

WHANGANUI AIRPORT JOINT VENTURE - STATEMENT OF INTENT

FOR YEAR COMMENCING 1 JULY 2020

This statement is submitted by the Parties of the Whanganui Airport Joint Venture in accordance with section 64 of the Local Government Act 2002. It sets the overall intentions and objectives of the Joint Venture for the three financial years beginning on 1 July 2020.

The airport is operated under a Joint Venture agreement between the Whanganui District Council and the New Zealand Government (the Parties) established under the Airport Authorities Act (1966). The Joint Venture is a deemed company under the Income Tax Act (2004).

1 Definitions

"JV" means Joint Venture between the Crown and Council.

"CCO" means the Whanganui Airport Joint Venture, being a Council Controlled Organisation.

"Council" means the Whanganui District Council.

"Crown" means the New Zealand Government.

2 Objectives

2.1 The JV's primary objectives are to:

2.1.1 Provide high quality facilities and service commensurate with existing levels of aviation activity and in accordance with all the appropriate Acts, Regulations and Rules pertaining to airport and aviation operations in line with the size of Whanganui Airport.

2.1.2 Operate the airport in a sound and business-like manner.

2.1.3 Improve the long term value and financial performance of the airport while improving the economic value of the airport to Whanganui.

3 Governance

3.1 The JV Parties have delegated governance and statutory management responsibilities to the Whanganui District Council.

4 Nature and scope of activities

4.1 The airport provides take-off, landing, ground handling and passenger terminal facilities for scheduled airline services.

4.2 It also provides a base for commercial, training and recreational aviation activity.

4.3 The ongoing development of aviation and associated service and infrastructure is subsequently intended to support activity, business and employment.

5 Consolidated shareholders funds

5.1 For the year ended 30 June 2019, consolidated shareholders funds as a ratio to total assets was 95%. Per the JV's Annual Report 2019, equity was \$8.7M and total assets were \$9.2M.

5.2 The target ratio of consolidated shareholders' funds to total assets shall not significantly alter to that stated in 5.1 for the period covered by this SOI. This target ratio does not take into account unusual or one-off type transactions that impact this ratio. The appropriateness of this target ratio will be reviewed annually by the Parties.

6. Accounting policies

- 6.1 The Statement of accounting policies for the year ended 30 June 2019 is attached in Appendix 1.

7 Performance targets

- 7.1 The forecast performance targets for the next three years are:
- 7.1.1 Reduction of the current loss position to 'break even' or to a level acceptable to the Parties in the light of the CCO's economic value to Whanganui.
 - 7.1.2 Compliance with all aspects of Part 139 of the Civil Aviation Rules with a minimum of one requirement per inspection.
 - 7.1.3 Delivery of an activity plan and subsequent achievement of the individual targets outlined within that plan.

8 Distributions to shareholders

- 8.1 Under the JV agreement the Parties contribute equally to losses and share any profits.
- 8.2 The JV will not have any funding to pay a dividend in the foreseeable future. Resources will be allocated to the sustainability of the service and reduction of the operating deficit.

9 Information to be provided to shareholders

- 9.1 To better achieve the stated objectives, an activity plan is produced to set out the JV's short and long term strategies and include an annual budget.
- 9.2 The CCO will produce reports in accordance with the Local Government Act 2002 and generally accepted accounting practice.
- 9.3 The financial statements will be prepared and audited by 30 September.
- 9.4 The CCO will produce monthly management reports in accordance with Whanganui District Council management reporting systems.

10 Procedure for acquisition or sale of shares and property

- 10.1 Before the JV subscribes for, purchases or acquires shares in any other company, or acquires any interest in any business or property whatsoever the JV shall give at least 21 days notice to WDC and in turn the Crown of such proposals prior to the JV deciding whether or not to proceed.
- 10.2 The JV shall not proceed to purchase without an ordinary resolution first being completed by WDC and by the Ministry of Transport on behalf of the Crown.

11 Compensation

- 11.1 Other than normal business transactions provided to WDC there are no activities for which the JV will be seeking compensation from any local authority.

12 Commercial value

- 12.1 The estimate of the commercial value of the JV is \$8,733,000. The investment is made up by way of equity as at 30 June 2019.
- 12.2 The JV, upon request from the JV Parties, will provide within their Annual Report an assessment of the then current commercial value of the shareholding.

