

# ROTORUA REGIONAL AIRPORT LTD

## Statement of Intent

### Board Statement

#### Board of Directors – Rotorua Regional Airport Ltd

Neil Oppatt (Chairman)  
Bob Martin  
Ray Cook  
Bill Kingi

This Statement of Intent is a three year forecast based on the first annual review of the Airport Master Plan completed in May 2003. The Master Plan is the company's 'blueprint' for future development and management of the airport for the next 20 years. The plan is based on the vision, needs and constraints expressed by the shareholders during a series of workshops convened by the company during the planning and subsequent review process. Resolutions passed at special meetings of Council in February 2003, February 2004 and June 2004 have been used in shaping the vision, goals and objectives which govern the future direction of the company.

The market environment today is dramatically different to that which existed when the Plan was written 12 months ago. The market environment twelve months ago was influenced by -

- Expert predictions that the proposed Air NZ / Qantas alliance was an almost certainty
- a virtual monopoly on domestic and trans Tasman routes
- the possibility that Virgin Blue may not enter the NZ market

The Airport Master Plan was realistically based on a market forecast of one domestic jet airline servicing the ROT-CHC route.

Within six months the market environment had changed dramatically influenced by –

- Commerce Commission rejection of the Air NZ / Qantas alliance proposal
- a new airline Pacific Blue establishing domestic and trans Tasman services
- the entry of new competition on the trans Tasman route (i.e. Emirates)
- the decision of two airlines to commence jet services on the ROT-CHC sector
  - Air New Zealand from 1 December 2003

- Qantas Airways from 1 April 2004
- a possibility that Pacific Blue may also provide domestic services to and from Rotorua
- Emirates Airline establishing new trans Tasman services

RRAL responded to this unexpected change by-

- reviewing its Master Plan to make provision for two or possibly three 'same time' domestic jet operations (the Plan previously provided for one domestic jet operation)
- redesigning its terminal development to cater for the increased demand
- consulting the shareholder as to the need to accelerate the forecast capital programme in order to cater for the increased demand and take advantage of market opportunities

The plan remains a 'living document' and will continue to be upgraded and expanded as knowledge increases and new improved ideas and business options evolve. The business is strongly influenced by the external operating environment (both domestic and international) and the company will continue to review its strategic direction having regard to that environment. At the very least the Airport Master Plan will be reviewed annually in accordance with market conditions.

The Board continues to meet the challenges 'head on' and is frustrated at the lack of visual progress which would give shareholders and the community confidence that 'things are actually happening' at the airport. Unfortunately the task of bringing an airport 'back from the brink' involves the resolution of many long-standing historical and planning issues which take time to address and resolve. The high cost of infrastructure development on such a constrained site makes it imperative that scarce resources are effectively and efficiently utilised and that all risks are addressed. The Board's decision to review the design limits of the terminal and aprons as defined in the Airport Master Plan is an example of the need to be proactive in addressing the future needs of the industry. The Board continues to face the future with confidence.

## Introduction

Rotorua Regional Airport Limited –

- (a) is a limited liability company pursuant to the Companies Act 1993

- (b) is a Council-controlled Trading Organisation pursuant to Section 6 Local Government Act 2002

This Statement of Intent –

- (a) is prepared in compliance with Section 64 and the Eighth Schedule of the Local Government Act 2002
- (b) sets out the objectives and scope of activities proposed to be carried out by the Rotorua Regional Airport Ltd (RRAL) in the 3 year period commencing 1 July 2004.

The Local Government Act 2002 requires that Council-controlled organisations –

- (a) review their Statement of Intent prior to the commencement of each financial year
- (b) have a financial year ending 30<sup>th</sup> June each year.

RRAL altered its financial year with a 15 month period ended 30<sup>th</sup> June 2003 in order to comply with Section 276 Local Government Act 2002 which requires Council-controlled Organisations to have a 30<sup>th</sup> June balance date with effect from 1<sup>st</sup> July 2003.

