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**PALMERSTON NORTH CITY COUNCIL**

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**AGENDA**

**FINANCE AND PERFORMANCE**

**COMMITTEE**

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**9AM, MONDAY 17 SEPTEMBER 2018**  
COUNCIL CHAMBER, FIRST FLOOR, CIVIC ADMINISTRATION BUILDING  
32 THE SQUARE, PALMERSTON NORTH

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## MEMBERSHIP

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**Susan Baty (Chairperson)**

**Jim Jefferies (Deputy Chairperson)**

**Grant Smith (The Mayor)**

**Adrian Broad**

**Gabrielle Bundy-Cooke**

**Vaughan Dennison**

**Lew Findlay QSM**

**Leonie Hapeta**

**Lorna Johnson**

**Karen Naylor**

**Bruno Petrenas**

**Agenda items, if not attached, can be viewed at:**

[pncc.govt.nz](http://pncc.govt.nz) | Civic Administration Building, 32 The Square  
City Library | Ashhurst Community Library | Linton Library

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**Heather Shotter**

**Chief Executive, Palmerston North City Council**

**Palmerston North City Council**

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Private Bag 11034, 32 The Square, Palmerston North



## **FINANCE AND PERFORMANCE COMMITTEE MEETING**

17 September 2018

### **ORDER OF BUSINESS**

**1. Apologies**

**2. Notification of Additional Items**

Pursuant to Sections 46A(7) and 46A(7A) of the Local Government Official Information and Meetings Act 1987, to receive the Chairperson's explanation that specified item(s), which do not appear on the Agenda of this meeting and/or the meeting to be held with the public excluded, will be discussed.

Any additions in accordance with Section 46A(7) must be approved by resolution with an explanation as to why they cannot be delayed until a future meeting.

Any additions in accordance with Section 46A(7A) may be received or referred to a subsequent meeting for further discussion. No resolution, decision or recommendation can be made in respect of a minor item.

**3. Declarations of Interest (if any)**

Members are reminded of their duty to give a general notice of any interest of items to be considered on this agenda and the need to declare these interests.

**4. Public Comment**

To receive comments from members of the public on matters specified on this Agenda or, if time permits, on other Committee matters.

(NOTE: If the Committee wishes to consider or discuss any issue raised that is not specified on the Agenda, other than to receive the comment made or refer it to the Chief Executive, then a resolution will need to be made in accordance with clause 2 above.)

- 5. Confirmation of Minutes** Page 7

“That the minutes of the Finance and Performance Committee meeting of 20 August 2018 Part I Public be confirmed as a true and correct record.”
- 6. Palmerston North Airport Limited - Annual Report for 12 months ended 30 June 2018 & Instructions relating to Annual Meeting** Page 11

Memorandum, dated 30 August 2018 presented by the Chief Financial Officer, Grant Elliott.
- 7. Recommendation for Adoption 2017/18 Annual Report** Page 81

Memorandum, dated 4 September 2018 presented by the Finance Manager, Stuart McKinnon.
- 8. Papaioea Place Redevelopment Quarterly Update** Page 85

Memorandum, dated 29 August 2018 presented by the Acting Property Manager, Bryce Hosking.
- 9. Water Source Development and Security - Programme Budget Adjustments** Page 93

Memorandum, dated 21 August 2018 presented by the Water & Waste Services Manager, Robert van Bentum.
- 10. Committee Work Schedule** Page 107
- 11. Exclusion of Public**

To be moved:

“That the public be excluded from the following parts of the proceedings of



this meeting listed in the table below.

The general subject of each matter to be considered while the public is excluded, the reason for passing this resolution in relation to each matter, and the specific grounds under Section 48(1) of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution are as follows:

General subject of each matter to be considered		Reason for passing this resolution in relation to each matter	Ground(s) under Section 48(1) for passing this resolution
12.	Supply of Two Side Arm Kerbside Collection Vehicles	Commercial Activities and Negotiations	s7(2)(h) and s7(2)(i)
13.	Award of Contract 3614 - New Artificial Turf at CET Arena	Commercial Activities	s7(2)(h)
14.	Funding Request	Negotiations	s7(2)(i)

This resolution is made in reliance on Section 48(1)(a) of the Local Government Official Information and Meetings Act 1987 and the particular interest or interests protected by Section 6 or Section 7 of that Act which would be prejudiced by the holding of the whole or the relevant part of the proceedings of the meeting in public as stated in the above table.

Also that the persons listed below be permitted to remain after the public has been excluded for the reasons stated.

Chief Executive (Heather Shotter), Chief Financial Officer (Grant Elliott), Acting Chief Infrastructure Officer (Ray Swadel), Acting General Manager – Strategy and Planning (David Murphy), General Manager - Community (Debbie Duncan), Acting General Manager – Customer (Leigh Sage), Human Resources Manager (Wayne Wilson), General Manager - Marketing and Communications (Sacha Haskell), because of their knowledge and ability to provide the meeting with advice on matters both from an organisation-wide context (being members of the Council’s Management Team) and also from their specific role within the Council.

Legal Counsel (John Annabell), because of his knowledge and ability to provide the meeting with legal and procedural advice.

Acting Governance and Support Team Leader (Stuart McKinnon) and Committee Administrators (Penny Odell, Rachel Corser and Courtney Kibby), because of their knowledge and ability to provide the meeting with procedural advice and record the proceedings of the meeting.

Acting Property Manager (Bryce Hosking), Logistics and Support Manager (Paul Compton) and Waste Operations Manager (Stewart Hay) because of their knowledge and ability to assist the meeting in speaking to their report and

answering questions, noting that such officer will be present at the meeting only for the item that relate to their respective report.

*[Add Third Parties]*, because of their knowledge and ability to assist the meeting in speaking to their report/s [or other matters as specified] and answering questions, noting that such person/s will be present at the meeting only for the items that relate to their respective report/s [or matters as specified].

# PALMERSTON NORTH CITY COUNCIL

## Minutes of the Finance and Performance Committee Meeting Part I Public, held in the Council Chamber, First Floor, Civic Administration Building, 32 The Square, Palmerston North on 20 August 2018, commencing at 9.02am

**Members Present:** Councillor Susan Baty (in the Chair), The Mayor (Grant Smith) and Councillors Adrian Broad, Gabrielle Bundy-Cooke, Vaughan Dennison, Lew Findlay QSM, Leonie Hapeta, Jim Jefferies, Lorna Johnson, Karen Naylor and Bruno Petrenas.

**Non Members:** Councillors Brent Barrett, Rachel Bowen, Duncan McCann, Aleisha Rutherford and Tangi Utikere.

**Apologies:** The Mayor (Grant Smith) (on Council Business).

### 58-18 Apologies

Moved Susan Baty, seconded Vaughan Dennison.

#### The COMMITTEE RESOLVED

1. That the Committee receive the apologies.

Clause 58-18 above was carried 16 votes to 0, the voting being as follows:

#### For:

The Mayor (Grant Smith) and Councillors, Brent Barrett, Susan Baty Rachel Bowen, Adrian Broad, Gabrielle Bundy-Cooke, Vaughan Dennison, Lew Findlay QSM, Leonie Hapeta, Jim Jefferies, Lorna Johnson, Duncan McCann, Karen Naylor, Bruno Petrenas, Aleisha Rutherford and Tangi Utikere.

### 59-18 Confirmation of Minutes

Moved Susan Baty, seconded Aleisha Rutherford.

#### The COMMITTEE RESOLVED

1. That the minutes of the Finance and Performance Committee meeting of 18 June 2018 Part I Public and Part II Confidential be confirmed as a true and correct record.

Clause 59-18 above was carried 14 votes to 1, with 1 abstention, the voting being as follows:

#### For:

The Mayor (Grant Smith) and Councillors Brent Barrett, Susan Baty, Rachel Bowen, Adrian Broad, Gabrielle Bundy-Cooke, Vaughan Dennison, Lew Findlay QSM, Leonie Hapeta, Jim Jefferies, Lorna Johnson, Karen Naylor, Bruno Petrenas and Aleisha Rutherford.

#### Against:

Councillor Duncan McCann.

**Abstained:**

Councillor Tangi Utikere.

**60-18**

**He Ara Kotahi Bridge Lighting**

Report, dated 6 August 2018 from the Leisure Assets Planner, Jason Pilkington.

The Committee believed funds should be reallocated from existing budgets and the figure relating to funding applications should not be restricted to a specific amount.

Moved Rachel Bowen, seconded Leonie Hapeta.

The **COMMITTEE RECOMMENDS**

1. That Council approves \$1,210,000 for lighting the He Ara Kotahi Bridge and directs the Chief Executive to reallocate funds from existing infrastructure projects.

Moved Karen Naylor, seconded Grant Smith.

2. That Council directs the Chief Executive to make funding applications for the purchase and installation of lights on the He Ara Kotahi Bridge and Plaza area.

Clause 60-18 above was carried 16 votes to 0, the voting being as follows:

**For:**

The Mayor (Grant Smith) and Councillors Brent Barrett, Susan Baty, Rachel Bowen, Adrian Broad, Gabrielle Bundy-Cooke, Vaughan Dennison, Lew Findlay QSM, Leonie Hapeta, Jim Jefferies, Lorna Johnson, Duncan McCann, Karen Naylor, Bruno Petrenas, Aleisha Rutherford and Tangi Utikere.

**61-18**

**Quarterly Performance and Financial Report - Quarter Ending 30 June 2018**

Memorandum, dated 31 July 2018 from the Financial Accountant, Keith Allan and the Head of Community Planning, Andrew Boyle.

Moved Susan Baty, seconded Leonie Hapeta.

The **COMMITTEE RECOMMENDS**

1. That the Committee receive the June 2018 Quarterly Performance and Financial Report and note:
  - a. The June 2018 financial performance and operating performance.
  - b. The June 2018 capital expenditure programme progress together with those programmes identified as unable to be completed this financial year.
2. That the Committee note that the capital expenditure carry forward values in the 2018/19 Annual Budget will be increased by a net

\$674,100 to the amount of remaining programme budgets.

Clause 61-18 above was carried 16 votes to 0, the voting being as follows:

**For:**

The Mayor (Grant Smith) and Councillors Brent Barrett, Susan Baty, Rachel Bowen, Adrian Broad, Gabrielle Bundy-Cooke, Vaughan Dennison, Lew Findlay QSM, Leonie Hapeta, Jim Jefferies, Lorna Johnson, Duncan McCann, Karen Naylor, Bruno Petrenas, Aleisha Rutherford and Tangi Utikere.

**62-18**

**Treasury Report for 12 months ended 30 June 2018**

Memorandum, dated 30 July 2018 from the Strategy Manager Finance, Steve Paterson.

Moved Jim Jefferies, seconded Adrian Broad.

The **COMMITTEE RESOLVED**

1. That the performance of the treasury activity for the 12 months ending 30 June 2018 be noted.

Clause 62-18 above was carried 16 votes to 0, the voting being as follows:

**For:**

The Mayor (Grant Smith) and Councillors Brent Barrett, Susan Baty, Rachel Bowen, Adrian Broad, Gabrielle Bundy-Cooke, Vaughan Dennison, Lew Findlay QSM, Leonie Hapeta, Jim Jefferies, Lorna Johnson, Duncan McCann, Karen Naylor, Bruno Petrenas, Aleisha Rutherford and Tangi Utikere.

**63-18**

**Committee Work Schedule**

Moved Susan Baty, seconded Karen Naylor.

The **COMMITTEE RESOLVED**

1. That the Finance and Performance Committee receive its Work Schedule dated August 2018.

Clause 63-18 above was carried 16 votes to 0, the voting being as follows:

**For:**

The Mayor (Grant Smith) and Councillors Brent Barrett, Susan Baty, Rachel Bowen, Adrian Broad, Gabrielle Bundy-Cooke, Vaughan Dennison, Lew Findlay QSM, Leonie Hapeta, Jim Jefferies, Lorna Johnson, Duncan McCann, Karen Naylor, Bruno Petrenas, Aleisha Rutherford and Tangi Utikere.

The meeting finished at 10.21am

Confirmed 17 September 2018

**Chairperson**





## MEMORANDUM

**TO:** Finance and Performance Committee

**MEETING DATE:** 17 September 2018

**TITLE:** Palmerston North Airport Limited - Annual Report for 12 months ended 30 June 2018 & Instructions relating to Annual Meeting

**DATE:** 30 August 2018

**PRESENTED BY:** Grant Elliott, Chief Financial Officer

**APPROVED BY:** Heather Shotter, Chief Executive

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### RECOMMENDATION(S) TO COUNCIL

1. That the Annual Report and Financial Statements of Palmerston North Airport Limited for the year ended 30 June 2018 be received.
2. That the Council shareholder representative be instructed to support the proposed resolutions to be considered at the Annual Meeting of Palmerston North Airport Limited to be conducted by way of resolution in writing.

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### 1. ISSUE

Palmerston North Airport Ltd (PNAL) as a Council controlled trading organisation has prepared its Annual Report for the year ended 30 June 2018. This report provides a brief commentary on PNAL's results for the year and recommends the Council's shareholder representative be instructed to support the resolutions proposed for the Annual Meeting.

### 2. BACKGROUND

- 2.1 PNAL's Annual Report for the year ended 30 June 2018 is attached. The report gives a comprehensive assessment of company performance with key matters highlighted in the joint report of the Chairman and Chief Executive. Performance is judged against the Statement of Intent adopted by the Board in May 2017 and endorsed by the Council in June 2017.
- 2.2 PNAL has had a very successful year with significant passenger and revenue growth and a consequential increase in the surplus after tax. Improvements to facilities for travellers and users provide an impressive gateway to the City.