13 Forecast financial statements (2021 – 2023)

FORECAST FINANCIAL STATEMENTS (2021 - 2023)			
STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE			
FOR THE YEAR ENDED 30 JUNE	2021	2022	2023
Revenue			
Landing charges	220	231	243
UNICOM charges	130	137	143
Rentals and leases	110	110	110
Café income	146	146	146
Other	76	76	76
Operating revenue	682	699	718
Expenditure			
Café operating costs	213	213	213
UNICOM operating costs	134	134	134
Airport operating costs	576	532	566
Operating expenses	923	879	913
Net cost of operations (excl depreciation)	(241)	(180)	(195)
SCHEDULE OF MAJOR CAPITAL EXPENDITURE			
FOR THE YEAR ENDED 30 JUNE	2021	2022	2023
Parallel taxiway*	4,100		
Runway resurface			3,000
Terminal Roof		30	
Masterplan development		30	
Instrument approach procedure revamp	20		
HVAC installation - terminal			70
Replace protective barriers around approach lighting	21		
CCTV camera upgrade	5		5

UNICOM installation	81		
Upgrade long term car park fences	10		
Café plant replacement	5		
Boundary/Fences	10	10	10
Extend landside car park		20	
Relocate long term car park		301	
Extend short term car park			201
Autodoors upgrade			26
*Application has been made to central government to assist funding of the parallel taxiway project			

14 Other matters

14.1 The JV operates in accordance with the Joint Venture agreement at all times.

APPENDIX 1

Statement of accounting policies

For the period ended 30 June 2019

REPORTING ENTITY

The Whanganui Airport (WAJV) is a joint venture between the Whanganui District Council and the New Zealand Government established under the Airport Authorities Act 1966. WAJV is a Council Controlled Organisation (CCO) of the Whanganui District Council (WDC) as defined by section 6 of the Local Government Act 2002 and is domiciled in New Zealand.

The primary objective of WAJV is to provide high quality facilities and service commensurate with existing levels of aviation activity and in accordance with all the appropriate Acts, Regulations and Rules pertaining to airport and aviation operations of the size of Whanganui Airport, operate the airport in a sound and business-like manner and improve the long term value and financial performance of the airport along with improving the economic value of the airport to Whanganui. Accordingly, WAJV has designated itself as a public benefit entity (PBE) for Financial Reporting Purposes.

The financial statements of WAJV are for the year ended 30 June 2019. The financial statements were authorised for issue on 27 September 2019 by the Whanganui District Council.

BASIS OF PREPARATION

The financial statements have been prepared on the going concern basis, and the accounting policies have been applied consistently throughout the period. The going concern basis is appropriate because there are no material uncertainties related to events or conditions that may cast significant doubt about the ability of the WAJV to continue as a going concern.

Statement of compliance

The financial statements of WAJV have been prepared in accordance with the requirements of the Local Government Act 2002, which includes the requirement to comply with New Zealand generally accepted accounting practice (NZ GAAP).

These financial statements have been prepared in accordance with Tier 2 PBE accounting standards on the basis that the WAJV does not have public accountability (as defined) and has total annual expenses of less than \$30 million. They comply with these PBE Standards.

The financial statements are prepared using the historical cost method, modified by the revaluation of land and buildings and certain infrastructural assets.

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars. The WAJV's functional currency is New Zealand dollars.

SPECIFIC ACCOUNTING POLICIES

The following accounting policies, which materially affect the measurement of surplus or deficit and financial position, have been applied:

Revenue

Revenue is measured at the fair value of consideration received or receivable. The specific accounting policies for significant revenue items are explained below:

Provision of commercially based services

Revenue derived through the provision of services to third parties in a commercial manner is recognised in proportion to the stage of completion at balance date.

Vested assets

Where a physical asset is acquired for nil or nominal consideration, the fair value of the asset received is recognised as income. Assets vested in WAJV are recognised as income when control over the asset is obtained, unless there is a use or return condition attached to the asset.

Sale of goods

Revenue from sales of goods is recognised when a product is sold to the customer.

Parking infringements

Parking infringements are recognised when tickets are issued.

Interest

Interest income is recognised using the effective interest method. Interest income on an impaired financial asset is recognised using the original effective interest rate.

Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

Income Tax

Income tax expense is the aggregate of current period movements in relation to both current and deferred tax.

Current tax is the amount of income tax payable based on the taxable profit for the current year, plus any adjustments to income tax payable in respect to prior years. Current tax is calculated using tax rates (and tax laws) that have been enacted or substantively enacted at balance date.

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profits.

