

21 November 2022

Murray Georgel
Chair
Palmerston North Airport Limited
PO Box 4384
Palmerston North 4442

Dear Murray

Statement of Expectations for 2023/24 to 2025/26

In 2020 and 2021 the Council adopted a Statement of Expectations (SOE) for the forthcoming three year period as a new part of the governance process in accordance with the new provisions of section 64B of the Local Government Act 2002.

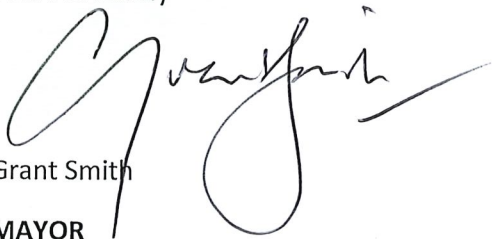
The SOE sets out Palmerston North City Council's (Council) expectations of Palmerston North Airport Limited (PNAL) for consideration in PNAL's business planning and the development for the Statement of Intent (SOI). We trust you found this a useful addition to the process.

As a prelude to the development of your next SOI the Council has reviewed the SOE and adopted one for 2023/24 to 2025/26 that includes some minor changes to reflect changing circumstances. A copy is attached.

The Council recognises PNAL as not only a council-controlled trading organisation but also an important strategic partner in achieving the City's desired outcomes for the City and wider region.

If you have any queries or comments please direct them through Council's contact person, Steve Paterson, Strategy Manager – Finance (steve.paterson@pncc.govt.nz 0274 424 021) whose role includes facilitating timely interaction between the Council and the company on shareholder issues.

Yours sincerely



Grant Smith
MAYOR

Palmerston North City Council

Statement of Expectations for Palmerston North Airport Limited (PNAL)

The Palmerston North City Council (Council) is the sole shareholder of Palmerston North Airport Ltd (PNAL). The Council (as shareholder) has adopted the following Statement of Expectations for the three-year period commencing 1 July 2023. It is expected this will be updated annually.

1 Matters addressed by schedule 8 part 2 Local Government Act (LGA)

Council's expectation is that the PNAL Statement of Intent (SOI) will comply with this legislation and in particular that it will:

- Clearly identify key objectives of PNAL
- Include the board's approach to governance
- Clearly outline the scope of activities to be undertaken
- Include performance targets and other measures by which the performance of PNAL may be judged in relation to its objective, and
- How PNAL intends to align with Council's key policies including its Vision, goals and key strategies and the District Plan.

2 Matters addressed by section 64B (1) LGA

Council expects PNAL to continue to engage with its shareholder in an open, collaborative and proactive manner and in doing so expects that PNAL will meet regularly with the Council as follows:

- Annually with the PNAL Board and full Council to discuss business performance, vision and direction
- PNAL Chair and CE present draft SOI annually to Council's Economic Growth Committee
- PNAL Chair and CE to present 6 monthly performance report and audited annual report to Council's Economic Growth Committee
- Other meetings addressing specific issues as appropriate

Council expects PNAL to maintain and implement a master plan for the airport and to engage proactively with the Council on matters that are likely to involve challenges to provisions of the City's District Plan.

Council expects PNAL to continue to proactively communicate with its communities on key issues.

The airport is a critical component of the City and regions transportation infrastructure and Council expects PNAL to play its part in ensuring airfreight and associated logistics activities are planned and developed to ensure connectivity to other nodes within Te Utanganui – the Central New Zealand Distribution hub, and the planned Regional Freight Ring Road.

The airport provides a vital component of the economic infrastructure of the City and region and Council expects PNAL to proactively work with regional economic development agencies, tourism agencies and the airlines to develop sustainable passenger and airfreight services.

Council applauds PNAL for its positive engagement with Rangitāne and encourages consideration of opportunities to further enhance the relationship with Rangitāne and other local iwi and hapu.

Council requires PNAL to fulfil all its statutory duties to the Council as owner and to work collaboratively with the Council to enable Council to meet its wider statutory obligations.

3 Matters addressed by section 64B (2) LGA

Section 64B(2) allows shareholders to identify any other expectations for the Company. The following addresses those matters of particular importance to the Council for PNAL over the forthcoming year, which Council expects to see reflected in the SOI.

i. Principles and key objectives

As outlined the LGA requires PNAL to state its proposed activities and intentions for the year and the objectives these will contribute to. Council expects PNAL to continue to service the local community and visitors for connectivity and capacity to support air traffic flows into and out of the region.

ii. The airport as a commercial entity

PNAL is required to have a commitment to retaining and growing long-term shareholder value. Council recognizes that shareholder value accretion occurs through PNAL's ongoing and significant investment in critical infrastructure including the terminal redevelopment to improve the customer experience and to facilitate sustainable growth in passenger and airfreight volumes, and investment in the development of Ruapehu Business Park which will provide income diversification and value accretion benefits. Council further recognizes that given the ongoing impacts of Covid-19 on the aviation industry PNAL's ability to preserve cash and to continue to invest in the long-term means dividend payments have been suspended in the short-term. Council however has an expectation that dividend payments will be progressively re-instated within the next two years and that the implications of this will be addressed annually through the SOI.

