

# STATEMENT OF INTENT

FOR THE FINANCIAL YEAR ENDING 30 JUNE 2019

AND EACH OF THE IMMEDIATELY FOLLOWING TWO YEARS

## 1. Introduction

This Statement of Intent is presented by the Board of Marlborough Airport Limited (the Company) in accordance with Section 64 of the Local Government Act 2002.

This Statement of Intent sets out the intentions, activities and objectives for the financial year to 30 June 2019 and each of the immediately following two financial years for the Company.

The Company is a Council Controlled Trading Organisation under section 6 of the Local Government Act 2002.

## 2. Governance

The Airport is operated as a wholly owned subsidiary of Marlborough District Council Holdings Limited which is wholly owned by the Marlborough District Council. The Board of Marlborough Airport Limited is responsible for monitoring the performance of the company and setting the long term strategic and development direction for the company. The day to day operation of the airport is achieved via a mixture of staff employed by Marlborough Airport and resources provided by Council.

## 3. Objectives of the Company

The company's vision is to be an efficient airport operator fostering regional economic growth and the long term sustainability of the Company.

Consistent with this vision are the Company's objectives to:

- be a welcoming gateway for travelers;
- ensure a risk-free, safe and healthy environment for workers, visitors and stakeholders;
- maintain its certification as an airport operator under CAA Rule Part 139;
- facilitate economic development;
- pursue opportunities to increase the value of commercial activities; and
- be financially sustainable.

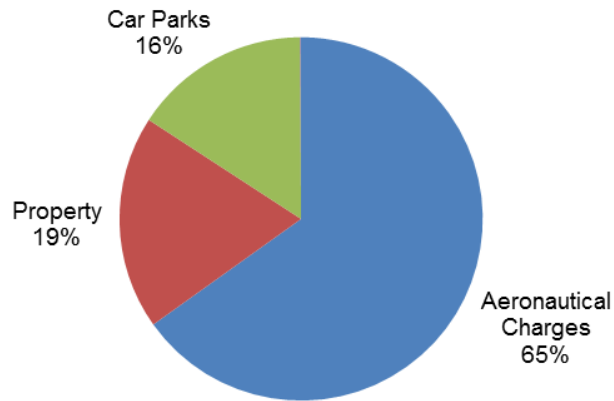
## 4. Nature and Scope of the Activities to be Undertaken

The Company owns and operates Marlborough Airport as a regional airport for scheduled flights by turbo-prop aircraft and other general aviation activities such as air ambulance and charter.

In addition to the revenue generated by aeronautical activities the Company's revenue streams reflect its management of landside operations which generate commercial income from car parking, property leases and advertising.

The Company also liaises with the Marlborough District Council, customers, operators and stakeholders to identify and invest in economic and regional development opportunities relating to the airport.

### Budgeted Revenue Mix



The Company's proximity to the Woodbourne air force base limits its ability to expand and, as a result, the Company is currently faced with a lack of Apron parking for aircraft and limited opportunities to expand the Terminal and Baggage Handling facilities. Marlborough Airport has a license to operate relationship with the New Zealand Defence Force (NZDF). This brings with it unique operational and financial challenges when compared to other airports, which tend to operate under an ownership model. The airport pays a fixed percentage of its income every year as a lease to NZDF. Due to the regulated nature of aeronautical charges this constrains the airport's ability to operate at the requisite levels of financial sustainability in some years.

A solution to this is key to the Company's opportunities for future commercial growth and the airport's board is actively attempting to resolve this.

## 5. Performance Targets

The Company has developed targets to measure its performance against the key objectives.

Performance targets	Key performance indicators	2018-19 Target	2019-20 Target	2020-21 Target
A welcoming gateway for travellers	Customer satisfaction with MAL services as measured by bi-annual survey (where 10="Service delivered extremely well")	Survey completed by 31 December 2018. Benchmark set.	Targeted satisfaction > Benchmark for maintenance or improvement (benchmark set following result of first survey)	
	Extension and upgrade of the public and rental car parking areas	Negotiations for land completed by 30 September 2018 to allow extension to be completed by 30 June 2019		
Health & Safety and Risk Management	Comply with Health & Safety at Work Act (2015) at all times with any non-compliance and near misses to be reported to the Board on a quarterly basis	100% compliant	100% compliant	100% compliant
	Complete implementation of a Safety Management System	Plan completed by 31 March 2018	Full implementation completed by 31 October 2019	

Performance targets	Key performance indicators	2018-19 Target	2019-20 Target	2020-21 Target
Maintain CAA Part 139 certification	Compliance with CAA Rules	100% compliance with CAA Audit due April 2018 with no need for revisit		100% compliance with CAA Audit due April 2020.
Facilitate economic development	Meet passenger growth forecasts, encourage new routes and foster growth on the direct route from Christchurch:			
	Passenger movements	330,000	336,000	342,000
	Landings	9,900	10,100	10,300
Pursue opportunities to increase the value of commercial activities	Negotiate for additional land for aeronautical and commercial development.	Negotiations completed by 30 June 2018.		
	Promote conference and meeting facilities.	200% increase in revenue over 2017/18.	50% increase in revenue.	
	Attract further advertising revenue through use of digital media.	Digital Media business case completed by 31 July 2018 70% increase in advertising revenue over 2017/18		
Review the Strategic Plan	Develop a new Strategic Plan	Review 2010 Strategic Plan by 28 February 2018 New Strategic Plan in place by 30 September 2018		
Financially Sustainable – measured by these key indicators	Cash from operations <sup>1</sup> (\$000's)	947	1,084	1,037
	EBITDAF <sup>2</sup> (\$000's)	772	889	768
	NPAT <sup>3</sup> (\$000's)	(66)	65	(10)
	ROI <sup>4</sup>	-2.2%	2.1%	-0.3%
	Return on average Fixed Assets <sup>5</sup>	-0.7%	0.7%	-0.1%
	Interest cover <sup>6</sup> > 2	4.6	7.8	8.7
	Debt : EBITDAF < 4.5	3.5	2.4	2.0
	Debt : Total assets < 40%	30.6%	23.5%	17.4%