The Eighth Schedule of the Local Government Act states that the purpose of a statement of intent is to -

- (a) state publicly the activities and intentions of a council-controlled organisation for the year and the objectives to which those activities will contribute
- (b) provide an opportunity for shareholders to influence the direction of the organisation
- (c) provide a basis for the accountability of the directors to their shareholders for the performance of the organisation.

On 31 July 2002 Rotorua District Council purchased the 50% shareholding in RRAL held by Central Avion Holdings Limited. The Council now holds 100% of the shares in RRAL.

The company presented its Airport Master Plan to the Council's Finance and Strategic Planning Committee on 24 June 2003. The Committee resolved to adopt the plan.

An annual review of the Plan is currently in progress. RRAL held a Shareholder Workshop on 18<sup>th</sup> February 2004 which reviewed progress and changes in the market environment. The Workshop also reviewed the goals, objectives and strategies contained in the plan and the implication changes would have on capital and funding requirements. Council's consultant took part in the review and has subsequently presented a report to Council's Finance and Strategic Planning Committee addressing the issues and options.

RRAL received a copy of the report on 23<sup>rd</sup> February 2004 together with a resolution that the report be

referred to the Rotorua Regional Airport Ltd Board for consideration and recommendations included in its Statement of Intent and; that Rotorua Regional Airport Ltd Board be invited to attend a special Finance and Strategic Planning Committee meeting on Monday 1 March 2004 to present the Statement of Intent and in particular funding matters.

Council's Finance and Strategic Planning Committee referred the Price Waterhouse report to RRAL on 23 February 2004 for its consideration in preparing this Statement of Intent

In May/June 2004 the council consulted on and adopted the proposal that the infrastructure assets and land be transferred to Council so that they are owned by Council and that the Rotorua Regional Airport Limited will continue as a stand alone company operating the Rotorua Regional Airport under an arrangement where by the infrastructure assets are leased to it from Council.

This Statement of Intent is therefore based on the following assumptions.

## Assumptions

### Proceed with

- development associated with domestic jet services (with the possible exclusion of some 'non contingent' items)
- all planning for trans Tasman services including -
  - designations, plan changes, resource consents
  - survey, testing, design, documentation of infrastructure development to a 'state of readiness' only
- stage I of terminal development and design for stage II and III
- initiatives to secure trans Tasman services utilising existing runway length
- proceeding to 'state of readiness' for all trans Tasman development

### Shareholder during the 2004/2005

- will acquire airport land and infrastructure and undertake redevelopment itself with lease-back to airport operating company

## Mission Statement

"A user friendly, attractive airport 'hub' which meets the regional need for domestic and trans-Tasman airline services and is a safe, commercially viable operation optimising the social and economic benefits to the community shareholder."

## Goals

### Resumption of domestic jet services

Goal achieved:

- Air NZ commenced jet service on 1<sup>st</sup> December 2003
- Qantas Airways to commence jet service on 1<sup>st</sup> April 2004

### Establishment of trans-Tasman passenger services

Progress achieved:

- Plan change documentation submitted to Council early February 2004
- Notice of Requirement for designation of land and airspace to be lodged as soon as agreement reached with Transit NZ re Lee Road overbridge designation

### An attractive customer friendly airport facility

Progress achieved:

- Contract for stage I terminal development let in June 2004

## Objectives

- Meet the airport needs of the district and region
- Advise Council and shareholders as to the district needs for air transport services and infrastructure development
- A strategic plan which reflects the needs of the community
- An effective working relationship with the shareholder
- Secure and protect the right to operate and expand airport operations
- Meet the needs of the community for growth in aircraft movements and passenger numbers
- Develop at a rate which minimises requirement for shareholder equity capital
- Proceed at a rate which minimises risk
- Cement infrastructural facilities for domestic jet services on the Rotorua –Queenstown route
- Establish trans-Tasman services utilising existing runway length
- Achieve a 'state of readiness' to proceed with the Stage II runway extension (obtain district planning and resource consents as quickly as possible)
- Operate company as a 'stand alone' commercial business, leasing the infrastructural assets from Rotorua District Council
- Optimise net earnings potential for reinvestment in airport development
- Minimise calls for shareholder equity advances
- Informed decision-making based on sound strategic planning