The Council expects PNAL to maintain suitably prudent risk policies, a balance sheet with a prudent debt/equity ratio, a profitable trading position and to be able to fund future renewals and growth activity without recourse to additional shareholder capital.

The Council encourages PNAL to continue to find ways of diversifying its revenue base through its property interests and specifically by its ongoing focus on freight & logistics and aviation tertiary training, both critical industries to the city and wider region.

PNAL is further encouraged to consider alternative means of accelerating revenue diversification objectives including developing strategic partnerships and alternative funding mechanisms.

iii. Provision of line of credit

The Council has entered a 10-year loan facility agreement with PNAL aimed at enabling PNAL to obtain loan funding at cheaper interest rates than would be available from a commercial bank. So that this arrangement does not adversely impact on the Council's ability to borrow for other purposes it relies on the Local Government Funding Agency's on-going assessment

that PNAL will remain profitable (considered over a number of years) and capable of servicing its own debt.

It is expected that the SOI will clearly demonstrate how PNAL plans to organise its financial affairs to be able to operate within the terms and limits of the loan facility agreement, recognising that PNAL may also obtain additional debt funding from other sources (e.g. bank) in addition to the Council facility.

iv. Environmental impacts

The Council is committed to helping meet a goal of achieving a 30% reduction in greenhouse gas emissions in Palmerston North (from the 2018 baseline) by 2031, both as a large city organisation, and as a supporter and enabler of other businesses. The Council acknowledges PNAL's Integrated Carbon Management Plan and commitment to the Airport Council International Airport Carbon Accreditation programme and PNAL's goal of achieving its net zero emissions target by 2035.

v. Operational capacity

The Council recognizes the importance of 24/7 airfield operations to facilitate sustainable growth in air services (passenger, airfreight, aviation tertiary training and aeromedical/patient transfers) to achieve regional economic growth objectives. Council will work collaboratively with PNAL to defend existing air noise boundaries. In turn Council expects PNAL to proactively manage aerodrome-wide operations within the existing noise parameters.

vi. Consistency with the wider objectives of Council

The Council expects the Board and management of PNAL to act in the best interest of the company but to do so with a full understanding of the much broader strategic interests of the shareholder.

The key reason for Council's investment in PNAL is to ensure the City and region has an appropriate air gateway for passengers and airfreight.

The Council expects PNAL, as the operator of this key gateway, to be proactive in its thinking about how it can contribute to its ambitions for marketing the city and wider region.

The on-going focus on building sustainable air services and connectivity for passengers and airfreight, together with aviation tertiary training will benefit the region, by improving economic viability for businesses in the city and wider region, increasing tourism expenditure and boosting the City's image.

As you will be aware the Council's vision is Small City Benefits, Big City Ambition. To fulfil its vision the Council has the following goals:

Goal 1: An innovative and growing city

Goal 2: A creative and exciting city

Goal 3: A connected and safe community

Goal 4: An eco-city

Goal 5: A driven and enabling council

These goals are supported by a series of strategies with a number of plans for each.

The purpose of the Council's Strategic Transport Plan is to provide infrastructure to enable growth and a transport system that links people and opportunities, and provides amenity, safety, interconnectivity, accessibility, resilience and reliability.

The City's natural advantages include its central location in the North Island, the availability of key infrastructure (e.g. the road and rail hub and the airport's 24-hour airfreight operations are key factors in the growth of the City's logistics sector), the highly qualified workforce, and the relative affordability of land. These advantages form a basis for Palmerston North's case for regional, national and international investments and partnerships.

PNAL is a strategic partner for these strategies and plans.

Council's vision, goals, strategies and plans will be subject to review as the Council develops and adopts its next long-term plan 2024-2034 effective from 1 July 2024.

4 Timeline for SOI

The timeline for development of the SOI for 2023/24-2025/26 involves the following steps:

By 23 December 2022	Council delivers Statement of Expectations
By 28 February 2023	PNAL delivers draft SOI to Council
xx March 2023 (tbc)	Council's Economic Growth Committee receives & considers draft SOI
By 7 April 2023	Council feedback provided to PNAL
By 31 May 2023	PNAL provides final SOI to Council following consideration of Council comments
By 30 June 2023	Council's Economic Growth Committee receives & considers final SOI

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