## 2.3 Operating results are summarised in the following table:

Actual 2015/16	Actual 2016/17		Actual 2017/18	Budget 2017/18 SOI
5,522,881	7,313,379	Revenue	8,482,757	8,688,163
3,132,368	3,778,876	Operating Expenditure	4,408,861	4,590,544
2,390,513	3,534,503	Operating Surplus (before interest, depreciation & tax)	4,073,896	4,097,619
1,129,848	1,217,466	Depreciation	1,582,752	1,685,551
303,689	269,622	Finance Costs	279,238	486,475
115,911	198,454	Impairment & loss on sale of assets	922	77,000
841,065	1,848,961	Operating Surplus (before tax)	2,210,984	1,848,592
35,632	549,839	Taxation	601,965	517,606
<b>805,433</b>	<b>1,299,122</b>	<b>Net Surplus after tax for year</b>	<b>1,609,019</b>	<b>1,330,987</b>

## 2.4 The Company's results, compared with the targets set in the Statement of Intent are shown in the following table:

Actual 2016/17		Actual 2017/18	SOI Target
3.1%	Surplus, before interest/tax/revaluations to Total Assets	3.2%	3.0%
2.2%	Surplus, after interest/tax/revaluations to Shareholders' funds	2.7%	2.1%
13.1	Surplus, before interest & tax to Interest	14.6	≥ 2.5 : 1
\$59.6m	Tangible net worth (total tangible assets less total liabilities)	\$60.7m	≥ \$35m
81%	Ratio of consolidated shareholders' funds to total assets	78%	≥ 40%
Maintained	Civil Aviation Rule part 139 certification (1)	Maintained	Maintain
na	High level of Customer satisfaction (2)	90%	≥ 90%
629,411	No. of passengers served through airport terminal	657,515	> 639,000

(1) The 5 yearly CAA audit was conducted in 2014, and the next audit will be completed in September 2019.

(2) The customer satisfaction survey findings are based on a survey of 3,618 customers over the period July 2017 to January 2018

## 2.5 The Company applied \$5.3m during the period to the purchase of fixed assets (\$1.5m in the previous year). This compares with the budgetary provision for capital expenditure of \$10.1m (\$50k of the actual expenditure was funded from asset sales compared with the budget provision of \$3.1m for all of the planned work).

- 2.6 The Annual Report advises that Directors have proposed a total dividend of \$643,650 based on the year's results (compared with \$519,649 for the previous year). The total dividend is equivalent to 40% of the net surplus after tax (excluding capital contributions) which equates the target dividend return outlined in the Statement of Intent. As the sole shareholder the Council receives the full dividend. The Council's budget assumption is \$500,000.
- 2.7 The Company's debt/equity ratio as at 30 June 2018 was 22:78 (19:81 at 30 June 2017).
- 2.8 The Company's Constitution provides that the shareholders must approve the total remuneration payable to Directors. In February 2016 Council approved a progressive increase over two years to \$90,000. The PNAL Board has determined to allocate this sum as \$28,000 (chairperson) and \$15,000 (remaining four directors) plus \$2,000 for the chair of the audit and risk committee). The Board is requesting that the total be increased to \$124,000. PNAL has benchmarked itself against other similar regional airports and the results of that are shown in Attachment 1. The sum requested would enable the director remuneration to be pitched at approximately 5% above the 2017 figures for the four comparable airports. It is proposed the new maxima remain for three years.
- 2.9 The Council is obliged to receive the report but has a choice as to whether or not to support the resolutions proposed for the Annual Meeting. As the Council is the sole shareholder it is planned (as in recent years) to hold the Annual Meeting by way of entry in the minute book rather than to hold a physical meeting. Company representatives will be available at the Finance and Performance Committee meeting to respond to any questions about Company performance over the past twelve months.
- 2.10 The Annual Meeting (by way of entry in the minute book) will have resolutions (as attached) covering the following:
  - 2.10.1 Receipt of the Annual Report and financial statements for the year ended 30 June 2018
  - 2.10.2 Advice of the Directors' actions in relation to payment of a dividend for the year ended 30 June 2018
  - 2.10.3 Approving the total remuneration of directors being \$124,000 p.a.
  - 2.10.4 Recording the reappointment of the Auditor General as auditor and to authorise the Directors to fix the remuneration of the Auditor.

### 3. NEXT STEPS

PNAL's Annual Report will be published on the Company's website and be made available at Council offices and libraries. The resolutions for the Annual meeting will be authorised in writing by the Council's shareholder representative.

### 4. COMPLIANCE AND ADMINISTRATION

Does the Committee have delegated authority to decide?	<b>No</b>
Are the decisions significant?	<b>No</b>
If they are significant do they affect land or a body of water?	<b>No</b>
Can this decision only be made through a 10 Year Plan?	<b>No</b>
Does this decision require consultation through the Special Consultative procedure?	<b>No</b>
Is there funding in the current Annual Plan for these actions?	<b>Yes</b>
Are the recommendations inconsistent with any of Council's policies or plans?	<b>No</b>
The recommendations contribute to Goal 1: An innovative and growing city	
The recommendations contribute to the outcomes of the Economic Development Strategy	
The recommendations contribute to the achievement of action/actions in the Economic Development Plan	
The action is: operating a key gateway for people and freight to and from the city and the wider region; grow passenger numbers and freight using the airport.	
Contribution to strategic direction	PNAL is playing an active part in growing the City.

### ATTACHMENTS

1. Attachment 1 - PNAL Directors' Remuneration [!\[\]\(8d139a66f540002704b5c70b7fe6cc7a\_img.jpg\) !\[\]\(c209541a4bc5f45e44bd7791f9477320\_img.jpg\)](#)
2. Annual Meeting Notice & Resolutions [!\[\]\(8fd54d112e752061b5361c5bdf346185\_img.jpg\) !\[\]\(3525fd0bd3680f905a850c70520e38c7\_img.jpg\)](#)
3. PNAL Annual report for year ending 30 June 2018 [!\[\]\(3c3fba180f5a473bd1cb3c114e029235\_img.jpg\) !\[\]\(e4e94fc8df185dfabcff49964cc4dd39\_img.jpg\)](#)

## Attachment 1

**Palmerston North Airport Ltd****Directors' Remuneration****1 Introduction & Board Proposal**

The Council, as shareholder, determines the total remuneration payable to PNAL directors pursuant to clause 14.8.1 of the company's constitution.

In February 2016 the Council approved the total remuneration being increased from \$76,500 to \$90,000 effective from 1 January 2016.

PNAL has five directors and the Board determines how the total remuneration will be allocated amongst them. At present it is allocated as follows:

- Board Chair \$28,000
- Audit & Risk Chair \$17,000
- Other directors \$15,000

The Board is seeking an increase in total remuneration to \$124,000 p.a. effective for a three-year period from 1 July 2018. If this is approved they propose to allocate the fees as follows:

- Board Chair \$35,000
- Audit & Risk Chair \$24,500
- Other directors \$21,500

**2 Background & Supporting Information**

PNAL has provided some benchmarking information in support of their request and extracts from this are shown below.

A 2018 report from the Institute of Directors indicated that directors believed their workload had increased materially in recent years with a greater emphasis on compliance, risk oversight, strategy and company performance.

PNAL continues to expand both aeronautical and non-aeronautical activities.

Revenue has increased by 72% over the last four years and is forecast to rise a further 37% over the next three years. Passenger volumes continue to increase. CAA compliance, health and safety and risk management requirements have placed added responsibility on directors.

Remuneration has been benchmarked against other NZ airports with one or more of the following criteria similar to Palmerston North:

- Complexity of airport business model including extent of landholdings and property development activity
- Operational complexity – jet operations, aircraft movements
- Passenger throughput
- Turnover
- Asset base

Airport	Total directors Fees \$	No. of directors	Fee for Chair \$	Fee for other directors	Passengers p.a.	Operating revenue \$m	Total assets \$m	NPAT \$m
Palmerston North #	90,000	5	28,000	15,000	657,000	8.5	78	1.6
Nelson	105,588	5	30,600	18,747	1,000,400	9.1	59	3.1
Dunedin	98,000	4	31,500	21,000	973,000	14.1	88	2.3
Hawkes Bay	87,500	4	34,250	17,750	652,000	6.1	36	1.7
Hamilton	108,000	4	35,000	24,333	317,000	6.0	103	3.8
Average of 4 peers	99,772		32,838	20,458				
Average plus 5%			34,479	21,480				
Proposal	124,000		35,000	21,500 +3,000 for Chair of Audit & Risk				

# - Palmerston North figures are for 2018 – others are for 2017





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31 August 2018

The Shareholder – Palmerston North Airport Limited

Palmerston North City Council  
C/- Heather Shotter  
Chief Executive  
Palmerston North City Council  
Private Bag 11034  
PALMERSTON NORTH

Dear Shareholder

### 2018 ANNUAL MEETING

Please find enclosed a notice of the 2018 Annual Meeting of Palmerston North Airport Ltd to be held on 24<sup>th</sup> October 2018.

With a single shareholder, the Board regards the Annual Meeting as a formality and recommends, as in recent years, that the meeting be conducted by way of a resolution in writing in lieu of meeting in accordance with clause 12.3 of the company's constitution.

In the event that this meets with the shareholder agreement, I have attached a draft resolution that will be entered in the minute book on Wednesday 24<sup>th</sup> October 2018. Could you please arrange to have that signed and returned to me in advance of that date if this course is to be followed.

A copy of the Annual Report including the audited financial statements will be forwarded to you separately.

Also attached is a copy of the 2017 resolution in lieu of the Annual Meeting for your records.

Yours sincerely

David Lanham  
Chief Executive  
Palmerston North Airport Limited



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c.c.  
Directors  
M Georgel  
J Nichols  
J Adlam  
G Gillespie  
C Cardwell

Auditor:  
Mr Andrew Clark  
Audit New Zealand

31 August 2018

## PALMERSTON NORTH AIRPORT LIMITED

### NOTICE OF 2018 ANNUAL MEETING

The Annual Meeting of Shareholders of Palmerston North Airport Limited will be held in Ruapehu Room, First Floor, Terminal Building, Palmerston North Airport, Airport Drive, Palmerston North on Wednesday 24<sup>th</sup> October 2018.

#### BUSINESS

1. To RECEIVE a copy of the minutes of the Annual General Meeting of 18<sup>th</sup> October 2017. (attached).
2. To RECEIVE the Financial Statements for the year ended 30 June 2018 together with the reports of the Directors and the Auditors.
3. To RECEIVE advice from the Board of Directors on a dividend payable for the year ending 30 June 2018.
4. To RECEIVE advice, if any, from the Palmerston North City Council of the appointment of any Directors.
5. To APPROVE total remuneration of \$124,000 per annum for all Directors pursuant to clause 14.8.1 of the constitution.
6. To RECORD the reappointment of the Auditor-General as Auditor to meet the requirements of s.70 of the Local Government Act 2002 and to AUTHORISE the Directors to fix the remuneration of the Auditor for the ensuing year.
7. To TRANSACT any other business that may properly be brought before the meeting in accordance with the Constitution.

=====

**PALMERSTON NORTH AIRPORT LIMITED**  
**MINUTES OF THE 2018 ANNUAL MEETING OF SHAREHOLDERS**

held on 24<sup>th</sup> October 2018

by way of an entry in the Minute Book of the Company  
 (pursuant to clause 12.3 of the Company's Constitution)

1-16      Receipt of Minutes

**RESOLVED:**

*That the minutes of the Annual General Meeting of 18<sup>th</sup> October 2017 be received.*

2-16      Annual Report for the Year Ending 30 June 2018

**RESOLVED:**

*That the Financial Statements for the year ending 30 June 2018 together with the reports of the Chairman, Chief Executive and Auditor be received.*

3-16      Dividend

**RESOLVED:**

*That the Board's advice that a dividend payment of 7 cents per dollar of paid up capital at 30 June 2018 (exclusive of any premium on issue) has been approved and paid, being a total dividend of \$643,650 for the year ending 30 June 2018, be received.*

4-16      Directors

**RESOLVED:**

- a) *That total remuneration of \$124,000 per annum for all Directors be approved pursuant to clause 14.8.1 of the constitution.*
- b) *That advice from Palmerston North City Council on appointment of Directors be received.*

5-16      Auditors

**RESOLVED:**

- a) *That reappointment of the Office of the Auditor-General (delivered through Audit New Zealand) as auditors pursuant to Section 70 of the Local Government (2002) Act be noted.*
- b) *That the Directors be authorised to fix the remuneration of the Auditor for the ensuing year.*

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**PALMERSTON NORTH AIRPORT LIMITED**  
**MINUTES OF THE 2017 ANNUAL MEETING OF SHAREHOLDERS**

held on 18 October 2017

by way of an entry in the Minute Book of the Company  
(pursuant to clause 12.3 of the Company's Constitution)

1-16      Receipt of Minutes

RESOLVED:

*That the minutes of the Annual General Meeting of 19 October 2016 be received.*

2-16      Annual Report for the Year Ending 30 June 2017

RESOLVED:

*That the Statement of Accounts for the year ending 30 June 2017 together with the reports of the Chairman, Chief Executive and Auditor be received.*

3-16      Dividend

RESOLVED:

*That the Board's advice that a dividend payment of 5.65 cents per dollar of paid up capital at 30 June 2017 (exclusive of any premium on issue) has been approved and paid, being a total dividend of \$519,649 for the year ending 30 June 2017, be received.*

4-16      Directors

RESOLVED:

- a) *That total remuneration of \$90,000 per annum for all Directors be approved pursuant to clause 14.8.1 of the constitution.*
- b) *That advice from Palmerston North City Council on appointment of Directors be received.*

5-16      Auditors

RESOLVED:

- a) *That reappointment of the Office of the Auditor General (delivered through Audit New Zealand) as auditors pursuant to Section 70 of the Local Government (2002) Act be noted.*
- b) *That the Directors be authorised to fix the remuneration of the Auditor for the ensuing year.*

SB

Susan Baty ..... (signed by Palmerston North City Council representative as 100% shareholder)

Susan Baty ..... (name) 26-9-17 ..... (date)

Confirmed as a correct and true record of the resolution in lieu of the 2017 Shareholder's Annual Meeting.