Deferred tax is measured at the tax rates that are expected to apply when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at balance date. The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the entity expects to recover or settle the carrying amount of its assets and liabilities.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable surpluses will be available against which the deductible temporary differences or tax losses can be utilised.

Deferred tax is not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition of an asset and liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit.

Current and deferred tax is recognised against the surplus or deficit for the period, except to the extent that it relates to a business combination, or to transactions recognised in other comprehensive revenue or expense or directly in equity.

Leases

Operating leases

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

WDC from time to time funds the working capital of WAJV. At balance date this is represented as a current liability in the statement of financial position. The WDC current account is included in the statement of cash flows as it represents actual WAJV cash in flows and out flows.

Receivables

Receivables are recorded at their face value, less any provision for impairment.

Inventories

Inventories held for distribution or consumption in the provision of services that are not supplied on a commercial basis are measured at cost (using the FIFO method), adjusted, when applicable, for any loss of service potential.

Inventories acquired through non-exchange transactions are measured at fair value at the date of acquisition.

Inventories held for use in the provision of goods and services on a commercial basis are valued at the lower of cost (using the FIFO method) and net realisable value.

The amount of any write-down for the loss of service potential or from cost to net realisable value is recognised in the surplus or deficit in the period of the write-down.

Property plant and equipment

Property, plant and equipment consists of:

Operational assets – these include land, buildings, motor vehicles and plant and equipment.

Infrastructure assets – this includes the airport runway.

Property, plant and equipment is shown at cost or valuation, less accumulated depreciation and impairment losses.

Revaluation

Land, buildings and infrastructural assets are revalued with sufficient regularity to ensure that their carrying amount does not differ materially from fair value and at least every three years. All other asset classes are carried at depreciated historical cost.

WAJV assesses the carrying values of its revalued assets annually to ensure that they do not differ materially from the assets' fair values. If there is a material difference, then the off-cycle asset classes are revalued.

WAJV accounts for revaluations of property, plant and equipment on a class of asset basis.

The net revaluation results are credited or debited to other comprehensive revenue and expense and are accumulated to an asset revaluation reserve in equity for that class of asset. Where this would result in a debit balance in the asset revaluation reserve, this balance is not recognised in other comprehensive revenue and expense but is recognised in the surplus or deficit. Any subsequent increase on revaluation that reverses a previous decrease in value recognised in the surplus or deficit will be

recognised first in the surplus or deficit up to the amount previously expensed, and then recognised in other comprehensive revenue and expense.

Additions

The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to WAJV and the cost of the item can be measured reliably.

Work in progress is recognised at cost less impairment and is not depreciated.

In most instances, an item of property, plant and equipment is recognised at its cost. Where an asset is acquired through a non-exchange transaction, it is recognised at fair value as at the date of acquisition.

Disposals

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are reported net in the surplus or deficit. When revalued assets are sold, the amounts included in asset revaluation reserves in respect of those assets are transferred to accumulated funds.

Depreciation

Depreciation is provided on a straight-line basis on all property, plant and equipment other than land, at rates that will write off the cost (or valuation) of the assets to their estimated residual values over their useful lives. The useful lives and associated depreciation rates of major classes of assets have been estimated as follows:

Buildings	50 years	2%
Plant and equipment	5 to 50 years	2-20%

Infrastructural assets

Airport runway	10 years	10%
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The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each financial year-end.

Impairment of property, plant and equipment

Property, plant and equipment subsequently measured at cost that have an indefinite useful life, or are not yet available for use are not subject to amortisation and are tested annually for impairment.

Property, plant, and equipment and intangible assets subsequently measured at cost that have a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

If an asset's carrying amount exceeds its recoverable amount, the asset is regarded as impaired and the carrying amount is written down to the recoverable amount. The total impairment loss is recognised in the surplus or deficit. The reversal of an impairment loss is recognised in the surplus or deficit.

Value in use for non-cash- generating assets

Non-cash-generating assets are those assets that are not held with the primary objective of generating a commercial return. For non-cash-generating assets, value in use is determined using an approach based on either a depreciated replacement cost approach, restoration cost approach, or a service units approach. The most appropriate approach used to measure value in use depends on the nature of the impairment and availability of information.

Payables

Short-term creditors and other payables are recorded at their face value.

Borrowings

Borrowings are initially recognised at their fair value plus transaction costs. After initial recognition, all borrowings are measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless WAJV has an unconditional right to defer settlement of the liability for at least 12 months after the balance date.