Performance targets	Key performance indicators	2018-19 Target	2019-20 Target	2020-21 Target
	Shareholders' funds : Total assets <sup>7</sup>	25.5%	25.8%	26.0%

<sup>1</sup> Differs to cashflow statement due to timing of Income Tax payments

<sup>2</sup> Earnings before interest, taxation, depreciation, amortisation and fair value movements

Note: as fair value movements are not budgeted in the budget this equals EBITDA

<sup>3</sup> Net Profit after tax.

<sup>4</sup> Return on equity = NPAT less fair value movements / Average equity

<sup>5</sup> NPAT less fair value movements / Average total assets

<sup>6</sup> EBITDAF/Interest expense

<sup>7</sup> Average equity / Average total assets; this measure is required by the Local Government Act to be included in this SOI.

<sup>3 4 5</sup> These three KPIs based on NPAT are indicating negative targets in some years which would appear to contradict the overall performance target of Financial Sustainability. The intention is to make a profit after depreciation every year. The most significant contributor to airport revenues is aeronautical income. The charges able to be applied in any given year are calculated under a methodology which is not controlled directly by the board. This situation means negative returns after depreciation may occur in some years. Furthermore, MAL provides each year toward the next reseal of the runway whereas the pricing model can set prices to recover only the notional depreciation on the reseal currently in use. This is essentially a timing difference, adjusting for it results in targets of:

Performance targets				
Financially Sustainable – measured by these key indicators	NPAT <sup>3</sup> (\$000's)	201	356	306
	ROI <sup>4</sup>	6.6%	11.6%	9.9%
	Return on average Fixed Assets <sup>5</sup>	2.2%	3.9%	3.4%

## 6. Statement of Accounting Policies

The measurement and reporting of earnings and financial position are under the policies as contained in the 2016/17 Annual Report with updates as required to meet International Financial Reporting Standards. The 2016/17 Annual Report including the Statement of Accounting Policies is available on the Company's website [www.marlboroughairport.co.nz](http://www.marlboroughairport.co.nz).

## 7. Dividend Distribution Policy

Profit retention and the level of dividends to be paid will be recommended from year to year by the directors in accordance with results and circumstances prevailing, subject to solvency certification at the time.

## 8. Projected borrowings

The expectation is that the company will make a cash surplus every year. It is further expected that company debt will be repaid as funds allow with debt repaid in full by 2023.

The current level of debt and projections is set out below:

2018 \$4.1m                      2023 nil

2019 \$3.6m

2020 \$2.8m

2021 \$2.0m

2022 \$1.0m

## **9. Commercial Value of Shareholder's Investment**

The commercial value of shareholder's investment is nominally \$3,090,888 based upon shareholders' funds forecast at June 2018. From time to time the directors or the shareholder may request that an independent valuation of the shareholder's investment be undertaken. The manner and timing of this assessment will be determined by the purpose for which it is undertaken or by the terms of the request by the directors or shareholder.

## **10. Information to be provided to Shareholder**

The Company will provide interim six monthly reports to its shareholder on the results of its trading.

The Company will provide information which meets the requirements of the Companies Act 1993, the Financial Reporting Act 2013, the Local Government Act 2002 and in compliance with generally accepted accounting practice in New Zealand in order to enable the shareholder to make an informed assessment of the Company's performance.

The Company will make the following reports available to its shareholder:

- (a) Annual Statement of Intent  
A Statement of Intent will be prepared in accordance with the Local Government Act 2002.
- (b) Annual Report  
An Annual Report will be prepared in accordance with the Local Government Act 2002, the reporting requirements prescribed from time to time by the Companies Act 1993, the Financial Reporting Act 2013 and in compliance with generally accepted accounting practice in New Zealand. The annual report shall contain the following:
  - (i) Income Statement;
  - (ii) Statement of Comprehensive Income;
  - (iii) Statement of Financial Position;
  - (iv) Statement of Cash flows;
  - (v) Statement of Changes in Equity;
  - (vi) Report on Activities;
- (c) Half Yearly Reports  
Half yearly reports will be prepared in accordance with the Local Government Act 2002, the reporting requirements prescribed from time to time by the Companies Act 1993 and generally accepted accounting practice in New Zealand. The half-yearly reports will include the following:
  - (i) Income Statement;
  - (ii) Statement of Comprehensive Income;
  - (iii) Statement of Financial Position;
  - (iv) Statement of Cash flows;
  - (v) Statement of Changes in Equity;
  - (vi) Report on Activities.

## **11. Procedure for Acquisition of Shares in any Company or Other Organisation**

All investment proposals for the acquisition of shares in the Company or other organisation will be considered in the first instance by the directors.

If any decision is contemplated to acquire assets, the value of which is more than 20% of the value of the Company's assets before the acquisition that decision will be made only after the directors have obtained the approval of the shareholder.

**12. Procedure for the Disposition of Shares**

The Company will not dispose of any shares without the prior written approval of the shareholder.

**13. Other Matters**

The Shareholder and directors agree that the above matters are the only ones to be covered in this Statement of Intent and that there are no additional matters to be included.