THIS                      DAY OF                      2017

\_\_\_\_\_  
CHAIRMAN



2018

# ANNUAL REPORT



PALMERSTON NORTH  
AIRPORT LIMITED



ANNUAL REPORT 2018

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PASSENGER  
VOLUMES REACHED  
AN ALL-TIME  
RECORD OF 657,515  
FOR THE TWELVE  
MONTH PERIOD  
TO JUNE 2018, 4%  
AHEAD OF THE  
PRIOR YEAR AND  
EXCEEDED THE  
STATEMENT OF  
INTENT TARGET  
BY 3%.

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# JOINT REPORT

THE CHAIRMAN AND CHIEF EXECUTIVE'S  
JOINT REPORT FOR THE YEAR ENDED 30 JUNE 2018

## OVERVIEW

The Directors and Management team are pleased to present the 2017/18 Annual Report which outlines the Company's achievements over the last year in meeting regulatory and health & safety requirements, strategic and business objectives.

2017/18 has been a very successful year for the Company and the Chairman and Chief Executive Officer acknowledge the Board and team for their dedication and commitment.

During the year the Company undertook a refresh of the corporate strategy. While continuing to focus on being New Zealand's leading regional airport, the Company's strategic objectives were reclassified to provide a simpler and clearer framework. Strategic objectives are now stated under the "Four C's" being Commercial, Compliance, Customer and Community.

A surplus after tax of \$1.61 million was achieved during the financial year ended 30 June 2018, being 24% ahead of the prior financial year, and 21% ahead of PNAL's Statement of Intent target.

The commencement of construction of the \$5 million Massey University School of Aviation training facility, opening of the 100-car capacity Long Stay Car Park, launch of Valet Parking, and completion of the Legend of Haunui-inspired terminal theming, were major highlights of the year.

Passenger volumes reached an all-time record of 657,515 for the twelve month period to 30 June 2018, 4% ahead of the prior year and exceeded the Statement of Intent target by 3%.

Passenger growth was primarily driven by increasing demand on the Palmerston North - Auckland route, with modest increases also recorded across most other routes.

Continuous improvement in the airport experience for travellers and other airport users was again a key driver of infrastructure development and airport operations.

Major capital investments undertaken during the year included Stage 1 of the Massey University School of Aviation building, rescue fire station rebuild, completion of the Long Stay Car Park and Valet facilities, and the

reconstruction of taxiway and airfreight apron areas.

Master planning for the 20-hectare Ruapehu Business Park was completed during the year, with commercialisation plans now in action.

## FINANCIAL

Revenue of \$8.48 million increased 16% over the previous financial year, although revenue fell short of the Statement of Intent target by 2%.

Aeronautical revenue performance was again strong. At \$5.02 million, aeronautical revenue was 17% higher than the previous financial year.

Non-aeronautical revenue of \$3.46 million, consisting of concessionaire's payments, property and land rental, advertising and car parking, increased 15% compared to the previous financial year. However, weakness in car park revenue meant non-aeronautical revenue fell short of the Statement of Intent target by 5%. Non-aeronautical revenue represented 41% of total revenue.

Total operating expenses of \$4.41 million were 4% below the Statement of Intent, and 17% above the previous financial year. Operating and administration expenditure increases were driven by additional resourcing requirements and an ongoing focus on commercial opportunities.

Earnings before interest, tax, depreciation and amortisation (EBITDA) were \$4.07 million, 15% above the previous financial year and within 1% of the Statement of Intent target.

Surplus after tax of \$1.61 million was 24% ahead of the previous financial year, and 21% ahead of the Statement of Intent target.

Depreciation charges at \$1.58 million were 30% above the previous financial year and 6% below the Statement of Intent. The lower than predicted depreciation charges were the consequence of the deferral of a number of capital projects to the 2018/19 financial year.

Finance charges of \$0.28 million were 4% below the previous financial year and 43% below the Statement of Intent. These savings were achieved through lower than expected borrowings

**David Lanham**  
Chief Executive

**Murray Georgel**  
Chairman



associated with the deferred capital expenditure programme.

A valuation appraisal of land, building and airside infrastructure at June 2018 indicated that there had not been a material increase in values since the June 2017 revaluation.

PNAL's balance sheet remains strong with shareholder's equity of \$60.7 million and debt of \$7.26 million (current and non-current borrowings).

All banking covenants have been met during the financial year.

Net cash flow from operating activities was \$3.31 million.

Capital expenditure of \$5.89 million was incurred during the financial year and related to the partial construction of Stage 1 of the Massey University School of Aviation building, commencement of the rescue fire station rebuild, completion of the Long Stay Car Park and Valet facilities, and the reconstruction of taxiway and airfreight apron areas.

The Company has entered a phase of more intensive property development with associated increases in capital expenditure. The negative working capital balance at 30 June 2018 of \$1.98 million relates primarily to accounts payable associated with those projects for which approved term funding is in place with the Bank of New Zealand. A portion of this funding has been treated in the interim as a current liability.

Capital expenditure was 17% below the Statement of Intent target, primarily due to the delayed commencement of Stage 1 of the Massey School of Aviation building.

A dividend of \$0.64 million will be made for the financial year ended 30 June 2018.

## COMMERCIAL

Total passenger volumes reached a record 657,515 for the twelve months to June 2018; an all-time record, 4% ahead of last year, and 3% ahead of the Statement of Intent target.

Passenger growth on scheduled services was primarily driven by higher loadings achieved on Palmerston North – Auckland route by both Air New Zealand and Jetstar. Modest increases in passenger volumes were also achieved on Christchurch – Palmerston North, Nelson – Palmerston North and Hamilton – Palmerston North routes.

Boeing 737-400 freighter services operated by Freightways in conjunction with New Zealand Post continued. Palmerston North Airport is one of three major logistics hubs for the two courier operators who share capacity on the twice-daily services on the Auckland – Palmerston North – Christchurch route.

The company continues to follow a policy of revenue diversification as a means of de-risking the business model. In addition to aeronautical revenue sources, non-aeronautical business activities also continue to be expanded as a means of safeguarding revenue streams.

During the year the Ruapehu Business Park Masterplan was completed. The Masterplan provides a 20-year vision for the Business Park and will provide the company with a development plan which will ensure appropriate and complementary business activities are attracted to the Business Park.

Stage 1 of the Business Park's commercialisation commenced in 2018 with over 6 hectares of land now being actively promoted for development.

The construction of the \$5 million Massey University School of Aviation training facility commenced during the year and is the largest commercial development project embarked on to date by Palmerston North Airport Limited. Once completed the entire School of Aviation faculty and all student learning will be located at the Business Park.

The development of tertiary aviation training activity within the Business Park is a core strategic objective of the airport company.

## COMPLIANCE

All Part 139 and other statutory requirements relating to the airport and its operations were met during the financial year. These were supported by continuing monthly internal audits and quality control checks undertaken by an independent body.

During the year the Company commenced the implementation of a safety management system, designed to meet Civil Aviation Rule Part 100 requirements. The risk-based approach to safety is a response to the growth in complexity of aviation operations, increasing stakeholder expectations, and regulatory requirements including the Health and Safety at Work Act.

Construction of a replacement rescue fire building commenced during the year. The new facility will accommodate the Rescue Fire team's three appliances and SUV, and will include an emergency response centre, training rooms, offices, and team areas over the floors.

## CUSTOMER

The Company's focus on improving the airport experience for travellers, meeters and greeters, tenants and other airport users continued.

To accommodate growing demand from regional travellers an additional 140 car park spaces were added during the year. The 100-car capacity Long Stay Car Park has proved extremely popular with price-conscious and leisure travellers with pricing from \$5.50 per day the lowest on offer at any airport in the lower North Island.

Valet Parking is proving popular with travellers seeking the convenience of under cover pick up and drop off, and the personalised service on offer.

Interactive touch screen kiosks have been installed in the terminal and provide airport users with the ability to complete a short customer satisfaction survey. Survey results including a net promoter score are reported on monthly and assist management to further engage with airport users while refining the airport offer.

PNAL's visitor development activities continued to focus on growing the airport's share of regional travellers. The airport's catchment extends from Ruapehu District in the north, through Whanganui, Rangitikei and Manawatu, south to Horowhenua and across to Tararua and the Wairarapa.

The Company's "Fly Palmy" consumer brand continues to represent convenience, connectivity, regional loyalty and personality. The brand's objectives include creating awareness amongst regional, inbound and outbound travellers alike on the convenience of using Palmerston North Airport as the gateway to and from the central region. It has been pleasing to note the growth in regional travellers electing to use Palmerston North Airport as their preferred airport, with travellers from Whanganui, Wairarapa and the Horowhenua especially noticeable.

Stakeholder engagement and collaboration was again strong, with promotional activity undertaken in



conjunction with airline operators, Regional Tourism Organisations and the wider tourism industry. During the year the Company partnered with House of Travel in the "Aussie's Pretty Easy" campaign, designed to promote the ease and convenience of travelling from Palmerston North via Auckland to Australia.

The Company also continues to support Wildbase with a sponsored Toyota Hilux. The vehicle is used for transferring special animal patients between Wildbase hospital facilities and the airport. The Company also partnered with the Central Pulse netball team, after a hugely successful campaign in the prior year. A short promotional video featuring Pulse players and Fly Palmy team members has proven popular on social media.

The Company's sponsorship of Fly Palmy Arena (formerly Arena 2) provides an opportunity to further develop ties to sport, and especially national secondary school events.

## COMMUNITY

Community engagement and environmental guardianship were adopted as two strategic objectives from 2018 onwards.

The Company has commenced the development of a community engagement programme to identify opportunities to engage with local communities and iwi.

During the year the Company continued to support the local Filipino community, through sponsorship and participation at cultural and seasonal events.

The Company's relationship with local iwi Rangitāne is very special. The collaboration shown in bringing the terminal to life through the Legend of Hau display is an example of the special relationship which exists.

During the year the company launched a range of emission reduction initiatives, with savings being achieved in energy consumption and waste to landfill associated with terminal operations.

## OUR PEOPLE

David Yorke joined the management team during the financial year. A qualified civil engineer, David has assumed the responsibility for infrastructure management at Palmerston North Airport.

The position of Safety and Security Manager was also created during the year in response to the increasing demands of safety management in both airside and landside areas. Terry Cooney, was appointed to the role in October 2017 and brings to the team extensive experience and knowledge in emergency management planning, and safety management systems.

With the launch of Valet Parking in September, we welcomed a team of Valet concierge personnel who have become the face of Valet Parking for our customers.

Financial Accountant Sonya Wood resigned in June, and a replacement will be joining the Palmerston North Airport management team in August 2018

## THE FUTURE OUTLOOK

Palmerston North Airport will continue to aspire to be New Zealand's leading regional airport.

The staged development of Ruapehu Business Park will be a primary management focus in the next few years, with the objective of facilitating growth in aviation training, and freight and logistics activities based at Palmerston North Airport.

Community engagement and environmental guardianship related activities will be further extended during the next financial year.

The Company's community engagement plan will be finalised while existing community relationships will be further strengthened.

The Company will develop a pathway to achieve our long-term vision of carbon neutrality. This will involve the selection of an appropriate accreditation programme (or programmes) to align activities with, establishment of timelines, confirmation on appropriate areas of focus and how we will engage with our airport partners including airlines, and other airport tenants.

An initial investigation at Palmerston North Airport has confirmed that PFOS containing firefighting foam may have been used historically at the airport. As at balance date, the extent and the full cost of ongoing testing and any required remediation remains unknown.

The Company's visitor development priorities will continue to focus on the development of relationships

with tourism and business partners, including airlines and Regional Tourism Organisations.

Air service development priorities will remain focused on the further sustainable expansion of domestic air services, and connectivity to international services via New Zealand's primary international major gateway airport, Auckland.

The re-design of the terminal – car park interface and refurbishment of the exterior of the terminal building exterior will further enhance the Airport's attractiveness and convenience for regional travellers and visitors alike.



**Murray Georgel**  
Chairman



**David Lanham**  
Chief Executive

# CORPORATE REPORT

FOR THE YEAR ENDED 30 JUNE 2018

Palmerston North Airport Limited (PNAL) is a 'Council-Controlled Trading Organisation' pursuant to the Local Government Act 2002.

## PRINCIPAL ACTIVITIES

The principal activities of the Company during the year were:

- To provide airport facilities and services to airlines and airport users (both commercial and non-commercial) through the ownership and operation of Palmerston North Airport.
- The development of non-aeronautical revenue streams including Ruapehu Business Park and other commercial property.

## OWNERSHIP

Palmerston North Airport Limited (PNAL) is a Limited Liability Company incorporated and registered under the Companies Act 1993 and is 100% owned by the Palmerston North City Council (PNCC).

## FINANCIAL REPORT

Here are the financial results for the year under review. Details of these financial results are shown on pages 32 to 52.

	2018 Actual	2018 SOI	2017 Actual
<b>Performance</b>			
Revenue	8,482,757	8,688,164	7,313,379
EBITDA	4,073,896	4,097,620	3,534,503
Net Profit After Tax	1,609,019	1,330,988	1,299,122
Passengers	657,515	639,000	629,411
<b>Financial Position</b>			
Cash & Cash Equivalents	196,233	181,167	288,028
Current Assets	1,267,144	780,463	979,562
Property, Plant & Equipment	76,034,700	79,399,831	72,011,918
Shareholder Funds	60,704,107	63,362,027	59,614,743

## COMPANY'S AFFAIRS

The Directors regard the state of the Company's affairs to be satisfactory. Details of the year under review are included in the joint Chairman's and Chief Executive's Report and the statutory accounts of the Company published herewith.