- Mitigate adverse effects caused by airport operations and development
- Develop and maintain airport facility which reflects city aesthetic and landscape standards
- Provide a safe, secure airport facility
- Provide for general aviation activity consistent with primary purpose of providing for airline passenger services

## Strategies

- Complete strategic planning
- Update master plan
- Transfer assets and land to RDC and leaseback
- Cement required capital infrastructure for 737 300 jet services on Rotorua / Christchurch route
- Complete construction of stage I terminal upgrade
- Construct two new aprons and strengthen and upgrade existing asphalt aprons to accommodate jet aircraft
- Designate existing and required flight path 'obstacle limitation surfaces'
- Initiate District Plan Change to provide for development of Stage II runway extension
- Apply for resource consents to construct Stage II runway extension
- Mitigate adverse effects caused by airport operations and development
- Upgrade strength of 'original' runway and taxiway for use by heavier aircraft
- Upgrade existing car park, internal roads and access from State Highway 30
- Construct Stage II runway extension
- Construct runway end safety areas to comply with new CAA rule requirement
- Design and construct stage II and III terminal complex and related utilities
- Develop General Aviation facilities
- Design and develop airport business park
- Landscape design and implementation
- Internal zoning and land use rules
- Explore and develop new business opportunities

## Governance

The board's approach to governance includes:

- (a) that the company operates as an Airport operator under a legal entity in it's own right separate from it's shareholder, leasing the Airport capital infrastructure from RDC<sup>1</sup>
- (b) that all decisions are made by the board of directors<sup>2</sup> in accordance with the company constitution and statement of intent

<sup>1</sup> Section 15 of the Companies Act 1993 refers

<sup>2</sup> Section 128 of the Companies Act 1993 and Section 60 of the Local Government Act 2002 refer

- (c) the development of an effective working relationship with shareholders on issues of strategic importance, utilising shareholder workshops as an informal mechanism for seeking shareholder guidance on strategic issues

through the airport, having regard to the regulatory requirements of the Civil Aviation Authority of New Zealand.

- (b) The provision and maintenance of facilities for non-airport company businesses located at the airport.
- (c) The development and management of land holdings.

## Nature and Scope of Activities

The primary nature and scope of activities for the company is to operate an airport at Rotorua.

These activities include:

- (a) The provision, maintenance, upgrading and extension of services and facilities to accommodate aircraft movements and the efficient handling of passengers and cargo

Over the next three years the company will actively pursue opportunities for passenger and revenue growth, airport upgrading and development, and enhancing the aesthetics of the airport facility in keeping with its primary role as a visitor gateway to Rotorua and the Bay of Plenty region.

## Capital Expenditure Proposals

The following table summarises the capital expenditure planned to be undertaken by Council for Airport development for the next 3 years. These forecasts are subject to change following further discussions and agreement between RRAL and the shareholder:

Table 1: Capital Development Programme (by Council)

Year	Year ending 30 <sup>th</sup> June	Details	Amount (\$000)
1	2005	Domestic Jet Aircraft Services	
		○ Stage I terminal development	2,900
		○ Temporary gate lounge	100
		○ New apron and taxiway (80 tonne capacity)	910
		○ Upgrade existing asphalt aprons (30 tonne capacity)	3,475
		○ Security fencing	250
		○ Moving internal Airport leases/landscaping	270
		○ Wet land mitigation	100
		○ Roading and parking development	1,500
		○ Other costs/consultants	50
		Trans Tasman readiness	
		○ External to airport strategic property purchases	750
		○ Designation/Plan Change/Resource Consents	660
○ Northern Starters	1,400		
2	2006	Domestic Jet Aircraft Services	
		○ Security Fencing	250
		○ Roading & parking development	600
3	2007	Trans Tasman readiness	
		○ External to airport strategic property purchases	750
3	2007	Domestic Jet Aircraft Services	
		○ Security Fencing	250
<b>Total</b>			<b>14,215</b>

**Note: Council has yet to confirm the policy for the expenditure of capital for trans-Tasman Services infrastructure and revenue.**

Table 2: Capital Operation (by Council)

Year	Year ending	Details	Amount (\$000)
1	2005	Equipment	60
2	2006	Equipment	342
<b>Total</b>			<b>402</b>

## Financial Forecasts and Performance Targets

The following table forecasts the Company's anticipated financial performance for the three year period ending 30 June 2007.

