges is currently being carried out and a report will be submitted to the PRIP Board for approval and implementation early 2021.

This will also take into consideration the ability to offer a premium parking option in the new car parking area adjacent the terminal at a lump sum annual cost, mainly aimed at the corporate market.

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.

Interestingly, the current percentage split between the three sectors that Air New Zealand operate out of New Plymouth Airport has changed.

<u>Sector</u>	<u>Pre COVID-19</u>	<u>Current</u>
Auckland	64%	48%
Wellington	22%	31%
Christchurch	14%	21%

The drop in overall percentage on the Auckland sector will in general be related to the absence of the links to the international network but could also represent a softening of the business market, something that is being reflected around the regions.