## KEY NUMBERS

# 657,515

Passengers in 2018

# \$8,482,757

Revenue

# \$1,609,019

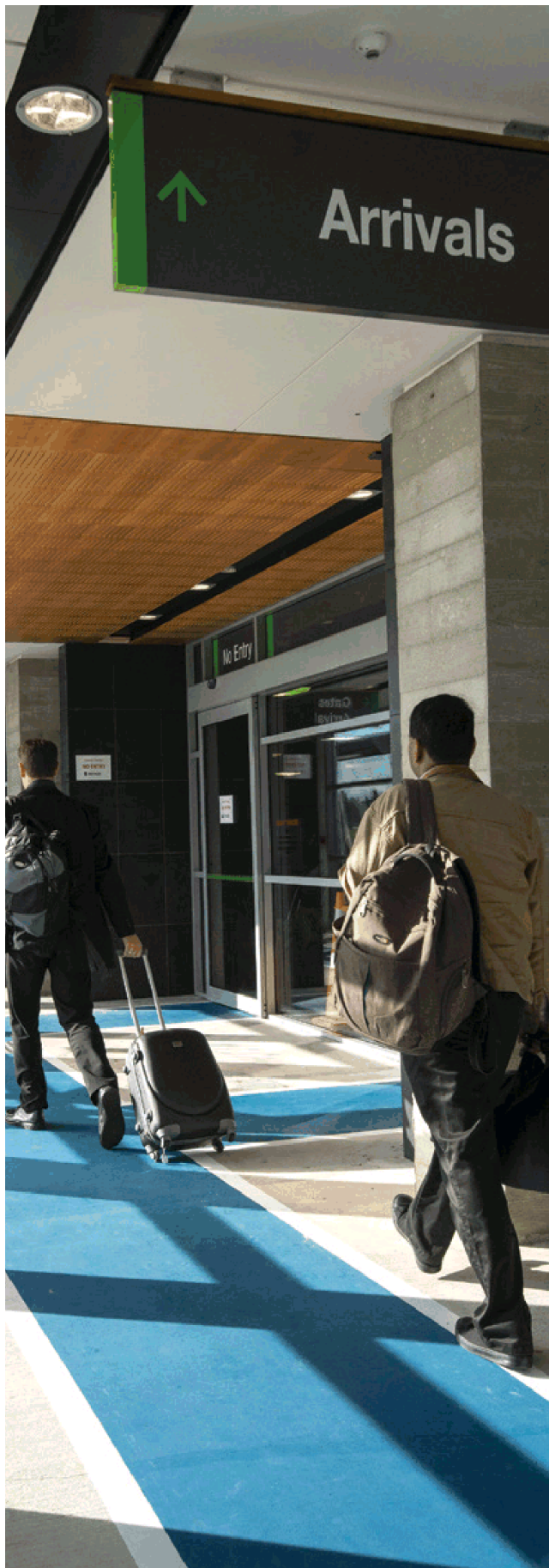
Net Profit After Tax

# \$60,704,107

Shareholder Equity

# \$76,034,700

Property, Plant & Equipment



## DIRECTORS

### Retirements

During the 2017/18 financial year, Jon Nichols and Gerard Gillespie retired by rotation and were reappointed to the Board by the Shareholder.

### Appointments

There were no new appointments to the Board during the 2017/18 financial year.

## DIRECTORS' REMUNERATION

For the year ended June 2018, the amount of \$90,000 (2017: \$90,625) for Director Remuneration was paid, or due and payable, to members of the Board as authorised by the shareholder as follows:

	2018	2017
Georgel M	28,000	22,583
Nichols J	17,000	17,000
Gillespie G F	15,000	15,000
Adlam J	15,000	15,000
Cardwell C	15,000	8,750
Walker D N		12,292
	<b>90,000</b>	<b>90,625</b>

No other remuneration or benefits other than reimbursement of expenses have been paid or given to Directors.

## DIRECTORS' INDEMNITY AND INSURANCE

The Company is responsible for the payment of the Directors' indemnity insurance premiums.

## USE OF COMPANY INFORMATION BY DIRECTORS

There were no notices from Directors of the Company requesting to use company information received in their capacity as Directors that would not otherwise have been available to them.

## SHAREHOLDING BY DIRECTORS

During the year there were no shareholding transactions involving the Directors.

## DIRECTORS' INTERESTS

During the course of the financial year to 30 June 2018, Directors declared interest in the following entities:

<i>Interest</i>	<i>Nature of Interest</i>	<i>Relationship to PNAL</i>
<b>Mr M Georgel</b>		
Director & Shareholder	NV Enterprises Ltd	None
Director & Shareholder	Xenos Ltd	None
Director	BCC Ltd	None
Director	Manawatu Investment Group Ltd	None
Director	MIG Nominee No.1 Ltd	None
Trustee	Sir Patrick Higgins Charitable Trust	None
Director	Calf Smart Ltd	None
Director	Aorangi Hospital Ltd	None
Trustee	Arohanui Hospice Service Trust	None
Trustee	Arohanui Hospice Foundation	None
Director	Levno Ltd	None
Director	Crest Hospital Ltd	None
Director & Shareholder	CH Management Ltd	None
Trustee	PN Theatre Trust (Centre Point Theatre)	Sponsor (\$10,000 commencing 1 July 2018)
<b>Mr J Nichols</b>		
Director	Port of Napier (resigned Nov 2017)	None
Chair	Centralines Ltd	None
Director	Nichols Consulting Ltd	None
Chair	Hastings District Council Audit Subcommittee	None
Chair	Audit and Risk Committee of Maungahuru Tangitu Trust	None
<b>Mr G F Gillespie</b>		
Director	Tui Products	None
Director & Shareholder	Max Fashions	None
<b>Ms J Adlam</b>		
Co Chair	The Sustainability Trust	None
Chair	Tautoko Services	None
Coach	The Ice House	None
Coach	Business Changing (resigned Oct 2017)	None
Chair	Brava Limited (resigned Oct 2017)	None
Director	Fresh Focus Ltd	None
Director	Lifeland Developments Ltd	None
Member	Lottery Wellington/Wairarapa Community Committee	None
Director	Haunt Digital	None
<b>Mr C Cardwell</b>		
Director	Waikato District Health Board	None
Director	Wairaka Land Company Ltd (resigned April 2018)	None
Director & Shareholder	Australis Property Ltd	None
Director & Shareholder	Laurent Investments Ltd	None
Director	Kaipara Whenua Hoko Holdings Ltd	None
Director	Te Uru Ltd	None



All Directors are indemnified under the Directors and Officers Liability Insurance Policy.

Details of the related party transactions made during the year are shown in Note 15 of the Notes to the Financial Statements.

SCHEDULE OF BOARD MEETING ATTENDANCES

Director	Number of meetings held	Number of meetings attended
Mr M Georgel	11	11
Mr J Nichols	11	11
Mr G F Gillespie	11	10
Ms J Adlam	11	10
Mr C Cardwell	11	9

REMUNERATION OF EMPLOYEES

The number of employees, who are not Directors, whose total remuneration and benefits exceeded \$100,000 in the financial year were:

	2018	2017
\$100,000 - \$120,000	0	1
\$250,000 - \$260,000	0	1
\$260,000 - \$270,000	1	0

AUDITORS

As provided for by Section 70 of the Local Government Act 2002, Audit New Zealand, on behalf of the Auditor-General, is hereby re-appointed as Auditor to the Company.

Auditor's remuneration of \$29,488 (GST exclusive) for the 2018 annual audit is reflected in the financial statements as due and payable.

DONATIONS

The Company made donations of \$1,000 this year (2017: \$700).

AUDIT AND RISK COMMITTEE

The Company has an Audit and Risk Committee comprised of three directors of the PNAL Board. The Committee is responsible for overseeing the financial accounting and audit activities of the Company, including reviewing the adequacy and effectiveness of internal controls, meeting with and reviewing the performance of the external auditors, reviewing the consolidated financial statements and making recommendations on financial and accounting policies.



# SERVICE PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2018

## STATEMENT OF SERVICE PERFORMANCE

- The Company's Statement of Intent, against which performance is judged, is dated June 2017.
- The Company is trading as Palmerston North Airport Limited.
- The ratio of consolidated shareholder funds to total assets has been maintained above 70%, inclusive of revaluations of land and buildings.
- Palmerston North Airport has been maintained as an airport certificated pursuant to Civil Aviation Rule Part 139 and has achieved satisfactory audits during the period.
- All obligations under the Resource Management Act and the District Plans of the Palmerston North City Council and Manawatu District Council have been met.

## OUR VISION - WHAT WE ASPIRE TO BE

**TO BE NEW ZEALAND'S LEADING REGIONAL AIRPORT.**

## OUR MISSION - OUR AIMS AND VALUES

### COMMUNITY

**WE WILL BE A LEADER FOR REGIONAL ENVIRONMENTAL GUARDIANSHIP AND ENGAGEMENT WITH IWI AND COMMUNITIES.**

A new strategic focus which captures PNAL's newly developed environmental and community objectives.

We will support our regional communities by identifying opportunities to engage with local groups and Iwi. We will continue to showcase our sense of place and cultural linkages to our region. We will develop a pathway to achieve our long-term vision of carbon neutrality while immediately activating emission reducing programmes across our business activities.

### CUSTOMER

**WE WILL TREAT ALL AIRPORT USERS AS OUR CUSTOMERS.**

Our customers not only include travellers and meeters and greeters but also all other airport users including our tenants, suppliers and transport operators.

### COMMERCIAL

**WE WILL OPERATE A SUSTAINABLE BUSINESS TO ENSURE LONG TERM SUCCESS.**

Infrastructure and our people objectives are included within the commercial objectives, as both are enablers of a sustainable business platform from which commercial activities can be executed. Revenue growth and revenue diversification, together with prudent cost management are our focus to ensure financial stability and to enable a fair distribution to our Shareholder.

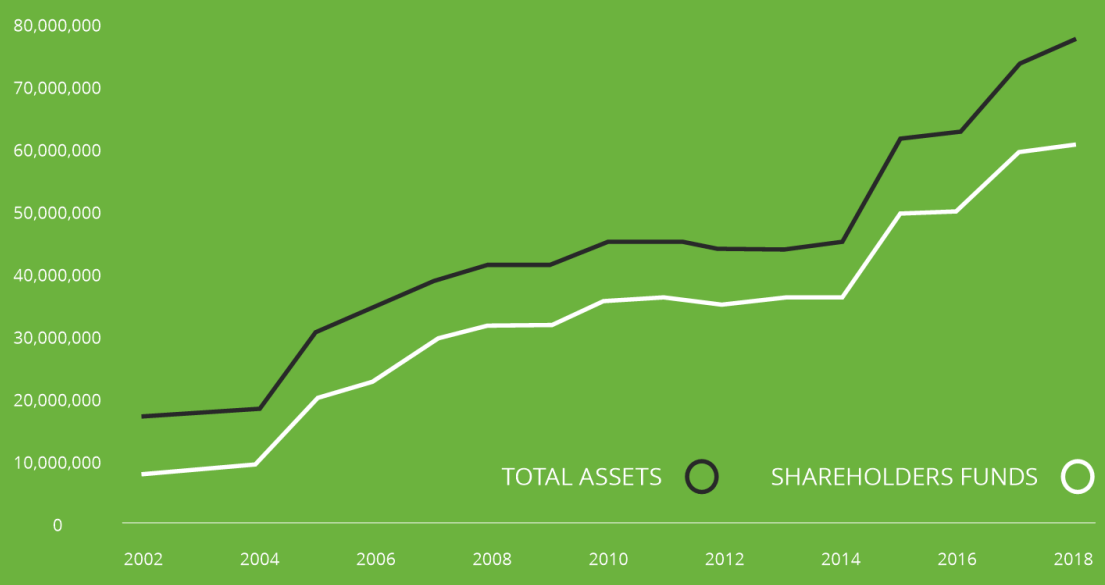
### COMPLIANCE

**WE WILL MAINTAIN A SAFE AND SECURE OPERATION AND ENSURE ONGOING COMPLIANCE WITH ALL STANDARDS AND REGULATIONS.**

Regulatory compliance and a renewed focus on safety and security will provide the necessary environment in which other strategic objectives can be achieved.



**ANNUAL PASSENGER VOLUMES**  
SINCE 1995



**TOTAL ASSETS AND  
SHAREHOLDER FUNDS GROWTH**  
SINCE 2002

# PERFORMANCE MEASURES

FOR THE YEAR ENDED 30 JUNE 2018

		2018 Actual	2018 SOI	2017 Actual
1	Ratio of net surplus before interest/tax/revaluations to Total Assets	3.2%	3.0%	3.1%
2	Ratio of net surplus after tax to consolidated shareholders funds inclusive of revaluation reserve	2.7%	2.1%	2.2%
3	Maintain a ratio of consolidated shareholders funds to Total Assets	78%	79%	81%
4	Interest cover ratio of net surplus before Interest tax and depreciation to Interest, at or above	14.6	8.4	13.1
5	Maintain a tangible net worth (total tangible assets after revaluations less total liabilities) above \$35m	\$60.7m	\$63.4m	\$59.6m
6	Maintain Civil Aviation Rule Part 139 certification (1)	Maintained Part 139 compliance.		
7	Maintain a level of customer satisfaction of 90% and biennially measure this by customer survey (2)	90%	90%	n/a
8	Total passenger throughput	657,515	639,000	629,411

(1)

The 5 yearly CAA Audit was conducted in 2014, and the next audit will be completed in September 2019.

(2)

The Customer Satisfaction survey findings are based on a survey of 3,618 customers over the period July 2017 to January 2018.