Table 3: Financial Forecasts

Year ending 30 June :	2005 (\$000)	2006 (\$000)	2007 (\$000)
Total revenue	1,485	1,546	1,599
Total costs	1,195	1,537	1,590
Surplus / deficit before tax	290	9	9
Provision for tax	96	3	3
Surplus / deficit after tax	194	6	6
Total liabilities	1,398	1,392	1,397
Total assets	1,435	1,430	1,435
Total shareholders' funds	37	38	38
Net profit after tax to average shareholders' funds	7%	17%	17%
Shareholders' funds to total assets	3:97	3:97	3:97

## Capital Structure and Funding Requirements

During 2004/2005 Council will reduce its equity in the Company as the infrastructure assets and land are transferred from RRAL to RDC.

## Dividend Policy

The company's policy prior to Council purchasing a 100% shareholding has been to distribute by way of dividend to shareholders 40% of net profit after tax provided where it is prudent to do so.

The shareholder has waived its right to require RRAL to pay a dividend provided that the company invests an equivalent amount into airport development, this will be reviewed on a year by year basis.

## Shareholders' Funds/Assets

Shareholders' funds include share capital and reserves.

Assets include current assets and non-current assets which comprise fixed assets at historical cost and amortised over the expected life of the asset and deferred taxation.

## Interest Cover

The company aims to have an interest cover above 2.0.

## Acquisition of Shares

The company will not subscribe for, purchase, or otherwise acquire shares in any company or other organisation without first being authorised to do so by a special resolution of shareholders.

## Shareholder Information

The company will provide shareholders with information on its current and future activities at a level sufficient for shareholders to assess the performance of the company against its objectives.

The company will endeavour to disclose as much information on its operation as is practicable and consistent with commercial and confidentiality considerations. As a minimum this will involve:

- (a) Half Yearly:  
Compliance with Section 66 Local Government Act 2002 including -
- i) a year-to-date unaudited statement of profit and loss compared with budget and result for the same period of the previous year
  - ii) balance sheet at the end of the period
  - iii) statement of source and application of funds
  - iv) updated performance indicators

- v) narrative on major developments, trends, and any revisions to financial forecasts in the light of performance which will be the subject of discussions with the shareholders
- (b) Annual:  
Compliance with Sections 67 and 68 Local Government Act 2002 including -
- i) annual report and accounts
  - ii) budget for coming year
- (c) As Necessary:
- i) details of any new developments not covered in the annual budget and Statement of Intent
  - iii) any other information justifiably sought by the shareholder

## Compensation

Except for shareholder advances and the transfer of capital infrastructure assets and land, the board is not proposing any activities for which it would seek compensation from any local authority<sup>3</sup>

## Company Valuation

The book value of shareholders' funds as at 30 June 2004 was:

### Shares:

Rotorua District Council	\$2,640,000
Total Book Value of Shares	\$2,640,000

### Loan Finance:

Rotorua Energy Charitable Trust	\$1,250,000
Rotorua District Council	\$4,429,000

The value of the company's assets at 30 June 2004 is budgeted to be:

Asset Type	\$	Basis
Land	1,397,000	Book Value
Improvements	7,906,000	Book Value
Plant & equipment	134,000	Book Value

## Accounting Policies

Accounting policies will be consistent with legal requirements in the Companies Act and generally accepted accounting standards as promulgated by the Institute of Chartered Accountants of New Zealand modified as necessary for the circumstances of the company.

## Auditors

Section 70 of the Local Government Act 2002 requires that Council-controlled Organisations be audited by the Auditor General.

## Public Notification

The Act requires that any completed statement of intent and each modification adopted must be made available to the public within 1 month after the date on which it is delivered to the shareholders or adopted, as the case may be.

<sup>3</sup> Clause 9(j) of the Eighth Schedule of the Local Government Act 2002 refers