Employee entitlements

Short-term employee entitlements

Employee benefits that WAJV expects to be settled within 12 months after the end of the period in which the employee renders the related service are measured based on accrued entitlements at current rates of pay. These include salaries and wages accrued up to balance date, annual leave earned to, but not yet taken at, balance date, retiring and long service leave entitlements expected to be settled within 12 months, and sick leave.

WAJV recognises a liability for sick leave to the extent that absences in the coming year are expected to be greater than the sick leave entitlements earned in the coming year. The amount is calculated based on the unused sick leave entitlement that can be carried forward at balance date, to the extent that WAJV anticipates it will be used by staff to cover those future absences.

WAJV recognises a liability and an expense for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

Long-term employee entitlements

Entitlements that are due to be settled beyond 12 months after the end of the period in which the employee renders the related service, such as long service leave and retiring leave, have been calculated on an actuarial basis. The calculations are based on:

- likely future entitlements accruing to staff, based on years of service, years to entitlement, the likelihood that staff will reach the point of entitlement and contractual entitlements information; and
- the present value of the estimated future cash flows.

Presentation of employee entitlements

Sick leave, annual leave, vested long service leave, and non-vested long service leave and retirement gratuities expected to be settled within 12 months of balance date, are classified as a current liability. All other employee entitlements are classified as a non-current liability.

Equity

Equity is the community's interest in WAJV and is measured as the difference between total assets and total liabilities. Equity is disaggregated and classified into a number of reserves.

The components of equity are:

- accumulated funds
- property, plant and equipment reserves

Property revaluation reserves

This reserve relates to the revaluation of property, plant, and equipment to fair value.

Goods and Service Tax (GST)

All items in the financial statements are stated exclusive of GST, except for receivables and payables, which are stated on a GST inclusive basis. Where GST is not recoverable as input tax then it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the statement of financial position.

The net GST paid to, or received from the IRD, including the GST relating to investing and financing activities, is classified as an operating cash flow in the statement of cash flows.

Commitments and contingencies are disclosed exclusive of GST.

Critical accounting estimates and assumptions

In preparing these financial statements WAJV has made estimates and assumptions concerning the future which may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations or future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Property, plant and equipment useful lives and residual values

At each balance date WAJV reviews the useful lives and residual values of its property, plant and equipment. Assessing the appropriateness of useful life and residual value estimates of property, plant and equipment requires the WAJV to consider a number of factors such as the physical condition of the asset, expected period of use of the asset by WAJV, and expected disposal proceeds from the sale of the asset. An incorrect estimate of the useful life or residual value will impact on the depreciable amount of an asset, therefore impacting on the depreciation expense recognised in the statement of comprehensive income, and carrying amount of the asset in the statement of financial position. WAJV minimises the risk of this estimation uncertainty by:

- an annual review by an independent contractor of the value of the infrastructure assets to determine if any material changes exist.
- physical inspection of assets
- asset replacement programs
- review of second hand market prices for similar assets
- analysis of prior assets sales; and
- completing a revaluation of the infrastructure assets every third year

WAJV has not made significant changes to past assumptions concerning useful lives and residual values. The carrying amounts of property, plant and equipment are disclosed in note 8.

WAJV infrastructural assets

There are a number of assumptions and estimates used when performing DRC valuations over infrastructural assets. These include:

- the physical deterioration and condition of an asset, for example WAJV could be carrying an asset at an amount that does not reflect its actual condition. This is particularly so for those assets which are not visible, for example stormwater, wastewater and water supply pipes that are underground. This risk is minimised by WAJV performing a combination of physical inspections and conditional modelling assessments of underground assets;
- estimating any obsolescence or surplus capacity of an asset;
- estimates are made when determining the remaining useful lives over which the asset will be depreciated. These estimates can be impacted by the local conditions, for example weather patterns and traffic growth. If useful lives do not reflect the actual consumption of the benefits of the asset, then WAJV could be over or under estimating the annual depreciation charge recognised as an expense in the surplus or deficit. To minimise this risk, WAJV's infrastructural asset useful lives have been determined with reference to the NZ Infrastructural Asset Valuation and Depreciation Guidelines published by the National Asset Management Steering Group, and have been adjusted for local conditions based on past experience. Asset inspections, deterioration and condition modelling are also carried out regularly as part of the WAJV's asset management planning activities, which gives WAJV further assurance over its useful life estimates.

Valuations of infrastructural assets are performed in-house by experienced engineers and the valuations are peer reviewed by independent experts.