CASE STUDIES

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**OUR CULTURE,  
OUR SENSE  
OF PLACE**

# TE RANGIMARIE MARAE

PALMERSTON NORTH AIRPORT LIMITED HAS FORGED A VERY SPECIAL BOND WITH RANGITĀNE AND TE RANGIMARIE MARAE. THE MARAE, LOCATED ON THE BANKS OF THE OROUA RIVER, IS THE OLDEST MARAE IN THE LOWER NORTH ISLAND AND SURVIVED DEVASTATING FLOODS IN 2004 AND 2015. RANGITĀNE HAVE REBUILT THE FACILITIES WITH THE OBJECTIVE OF ENGAGING WITH REGIONAL COMMUNITIES.

Palmerston North Airport Limited in conjunction with Higgins and other partners are assisting Rangitāne with the construction of an undercover barbeque area. It is envisaged that up to 2,000 school students will visit the marae annually, participating in both cultural and environmental activities while being hosted in the barbeque area.

The facility will also increase the marae's ability to host other iwi and family in a more informal setting than is presently available.

*Pictured: David Lanham, Trieste Te Awe Awe and Wiremu Te Awe Awe, Kaumātua, Rangitāne.*



PALMERSTON  
NORTH AIRPORT  
LIMITED IN  
CONJUNCTION  
WITH HIGGINS AND  
OTHER PARTNERS  
ARE ASSISTING  
RANGITĀNE WITH  
THE CONSTRUCTION  
OF AN UNDERCOVER  
BARBEQUE AREA.





PALMERSTON NORTH AIRPORT LIMITED ANNUAL REPORT 2018 / 17

OUR SENSE OF PLACE

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# THE LEGEND OF HAUNUI-A-NANAIA





AFTER CONSULTATION WITH RANGITĀNE KAUMATUA THE LEGEND OF HAUNUI-A-NANAIA WAS ADOPTED BY PALMERSTON NORTH AIRPORT LIMITED AS A MEANS OF DEFINING OUR SENSE OF PLACE, AN AIRPORT AT THE CROSS ROADS OF AN EXPANSIVE REGION. THE ADOPTION OF THE LEGEND IS ALSO THE AIRPORT'S WAY OF

RECOGNISING TANGATA WHENUA FROM THE WIDE REGION WE PROUDLY SERVE.

Artwork depicting the Legend of Haunui-a-Nanaia, was installed in the arrivals / departure lobby and terminal. Four separate works were commissioned and completed by Rangitāne artists. A dawn blessing ceremony was held in December by Rangitāne Kaumatua.

*Pictured from left: Ngatai Taepa, Warren Warbrick, David Lanham, Craig Kawana and Reweti Arapere*



PALMERSTON NORTH AIRPORT LIMITED ANNUAL REPORT 2018 / 19



# PHILIPPINE CENTRAL ASSOCIATION

PALMERSTON NORTH AIRPORT LIMITED HAS A LONGSTANDING RELATIONSHIP WITH THE PHILIPPINE CENTRAL ASSOCIATION, SUPPORTING SEASONAL EVENTS INCLUDING INDEPENDENCE DAY CELEBRATIONS AND CHRISTMAS.

This year's Independence Day celebration included the successful Little Miss Palmy beauty pageant, attended by community members from as far away as the Hawkes Bay and Wellington. Palmerston North Airport Limited is working with the Philippine Central Association to host the 2019 Labour Weekend Fiestang Pinoy in Palmerston North. The annual event will attract Filipino community members from across the country for two days of sporting and cultural activities.

*Pictured above: Angel Carambas - PCA President, David Lanham and Grashella Garrovillo - Prize winner.*



# WILDBASE RECOVERY

PALMERSTON NORTH AIRPORT LIMITED CONTINUES TO SUPPORT WILDBASE WITH THE SPONSORED TOYOTA HILUX. THE VEHICLE IS USED FOR TRANSFERRING SPECIAL ANIMAL PATIENTS BETWEEN WILDBASE HOSPITAL FACILITIES AND THE AIRPORT.

*Pictured below: James Adamson - Manawatu District Council Parks Officer, Tom Ashton - Originair Captain, and Gary Jeffcott - Originair Charter and Group Bookings Manager.*











EVENTS HELD IN  
THE WORLD CLASS  
FLY PALMY ARENA  
INCLUDE THE  
2018 NATIONAL  
SECONDARY  
SCHOOLS  
KAPA HAKA  
COMPETITION.

# FLY PALMY ARENA

PALMERSTON NORTH AIRPORT LIMITED'S RELATIONSHIP WITH CENTRAL ENERGY TRUST ARENA AND SPONSORSHIP OF FLY PALMY ARENA PROVIDES THE AIRPORT COMPANY WITH A PRACTICAL WAY TO SUPPORT INBOUND TOURISM TO OUR REGION. WITH RETRACTABLE SEATING INSTALLED IN JUNE, FLY PALMY ARENA NOW HAS A SEATING CAPACITY OF OVER 3,100.

Events held in the world class Fly Palmy Arena include the 2018 National Secondary Schools Kapa Haka Competition, Badminton New Zealand junior team championships, Le Cirque Volé, and the 2018 ANZ Premiership Grand Final.

*Pictured left: Aareta Mohi - Rangitāne and Hiria Mohi - Rangitāne*



[FLYPALMY.CO.NZ](http://FLYPALMY.CO.NZ)



# CENTRAL PULSE

PALMERSTON NORTH AIRPORT LIMITED'S SPONSORSHIP OF THE CENTRAL PULSE HAS BEEN ONE OF THE MOST SUCCESSFUL SPONSORSHIPS UNDERTAKEN BY THE AIRPORT COMPANY. THE PULSE HAVE HAD A SUCCESSFUL YEAR AND THEIR POPULARITY WITHIN THE AIRPORT'S CATCHMENT IS AT AN ALL-TIME HIGH.

The We Fly Palmy Netball Competition proved hugely popular with schools across our catchment area. The competition required schools to replicate one of the Central Pulse's coaching tips videos or create their own Fly Palmy banners. Winning schools were from as far away as Martinborough and the Horowhenua.







# AIRPORT FACILITIES & INFRASTRUCTURE

MAJOR CAPITAL INVESTMENTS UNDERTAKEN DURING THE YEAR INCLUDED STAGE 1 OF THE MASSEY UNIVERSITY SCHOOL OF AVIATION BUILDING, RESCUE FIRE STATION REBUILD, THE RECONSTRUCTION OF TAXIWAY AND AIRFREIGHT APRON AREAS, AND COMPLETION OF THE LONG STAY CAR PARK.

The upgrade of terminal facilities continued with the addition of Valet Parking to the airport's car parking offer, and an additional premium meeting room – the Union Airways Room.

*Pictured from left: Tom Kiddle - Beca, David Yorke - Palmerston North Airport Limited and Bruce Walker - Higgins*

RECONSTRUCTION WORKS COMMENCED IN FEBRUARY 2018 ON THE AIRPORT'S TWO TAXIWAYS AND AIRFREIGHT APRON. WITH COMPLETION DUE IN LATE 2018 THE \$2.7 MILLION PROJECT IS BEING UNDERTAKEN BY HIGGINS WITH PROJECT OVERSIGHT PROVIDED BY BECA.



*Photo credit: Jillian Sinclair*





## THE UNION AIRWAYS ROOM

The former Air New Zealand regional lounge was converted into a premium business meeting room with a striking Union Airways theme. The meeting room recognises the importance of Union Airways to the history of commercial air services in New Zealand, and the fact that Milson Aerodrome (Palmerston North Airport) was a major hub for the airline. Family members of one of the first Union Airways pilots officially opened the room on July 30, 2018.

*Pictured right - Helen Walker and Malcom MacLeod, children of one of the founding Union Airways pilots, Murdo MacLeod, at the opening of the Union Airways room.*





## RESCUE FIRE FACILITY

Construction of a replacement rescue fire facility commenced during 2018. The 510m<sup>2</sup> facility will accommodate the Rescue Fire team's three appliances and SUV. It will also include an emergency response centre, training rooms, offices and team areas over two floors.

*Pictured above: Greg Eades and David La Roche - Task Protection Services Limited*

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PALMERSTON  
NORTH AIRPORT  
LIMITED SAFETY  
AND SECURITY  
MANAGER  
TERRY COONEY  
PICTURED AFTER  
COMPLETING THE  
2018 FIREFIGHTER  
SKY TOWER STAIR  
CHALLENGE.

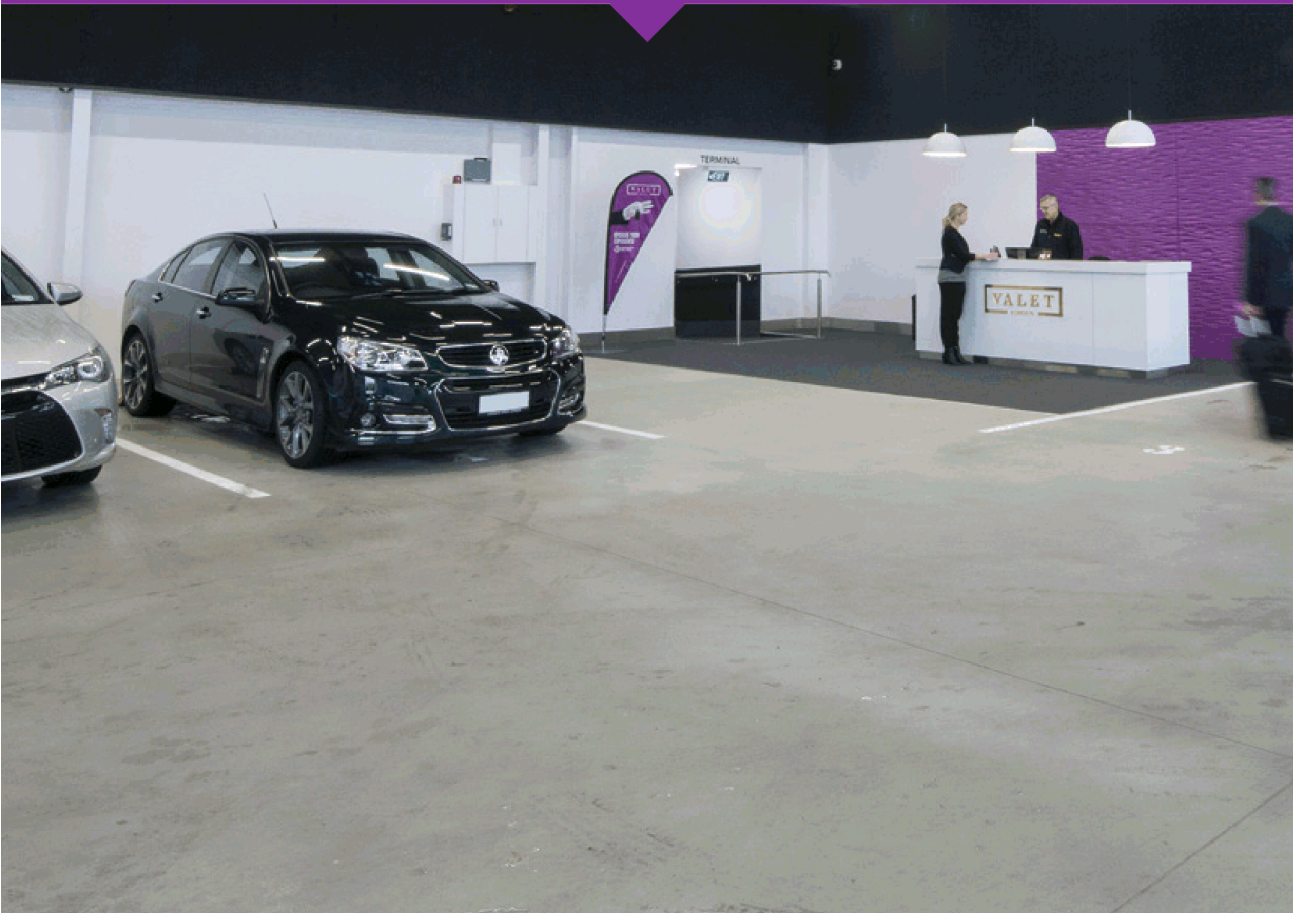




# VALET PARKING



OPENED IN SEPTEMBER 2017  
VALET PARKING IS PROVING VERY  
POPULAR WITH CUSTOMERS  
SEEKING THE CONVENIENCE OF THE  
UNDERCOVER PICK UP AND DROP  
OFF AREA, AND DIRECT UNDER-  
COVER ACCESS TO THE TERMINAL.





## RUAPEHU BUSINESS PARK

DURING THE YEAR THE RUAPEHU BUSINESS PARK MASTERPLAN WAS COMPLETED. THE MASTERPLAN PROVIDES A 20-YEAR VISION FOR THE BUSINESS PARK AND WILL PROVIDE THE COMPANY WITH A DEVELOPMENT PLAN WHICH WILL ENSURE APPROPRIATE AND COMPLEMENTARY BUSINESS ACTIVITIES ARE ATTRACTED TO THE BUSINESS PARK.

Stage 1 of the Business Park's commercialisation commenced in 2018 with over 6 hectares of land now being actively promoted for development.

The construction of the \$5 million Massey University School of Aviation training facility commenced during the year and is the largest commercial development project embarked on to date by Palmerston North Airport Limited. Once completed the entire School of Aviation faculty and all student learning will be located at the Business Park.

The staged development of Ruapehu Business Park will be a primary management focus in the next few years, with the objective of facilitating growth in aviation training, and freight and logistics activities based at Palmerston North Airport. Complementary activities including accommodation, retail, and light industrial are also being attracted to Ruapehu Business Park.



## MASSEY UNIVERSITY SCHOOL OF AVIATION





THE CONSTRUCTION OF THE \$5 MILLION MASSEY UNIVERSITY SCHOOL OF AVIATION TRAINING FACILITY COMMENCED DURING THE YEAR AND IS THE LARGEST COMMERCIAL DEVELOPMENT PROJECT EMBARKED ON TO DATE BY PALMERSTON NORTH AIRPORT LIMITED. ONCE COMPLETED THE ENTIRE SCHOOL OF AVIATION FACULTY AND ALL STUDENT LEARNING WILL BE LOCATED AT THE BUSINESS PARK.

#### STAGE 1

of the aviation facility is due for completion in late August 2018. The state of the art facility includes 2200m<sup>2</sup> of floor space for lecture rooms, flight simulators, offices and flight operations.

#### STAGE 2

due for completion in June 2019 will enable teaching and administrative staff to relocate to the airport campus from their present location at Massey's main city campus.

Massey University School of Aviation is one of the few tertiary education institutions globally that provides professional training for pilots, blended seamlessly with university accredited academic qualifications.

The School also offers academic programmes in aviation management, doctoral level studies and professional short courses in aviation - including

training for Remotely Piloted Aircraft Systems (RPAS). It has ISO 9001-2015 accreditation and enjoys the unique distinction of holding an Equivalence Approval from the New Zealand Civil Aviation Authority.

The future outlook for the School is bright. In addition to being an Air New Zealand Preferred Flight Training Organisation, Massey University is also the first tertiary institution outside of Australia to join the Qantas Group Future Pilot Program, whereby selected Massey graduates are employed by Jetstar New Zealand directly upon graduation.

The program is open to graduates from the School's Bachelor of Aviation – Air Transport Pilot qualification.

*Pictured above: Paul Kearney, Chief of Standards, and students Matthew Bradbury and Samuel Hopgood, Massey University School of Aviation.*

PALMERSTON NORTH AIRPORT LIMITED

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# FINANCIAL STATEMENTS

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# STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE

FOR THE YEAR ENDED 30 JUNE 2018

	<i>Note</i>	<i>30-Jun-18 Actual \$</i>	<i>30-Jun-18 SOI \$</i>	<i>30-Jun-17 Actual \$</i>
<b>Revenue</b>	1	<b>8,482,757</b>	<b>8,688,163</b>	<b>7,313,379</b>
<b>Operating Expenses</b>				
<i>Operations and Maintenance</i>				
Airfield Services		719,620	708,432	623,360
Other Operating Expenses	11	1,513,154	1,684,957	1,267,719
<b>Total Operations and Maintenance</b>		<b>2,232,774</b>	<b>2,393,389</b>	<b>1,891,079</b>
<i>Administration</i>				
Audit Fees	12	29,488	26,500	29,115
Bad Debts Written Off			5,000	
Changes in Doubtful Debt Provision		18,816	10,000	
Directors' Fees		90,000	94,500	90,625
Employee Expenses	7	979,802	951,740	755,120
General Administration		1,057,981	1,109,415	1,012,937
<b>Total Administration</b>		<b>2,176,087</b>	<b>2,197,155</b>	<b>1,887,797</b>
<b>Total Operating Expenses</b>		<b>4,408,861</b>	<b>4,590,544</b>	<b>3,778,876</b>
<b>Earnings Before Interest, Taxation, Depreciation and Amortisation</b>		<b>4,073,896</b>	<b>4,097,619</b>	<b>3,534,503</b>
<b>Finance Costs, Depreciation, Amortisation and Loss on Sale</b>				
Finance Costs	9	279,238	486,475	269,622
Depreciation and Amortisation	2	1,582,752	1,685,551	1,217,466
Impairment and Loss on Sale of Assets	2	922	77,000	198,454
<b>Total Finance Costs, Depreciation</b>		<b>1,862,912</b>	<b>2,249,026</b>	<b>1,685,542</b>
Operating Surplus Before Taxation		2,210,984	1,848,593	1,848,961
Taxation Expense on Operating Surplus	6a	601,965	517,606	549,839
<b>Net Surplus After Taxation Attributable to PNCC</b>		<b>1,609,019</b>	<b>1,330,987</b>	<b>1,299,122</b>

**Murray Georgel**  
Chairman



**Jon Nichols**  
Director



The accompanying accounting policies and notes form part of and are to be read in conjunction with these financial statements

## STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE

FOR THE YEAR ENDED 30 JUNE 2018

	<i>Note</i>	<i>30-Jun-18 Actual \$</i>	<i>30-Jun-18 SOI \$</i>	<i>30-Jun-17 Actual \$</i>
<b>Net Surplus After Taxation Attributable To PNCC</b>		<b>1,609,019</b>	<b>1,330,987</b>	<b>1,299,122</b>
<i>Other Comprehensive Revenue and Expense</i>				
Gains (Losses) on Property, Plant and Equipment Revaluations	13(d)			10,974,180
Movement in Deferred Tax at Revaluation	13(d)			(2,145,902)
<b>Total Comprehensive Revenue and Expense Attributable to PNCC</b>		<b>1,609,019</b>	<b>1,330,987</b>	<b>10,127,400</b>

## STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2018

	<i>Note</i>	<i>30-Jun-18 Actual \$</i>	<i>30-Jun-18 SOI \$</i>	<i>30-Jun-17 Actual \$</i>
<b>Equity at the Beginning of the Year</b>		<b>59,614,744</b>	<b>62,608,320</b>	<b>49,809,520</b>
Total Comprehensive Revenue and Expense for the Year		1,609,019	1,330,987	10,127,397
Distribution to Shareholder During the Year		(519,656)	(577,281)	(322,173)
<b>Equity at the End of the Year Attributable to PNCC</b>		<b>60,704,107</b>	<b>63,362,026</b>	<b>59,614,744</b>

The accompanying accounting policies and notes form part of and are to be read in conjunction with these financial statements

# STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2018

	<i>Note</i>	<i>30-Jun-18 Actual \$</i>	<i>30-Jun-18 SOI \$</i>	<i>30-Jun-17 Actual \$</i>
<b>Current Assets</b>				
Cash and Cash Equivalents	5	196,233	181,167	288,028
Trade Accounts Receivable	4	615,811	593,702	548,511
Sundry Receivables and Prepayments		166,949	5,595	143,023
Assets Held for Sale		288,151		
<b>Total Current Assets</b>		<b>1,267,144</b>	<b>780,464</b>	<b>979,562</b>
<b>Less: Current Liabilities</b>				
Revenue in Advance	14	122,884	90,000	44,356
Trade Accounts Payable	14	1,344,788	184,686	638,814
Other Creditors	14	504,431	95,258	277,130
Employee Benefit Liabilities	7	114,742	114,741	87,638
Borrowings	10	1,158,876		
<b>Total Current Liabilities</b>		<b>3,245,721</b>	<b>484,685</b>	<b>1,047,938</b>
<b>Working Capital</b>		<b>(1,978,577)</b>	<b>295,779</b>	<b>(68,376)</b>
<b>Add: Non Current Assets</b>				
Property, Plant and Equipment	2	76,034,700	79,380,188	72,011,918
Investment Property	2a	575,000		575,000
Intangible Assets	3	17,304	19,644	21,927
<b>Total Non Current Assets</b>		<b>76,627,004</b>	<b>79,399,832</b>	<b>72,608,845</b>
<b>Less: Non Current Liabilities</b>				
Deferred Tax Liability	6b	7,844,320	6,128,585	8,075,726
Borrowings	10	6,100,000	10,205,000	4,850,000
<b>Total Non Current Liabilities</b>		<b>13,944,320</b>	<b>16,333,585</b>	<b>12,925,726</b>
<b>Net Assets</b>		<b>60,704,107</b>	<b>63,362,026</b>	<b>59,614,743</b>
<b>Represented by:</b>				
<b>Shareholders Equity</b>				
Paid in Capital	13(a)	9,380,400	9,380,400	9,380,400
Retained Earnings	13(b)	19,388,551	19,196,990	18,299,187
Asset Revaluation Reserve	13(d)	31,935,156	34,784,636	31,935,156
<b>Total Shareholders Equity</b>		<b>60,704,107</b>	<b>63,362,026</b>	<b>59,614,743</b>

For and on behalf of the Board

**Murray Georgel**  
Chairman



**Jon Nichols**  
Director



The accompanying accounting policies and notes form part of and are to be read in conjunction with these financial statements

# STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2018

	<i>Note</i>	<i>30-Jun-18 Actual \$</i>	<i>30-Jun-18 SOI \$</i>	<i>30-Jun-17 Actual \$</i>
<b>Cash Flows From Operating Activities</b>				
<i>Cash was provided from:</i>				
Receipts from Customers		8,466,891	8,567,980	7,282,794
Interest Received		2,183	3,213	5,926
Tax Refund				104,417
		<b>8,469,074</b>	<b>8,571,193</b>	<b>7,393,137</b>
<i>Cash was disbursed to:</i>				
Payment to Suppliers and Employees		4,100,486	4,659,773	3,974,986
Tax Loss Payment to PNCC		91,676		104,417
Payment of Income Tax		690,702	550,000	570,223
Interest Payments		279,238	486,475	269,622
		<b>5,162,102</b>	<b>5,696,248</b>	<b>4,919,248</b>
<b>Net Cash Flows from Operating Activities</b>		<b>3,306,972</b>	<b>2,874,945</b>	<b>2,473,889</b>
<b>Cash Flows From Investing Activities</b>				
<i>Cash was provided from:</i>				
Sale of Property Plant and Equipment		49,971	3,130,000	652,391
<i>Cash was applied to:</i>				
Purchase of Property, Plant and Equipment		5,337,965	10,125,915	1,504,510
<b>Net Cash Flow from Investing Activities</b>		<b>(5,287,994)</b>	<b>(6,995,915)</b>	<b>(852,119)</b>
<b>Cash Flow From Financing Activities</b>				
<i>Cash was provided from:</i>				
Borrowing		11,850,000	5,835,000	1,000,000
<i>Cash was applied to:</i>				
Repayment of Borrowings		10,600,000	1,100,000	2,300,000
Payment of Dividends	13(c)	519,649	577,281	322,173
<b>Net Cash from Financing Activities</b>		<b>730,351</b>	<b>4,157,719</b>	<b>(1,622,173)</b>
<b>Net Increase/(Decrease) in Cash, Cash Equivalents and Bank Overdraft</b>		<b>(1,250,671)</b>	<b>36,749</b>	<b>(403)</b>
Cash, Cash Equivalents and Bank Overdraft at the Beginning of the Year		288,028	138,974	288,431
<b>Cash, Cash Equivalents and Bank Overdraft Year End</b>	5,10	<b>(962,643)</b>	<b>175,723</b>	<b>288,028</b>

The accompanying accounting policies and notes form part of and are to be read in conjunction with these financial statements

NOTES TO THE

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# FINANCIAL STATEMENTS



# NOTES TO THE FINANCIAL STATEMENTS

STATEMENT OF ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2018

## REPORTING ENTITY

Palmerston North Airport Limited (PNAL) is a New Zealand company registered under the Companies Act 1993.

The company has designated itself as a Public Benefit Entity (PBE) for financial reporting purposes.

The financial statements of the company are for the year ended 30 June 2018. The financial statements were authorised for issue on 22nd August 2018.

## 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.

### Statement of Compliance

The financial statements of Palmerston North Airport Limited have been prepared in accordance with the requirements of the Airport Authorities Act 1966, Airport Authorities Amendment Act 2000, the Local Government Act 2002, Airport Authorities (Airport Companies Information Disclosure) Regulations 1999, the Companies Act 1993, and the Financial Reporting Act 2013. This includes the requirement to comply with generally accepted accounting practice in New Zealand (NZ GAAP).

These financial statements have been prepared in accordance with Tier 2 PBE accounting standards.

The entity is eligible and has elected to report in accordance with Tier 2 PBE Standards RDR on the basis that the entity has no public accountability and has Expenses >\$2m and ≤ \$30m.

These financial statements comply with PBE standards.

### Presentation Currency and Rounding

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest dollar. The functional currency of Palmerston North Airport Limited.

## SIGNIFICANT ACCOUNTING POLICIES

### Measurement Basis

The financial statements have been prepared on a historical cost basis, modified by the revaluation of land and buildings, and infrastructure assets.

## 1. ANALYSIS OF OPERATING REVENUE

	2018 Actual	2017 Actual
Aeronautical Charges	5,021,996	4,291,429
Car Park, Rent and Advertising	3,276,917	2,811,843
Other	183,818	207,256
Interest	26	2,851
	<b>8,482,757</b>	<b>7,313,379</b>

### Revenue Measurement and Recognition

Revenue is measured at the fair value of consideration received or receivable.

Landing, departure, facility fees and car park revenue are recognised when the facilities are used.

Interest received is recognised as it accrues using the effective interest rate method.

Lease revenue from operating leases is recognised as revenue on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which benefits derived from the leased asset is diminished.

## 2. PROPERTY, PLANT AND EQUIPMENT

	<i>Land</i>	<i>Buildings</i>	<i>Airside Infrastructure</i>	<i>Landside Infrastructure</i>	<i>Total Infrastructure</i>
<b>Balances 1 July 2017</b>					
Cost / Valuation	28,013,432	11,649,958	25,836,507	7,745,275	33,581,783
Accumulated Depreciation				(2,267,784)	(2,267,784)
<b>Carrying Amount</b>	<b>28,013,432</b>	<b>11,649,958</b>	<b>25,836,507</b>	<b>5,477,491</b>	<b>31,313,998</b>
<b>Movements for the Year</b>					
Additions & Work in Progress	6,264	3,355,854	1,602,051	508,853	2,110,904
Disposals		(1,690)			
Abandoned Projects					
Revaluation Surplus					
Reclassification	(288,151)				
Disposals - Accumulated Dep.					
Depreciation for the Year		(303,565)	(851,878)	(218,152)	(1,070,030)
Dep. Reversal on Revaluation					
<b>Closing Balances 30 June 2018</b>					
Cost / Revaluation	27,731,545	15,004,122	27,438,558	8,254,128	35,692,687
Accumulated Dep.		(303,565)	(851,878)	(2,485,936)	(3,337,814)
<b>Carrying Amount</b>	<b>27,731,545</b>	<b>14,700,557</b>	<b>26,586,680</b>	<b>5,768,192</b>	<b>32,354,872</b>
<b>Capital Work in Progress Included at Cost</b>					
30-Jun-18	19,696	3,070,970	484,337	157,390	
	<i>Land</i>	<i>Buildings</i>	<i>Airside Infrastructure</i>	<i>Landside Infrastructure</i>	<i>Total Infrastructure</i>
<b>Balances 1 July 2016</b>					
Cost / Valuation	24,668,372	12,125,772	19,352,248	7,243,203	26,595,452
Accumulated Depreciation		(237,994)	(585,886)	(2,110,398)	(2,696,284)
<b>Carrying Amount</b>	<b>24,668,372</b>	<b>11,887,779</b>	<b>18,766,362</b>	<b>5,132,805</b>	<b>23,899,167</b>
<b>Movements for the Year</b>					
Additions & Work in Progress	4,412	554,331	288,937	512,406	801,343
Disposals		(208,772)		(10,334)	(10,334)
Abandoned Projects					
Revaluation Surplus	3,340,648	(246,373)*	6,195,322		6,195,322
Reclassification		(575,000)			
Disposals - Accumulated Dep.		16,770		7,569	7,569
Depreciation for the Year		(249,770)	(633,898)	(164,955)	(798,853)
Dep. Reversal on Revaluation		470,994	1,219,784		1,219,784
<b>Closing Balances 30 June 2017</b>					
Cost / Revaluation	28,013,432	11,649,958	25,836,507	7,745,275	33,581,783
Accumulated Dep.				(2,267,784)	(2,267,784)
<b>Carrying Amount</b>	<b>28,013,432</b>	<b>11,649,958</b>	<b>25,836,507</b>	<b>5,477,491</b>	<b>31,313,998</b>
<b>Capital Work in Progress Included at Cost</b>					
30-Jun-17	13,229	395,261		534,571	

<i>Plant and Equipment</i>	<i>Furniture and Fittings</i>	<i>Computer Equipment</i>	<i>Motor Vehicles</i>	<i>Total</i>
2,225,981	500,513	222,832	11,676	76,206,176
(1,401,839)	(357,562)	(156,973)	(10,721)	(4,194,878)
<b>824,142</b>	<b>142,952</b>	<b>65,859</b>	<b>956</b>	<b>72,011,298</b>

339,552	42,263	33,906		5,888,743
(113,684)				(115,374)

				(288,151)
116,368				116,368
(134,812)	(28,391)	(40,945)	(441)	(1,578,184)

2,451,849	542,776	256,738	11,676	81,691,394
(1,420,283)	(385,953)	(197,918)	(11,162)	(5,656,694)
<b>1,031,566</b>	<b>156,824</b>	<b>58,820</b>	<b>515</b>	<b>76,034,700</b>

10,000 3,742,393

<i>Plant and Equipment</i>	<i>Furniture and Fittings</i>	<i>Computer Equipment</i>	<i>Motor Vehicles</i>	<i>Total</i>
2,166,790	548,781	167,896	11,676	66,284,740
(1,307,344)	(377,336)	(127,996)	(10,280)	(4,757,233)
<b>859,446</b>	<b>171,446</b>	<b>39,900</b>	<b>1,397</b>	<b>61,527,507</b>

73,431	12,540	54,936		1,500,993
(14,240)	(60,808)			(294,154)

				9,289,597
				(575,000)
7,539	52,960			84,838
(102,034)	(33,186)	(28,977)	(441)	(1,213,261)
				1,690,778

2,225,981	500,513	222,832	11,676	76,206,176
(1,401,839)	(357,562)	(156,973)	(10,721)	(4,194,878)
<b>824,142</b>	<b>142,952</b>	<b>65,859</b>	<b>956</b>	<b>72,011,298</b>

10,000 953,061

#### Critical Judgments in Applying Accounting Policies

##### Classification of property

The Company owns a number of properties as a land bank to cover possible future expansion of the runway and safety areas. The receipt of market-based rental from these properties is incidental to this purpose. The properties are held for service delivery objectives as part of the Airport's overall operating strategy. The properties are therefore accounted for as property, plant, and equipment rather than investment property.

\*

The reversal of accumulated depreciation for buildings resulting from the revaluation was higher than the revaluation increase. This has resulted in a net reduction in the Revaluation Surplus component of the Carrying Amount for buildings as at 30 June 2017.

## LAND, BUILDINGS AND AIRSIDE INFRASTRUCTURE FAIR VALUE

### Land

Land is valued at fair value.

The most recent valuation was performed by independent registered valuers, Morgans Property Advisors. The valuation is effective as at 30 June 2017 and requires no changes.

As per Commerce Commission guidelines, fair value has been determined using the Market Value in Alternative Use Highest and Best Use (MVAU) methodology.

In order to determine MVAU, the airport land has been split into five hypothetical areas based on location. These include Rural, Lifestyle, Residential, Commercial and Industrial to which MVAU valuations have then been applied.

The company's zones (Airside, Commercial and Rural) have then been overlaid. Valuation of the company's activity zones are therefore based on the MVAU values applied to the respective underlying hypothetical areas falling within each PNAL zone.

### Buildings

The most recent valuation was performed by independent registered valuers Morgans Property Advisors. The valuation is effective as at 30 June 2017 and requires no changes.

Buildings are valued at fair value using depreciated replacement cost. Where appropriate, the value of the improvements have then been reconciled against the investment method which capitalises the actual or potential market rental income having regard for yields as derived from sales of comparable property from which deduct the underlying value.

### Airside Infrastructure

The most recent valuation was performed by independent consultant engineers and valuers AECOM New Zealand Limited. The valuation is effective as at 30 June 2017 and requires no changes.

Revaluations will continue to be undertaken at least three yearly, in line with the current revaluation cycle of the company.

Fair value has been determined calculating the replacement cost of the asset based on current construction costs to recreate the asset with current legislative requirements. Assets have then been adjusted for physical obsolescence using a straight line depreciation approach. From there an estimated percentage of remaining life of the asset is applied based on the condition of the asset to calculate the current replacement cost.

### Landside Infrastructure

Landside Infrastructure has been valued at fair value based on cost less depreciation.

### Impairment

Impairment for Property, Plant and Equipment for 2017/18 was Nil (2017: \$76,800).

## PROPERTY, PLANT AND EQUIPMENT PLEDGED AS SECURITY ON BORROWINGS

There is a general Debenture held by the BNZ of the Company assets and undertaking of the airport. Additionally the BNZ also hold first mortgages on 296 and 320 Milson Line, and RD 10 Railway Road.

## ASSETS HELD FOR SALE

As at 30 June 2018, the Company was advertising two land lots for sale being a total area of 5,620m<sup>2</sup>. The unimproved carrying value of this land is \$288,151. (2017: Nil). Plans for the development of the subdivision that includes these two lots are at a very early stage. Accordingly the cost of sale for the land cannot be ascertained as at balance date.

## PROPERTY PLANT AND EQUIPMENT

Property Plant and Equipment consists of:

### Operational Assets

These include land, buildings, furniture and fittings, computer equipment, motor vehicles and various plant and equipment.

### Infrastructure Assets

Infrastructure Assets consist of Airside and Landside Infrastructure. Airside Infrastructure assets include runways, aprons, taxiways, and underground reticulated systems and Landside infrastructure assets include pavements, car parking and roading outside the secure areas of the airport.

## MEASUREMENT OF PROPERTY, PLANT, EQUIPMENT AND INTANGIBLE ASSETS

Property plant and equipment are measured at cost less accumulated depreciation and impairment losses with the following exceptions:

- Land is measured at fair value
- Buildings and airside infrastructure are measured at fair value less accumulated depreciation.

### Revaluations

Land, buildings and airside infrastructure are revalued with sufficient regularity to ensure that their carrying amount does not differ materially from fair value and are revalued at least every three years. The carrying values of revalued items are reviewed at each balance date to ensure that those values are not materially different to fair value. If there is a material difference, then the off-cycle asset classes are revalued.

### Accounting for Revaluations

Palmerston North Airport Limited accounts for revaluations on a class of assets 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 only when it is probable that future economic benefit or service potential associated with the item will flow to the company and the cost 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 initially recognised at its cost. Where an asset is acquired through a non-exchange transaction, it is recognised at its fair value as at the date of acquisition.

### Disposals

Gains and losses on disposal are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposal are included in the surplus and deficit account.

When revalued assets are sold, the amount included in revaluation reserve in respect of those assets is transferred to retained earnings.

### Subsequent Cost

Costs incurred subsequent to initial acquisition are capitalised only when it is probable that future economic benefits or service potential associated with the item will flow to the company and the cost of the item can be measured reliably.

The costs of day to day servicing of property, plant and equipment are recognised in the surplus and deficit account as they are incurred.

### DEPRECIATION

Depreciation is provided on a straight-line basis on all items of 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 the major categories have been estimated as follows:

Land Improvements	99 years
Roading and Carparks (Landside Infrastructure)	2 - 99 years
Buildings and Building Services	8 - 99 years
Runway, Taxiways, Aprons (Airside Infrastructure)	2 - 80 years
Plant and Equipment	2 - 50 years
Furniture and Fittings	3 - 99 years
Computer Equipment	3 - 6 years
Motor Vehicles	5 years

The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each financial year end.

### IMPAIRMENT OF PROPERTY, PLANT, EQUIPMENT AND INTANGIBLE ASSETS

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 impaired and the carrying amount is written down to the recoverable amount.

The total impairment loss is recognised in the surplus and deficit account.

### 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.

### Value in Use for Cash-Generating Assets

Cash-generating assets are those assets that are held with the primary objective of generating a commercial return. The value in use for cash-generating assets and cash-generating units is the present value of expected future cash flows.

### NON-CURRENT ASSETS HELD FOR SALE

Non-current assets held for sale are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. Non-current assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

Any impairment losses for write-downs of non-current assets held for sale are recognised in the surplus or deficit.

Any increases in fair value (less costs to sell) are recognised up to the level of any impairment losses that have been previously recognised.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are held for sale.

### CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

In preparing these financial statements the company has made estimates and assumptions concerning the future. These estimates and assumptions may differ from 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 material adjustments 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 the company 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 company to consider a number of factors such as the physical condition of the asset, expected period of use of the asset by the company, and expected disposal proceeds from the future 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 revenue and expense, and carrying amount of the asset in the statement of financial position. The company minimises the risk of this estimation uncertainty by:

- Physical inspection of assets;
- Asset replacement programs;
- Review of second hand market prices for similar assets; and
- Analysis of prior asset sales.

The company has not made significant changes to past assumptions concerning useful lives and residual values.

## 2A. INVESTMENT PROPERTY

	2018	2017 Actual
Balance as at 1 July 2017	575,000	
Additions and Acquisitions		
Disposals		
Depreciation		
Reclassification from PPE		575,000
Fair Value Gains/(Losses) on Valuation		
	<b>575,000</b>	<b>575,000</b>

## 3. INTANGIBLE ASSETS

Balances 1 July 2017	Website Development	Total
Cost / Valuation	21,928	21,928
Accumulated Depreciation		
<b>Carrying Amount</b>	<b>0</b>	<b>0</b>

### Movements for the Year

Additions
Disposals
Revaluation Writedown
Re-classification of Renovations
Disposals - Accumulated Dep.
Amortisation for the Year
Dep. Reversal on Revaluation

### Closing Balances 30 June 2018

Cost / Revaluation	21,928	21,928
Accumulated Dep.	4,624	4,624
<b>Carrying Amount</b>	<b>17,304</b>	<b>17,304</b>
<b>Capital Work in Progress Included at Cost</b>	<b>0</b>	<b>0</b>

Balances 1 July 2016	Website Development	Total
Cost / Valuation	26,419	26,419
Accumulated Depreciation	(21,368)	(21,368)
<b>Carrying Amount</b>	<b>5,051</b>	<b>5,051</b>

### Movements for the Year

Additions
Disposals
Revaluation Writedown
Re-classification of Renovations
Disposals - Accumulated Dep.
Amortisation for the Year
Dep. Reversal on Revaluation

### Closing Balances 30 June 2017

Cost / Revaluation		
Accumulated Dep.		
<b>Carrying Amount</b>	<b>0</b>	<b>0</b>
<b>Capital Work in Progress Included at Cost</b>	<b>21,928</b>	<b>21,928</b>

### Investment Properties

Investment properties are valued annually at 30 June at fair value. The valuation was performed by independent valuers Morgans Property Advisors as at 30 June 2018.

Rental income from investment properties for the year was \$57.4k (2017: \$52.0k). There were no expenses from investment property generating income. No contractual obligations for capital expenditure and no contractual obligations for operating expenditure.

### Intangible Assets

#### Internally generated intangible assets

Costs associated with the development of the company's web-site are recognised as an intangible asset and are capitalised on the basis of the cost incurred to bring to use the intangible asset. The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its useful life. Amortization begins when the asset is available for use and ceases at the date that the asset is derecognized. The amortization charge for each period is recognised in the surplus or deficit.

The useful lives and associated amortization rates of major classes of intangible assets have been estimated as follows:

Website Development	4 years 25%
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#### 4. TRADE ACCOUNTS AND OTHER RECEIVABLES

	2018 Actual	2017 Actual
Debtors and Other Receivables	628,196	547,167
Receivables from Related Party	2,431	1,344
Provision for Impairment	(14,816)	
<b>Total</b>	<b>615,811</b>	<b>548,511</b>

##### Trade and Other Receivables

Accounts receivable are stated at face value less any provision for impairment.

Movements in the provision for impairment of Receivables are as follows:

	2018 Actual	2017 Actual
Balance at 1st of June		(3,400)
Additional Provisions	(14,816)	
Provisions Reversed		
Receivables Written Off		3,400
<b>Total</b>	<b>(14,816)</b>	<b>0</b>

#### 5. CASH AND CASH EQUIVALENTS

	2018 Actual	2017 Actual
Current Account	167,432	133,191
Cash on Hand	17,957	4,011
Short Term Investment Account	10,844	150,826
<b>Total</b>	<b>196,233</b>	<b>288,028</b>

##### Cash, Cash Equivalents and Bank Overdrafts

Cash, Cash Equivalents and Bank Overdrafts 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.

#### 6A. TAXATION

	2018 Actual	2017 Actual
Operating Surplus (Deficit) Before Taxation	2,210,984	1,848,961
Tax there on	619,075	517,709
<i>plus (less) tax effect of:</i>		
- Permanent differences / non-deductible expenditure	23,010	108,280
- Prior year under / (over) provision		
- Deferred tax adjustment for the year	(40,120)	(76,150)
<b>Tax Charge for the Year</b>	<b>601,965</b>	<b>549,839</b>
<i>Tax expense for the year comprising:</i>		
Current Tax	833,371	748,600
Prior Year Adjustments		
Deferred Tax from Current Year Activity	(231,406)	(198,761)
	<b>601,965</b>	<b>549,839</b>

##### Income Tax

Income tax expense includes components relating to both current tax 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 of prior years. Current tax is calculated using tax rates (and tax laws) that have been enacted or substantively enacted by 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 profit.

Deferred tax is measured at the tax rates that are expected to apply when the asset is realized 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. →

**6B. DEFERRED TAX (ASSETS) / LIABILITIES**

	<i>Property, Plant and Equipment</i>	<i>Employee Entitlements</i>	<i>Other Provisions</i>	<i>Total</i>
<b>Balance at 1 July 2017</b>	<b>8,097,349</b>	<b>(20,859)</b>	<b>(765)</b>	<b>8,075,725</b>
Charged to Surplus and Deficit - Current Year	(222,615)	(5,120)	(3,670)	(231,406)
Charged to Other Comprehensive Income				
<b>Balance at 30 June 2018</b>	<b>7,874,733</b>	<b>(25,979)</b>	<b>(4,435)</b>	<b>7,844,320</b>
<b>Balance at 1 July 2016</b>	<b>6,150,946</b>	<b>(20,645)</b>	<b>(1,717)</b>	<b>6,128,584</b>
Charged to Surplus and Deficit - Current Year	(199,499)	(214)	952	(198,761)
Charged to Other Comprehensive Income	2,145,902			2,145,902
<b>Balance at 30 June 2017</b>	<b>8,097,349</b>	<b>(20,859)</b>	<b>(765)</b>	<b>8,075,725</b>

**Income Tax** continued

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 profits 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 and expense or directly in equity.

**Goods and Services Tax**

All items in the financial statements are stated exclusive of Goods and Services Tax (GST) with the exception of receivables and payables, which are stated, with GST included. Where GST is irrecoverable as an 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 stated exclusive of GST.

**7. EMPLOYEE BENEFIT LIABILITIES**

	<i>2018 Actual</i>	<i>2017 Actual</i>
Accrued Pay	51,959	38,142
Annual Leave	61,176	46,805
Sick Leave	1,607	2,691
<b>Total</b>	<b>114,742</b>	<b>87,638</b>

**7A. EMPLOYEE EXPENSES**

	<i>2018 Actual</i>	<i>2017 Actual</i>
Salaries and Wages	942,454	737,520
Employer Contribution to Kiwi Saver	31,419	19,207
Movement in Employee Entitlements	5,929	(1,607)
<b>Total</b>	<b>979,802</b>	<b>755,120</b>

**Employee Entitlements**

Employee benefits that the Company expects to be settled within 12 months of balance date are measured at nominal values 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, and sick leave.

The company recognises a liability for sick leave to the extent that compensated 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 the company anticipates it will be used by staff to cover those future absences.



## 8. COMMITMENTS

	2018	2017
<b>Operating Commitments as Lessee</b>		
Less than 1 Year	56,659	71,722
Between 1 and 5 Years	59,163	110,516
Over 5 Years		
<b>Total</b>	<b>115,822</b>	<b>182,238</b>
<b>Operating Commitments as Lessor</b>		
Less than 1 Year	1,008,320	1,116,806
Between 1 and 5 Years	1,811,142	2,279,634
Over 5 Years	513,611	573,838
<b>Total</b>	<b>3,333,073</b>	<b>3,970,278</b>
<b>On-Going Month to Month Leases</b>	<b>118,742</b>	<b>57,242</b>

These commitments are GST exclusive.

### Employee Entitlements continued

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

The Company does not provide for long service or retirement leave entitlements.

#### Presentation of employee entitlements

Sick leave and annual leave are classified as a current liability.

#### Superannuation schemes

Obligations for contributions to Kiwi Saver are accounted for as defined contributions superannuation schemes and are recognised as an expense in the surplus and deficit account when incurred.

### Leases

#### Operating Leases

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased items are classified as operating leases. Payments under these leases are charged as expenses on a straight-line basis over the lease term. Lease incentives received are recognised in the surplus or deficit as a reduction of rental expense over the lease term.

### Operating Commitments as Lessee

PNAL leases computer and electronic equipment, lift infrastructure, billing software, advertising and a motor vehicle. The unexpired terms of leases as at 30th June 2018 range from 3 to 37 months.

### Operating Commitments as Lessor

PNAL leases land, buildings and advertising space in the normal course of its business. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

2018 & 2017 commitments have been calculated until the end of the current right of renewal, or end of the contract, whichever comes first. These commitments relate to property leases, advertising, and rental agency contracts and are GST exclusive.

There are other ongoing leases amounting to \$118,742 per annum that are on a month to month basis (2017: \$57,242). There are no contingent rents recognised as revenue in the period.

### Capital Commitments

PNAL had capital commitments of \$4.64m as at 30 June 2018. \$2.95m relates to the construction of the Massey Aviation Facility and \$1.19m relates to reconstruction of the aircraft taxiways and freight apron. Commitments at 30 June 2017 were \$215k.

## 9. FINANCE COSTS

	2018 Actual	2017 Actual
Interest on Secured Long Term Loans	279,238	269,622
<b>Total</b>	<b>279,238</b>	<b>269,622</b>

## 10. BORROWINGS

	2018 Actual	2017 Actual
Current Borrowings/Overdraft	1,158,876	
Non-Current Borrowings	6,100,000	4,850,000
<b>Total</b>	<b>7,258,876</b>	<b>4,850,000</b>

## 11. OTHER OPERATING EXPENSES

	2018 Actual	2017 Actual
Rates	357,380	350,460
Power and Insurance	310,943	303,890
Repairs and Maintenance	844,831	613,369
<b>Total</b>	<b>1,513,154</b>	<b>1,267,719</b>

## 12. AUDIT FEES

	2018 Actual	2017 Actual
Fees are for Audit of Financial Statements Palmerston North Airport Limited	28,988	29,115
Disbursements	500	500
<b>Total</b>	<b>29,488</b>	<b>29,615</b>

## 13. EQUITY

### (a) Share Capital

	2018 Actual	2017 Actual
9,195,000 Ordinary Share Capital at 30 June	9,380,400	9,380,400
<b>Closing Balance</b>	<b>9,380,400</b>	<b>9,380,400</b>

### b) Retained Earnings

	2018 Actual	2017 Actual
<b>Opening Balance</b>	<b>18,299,188</b>	<b>17,314,703</b>
Net Operating Surplus	1,609,019	1,299,122
Dividends Paid During Year	(519,656)	(322,173)
Transfer from Asset Revaluation Reserve for Sale of Asset		7,536
<b>Closing Balance</b>	<b>19,388,551</b>	<b>18,299,188</b>

### Borrowings and Borrowing Costs

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 the Company or group has an unconditional right to defer settlement of the liability for at least 12 months after balance date.

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

Registered mortgage over property owned by the Company secure the \$7.26m (2017: \$4.85m) borrowings from Bank of New Zealand. This includes existing perfected security interest in all present and after acquired property of Palmerston North Airport Limited. Refer to Note 2 for the carrying value of the secured assets at balance date.

The company has an approved overdraft facility of \$100,000.

The company raises long term borrowings predominantly at fixed rates under a Customised Average Rate Loan (CARL) facility. The Company's portfolio of debt is structured with a view to minimising interest rate risk and maximising certainty of the Company's debt servicing costs in the current financial year.

All shares carry equal voting rights and the right to any share in surplus on winding up of the company. None of the shares carry fixed dividend rights.

**(c) Proposed Dividends:**

Once the solvency test has been satisfied, the Directors will declare a fully imputed dividend of 7.0 cents per \$1 paid up share capital (exclusive of any premium on issue) as at 30 June 2018 representing \$643,650 for the 12 months ending 30 June 2018. (A dividend of 5.65 cents per \$1 paid up share capital representing \$519,649 was declared for the 12 months ending 30 June 2017 and paid on 29 September 2017).

**(d) Asset Revaluation Reserve**

	<b>2018 Actual</b>	<b>2017 Actual</b>
Opening Balance	31,935,156	23,114,414
<i>Revaluation Movement</i>		
- Land		3,340,648
- Buildings		218,426
- Airside Infrastructure		7,415,106
<i>Less Deferred Taxation</i>		
Movement - Buildings		(69,672)
Movement - Airside Infrastructure		(2,076,230)
Transfer to Retained Earnings for Sale of Asset		(7,536)
<b>Closing Balance</b>	<b>31,935,156</b>	<b>31,935,156</b>
<i>Asset Revaluation Reserve Consists of</i>		
- Land	16,211,046	16,211,046
- Buildings	1,590,424	1,590,424
- Airside Infrastructure	14,133,686	14,133,686
	<b>31,935,156</b>	<b>31,935,156</b>

**Equity**

Equity is measured as the difference between total assets and total liabilities. Equity is disaggregated and classified into the following components:

- Retained Earnings;
- Paid in Capital;
- Asset revaluation reserve;

**Asset revaluation reserves**

This reserve relates to the revaluation of land, buildings and Airside Infrastructure to fair value.

**14. TRADE ACCOUNTS PAYABLE**

	<b>2018 Actual</b>	<b>2017 Actual</b>
Revenue in Advance from Exchange Transactions	122,884	44,356
	<b>122,884</b>	<b>44,356</b>
Revenue in Advance from Non-Exchange Transactions		
<b>Total</b>	<b>122,884</b>	<b>44,356</b>
<b>Trade Accounts Payable from Exchange Transactions</b>		
Capital Trade Accounts Payable	618,165	230,741
Operating Trade Accounts Payable	385,862	114,390
Payables to Related Party	5,197	9,265
<b>Trade Accounts Payable from Non-Exchange Transactions</b>		
Tax Payable	335,564	284,571
<b>Total</b>	<b>1,344,788</b>	<b>638,967</b>
<b>Other Creditors from Exchange Transactions</b>		
Other Creditors	632,223	269,482
<b>Other Creditors from Non-Exchange Transactions</b>		
GST Payable	(127,792)	3,443
<b>Total</b>	<b>504,431</b>	<b>272,925</b>

## 15. RELATED PARTY TRANSACTIONS

Palmerston North City Council (PNCC) holds 100% of the issued shares of the PNAL.

PNAL received services from PNCC during the 12 months ended 30 June 2018 for \$495,708 exclusive of GST (2017: \$359,672 exclusive of GST). In addition a tax loss offset of \$327,414 resulted in a tax refund of \$91,676 for the 2016/17 tax year. (2017: The tax loss offset for 2015/16 was \$372,917 and resulted in a \$104,417 tax refund). The tax refunds were paid to PNCC.

PNAL pays a dividend to PNCC each year equating to 40% of after tax surplus. Once the solvency test has been satisfied, the Directors will declare a fully imputed dividend of 7.0 cents per \$1 paid up share capital (exclusive of any premium on issue) as at 30 June 2018 representing \$643,650 for the 12 months ending 30 June 2018, (a dividend of 5.65 cents per \$1 paid up share capital representing \$519,649 was declared and paid to PNCC for the 12 months ending 30 June 2017).

PNAL provided services to PNCC during the 12 months ended 30 June 2018 for \$18,534 exclusive of GST. (2017: \$13,247).

Other than the tax loss, all transactions were conducted on normal commercial terms.

PNAL owed Palmerston North City Council \$5,197 inclusive of GST as at 30 June 2018, (the balance owing, as at 30 June 2017 was \$9,265).

Palmerston North City Council owed the PNAL \$2,451 inclusive of GST as at 30 June 2018, (the balance owing as at 30 June 2017 was \$888).

### Key Personnel Remuneration

	2018 Actual	2017 Actual
<b>Directors</b>		
Remuneration	90,000	90,625
Full Time Equivalents	5	5
<b>Senior Management Team Including the Chief Executive</b>		
Remuneration	624,163	529,167
Full Time Equivalents	6	5

## OTHER SIGNIFICANT POLICIES

### Other Financial Assets

Financial assets are initially recognised at fair value plus transaction costs unless they are carried at fair value through surplus or deficit in which case the transaction costs are recognised in the surplus or deficit.

Purchases and sales of financial assets are recognised on trade-date, the date on which the Company and group commits to purchase or sell the asset. Financial assets are de-recognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the company and group have transferred substantially all the risks and rewards of ownership.

Financial assets are classified into the following categories for the purpose of measurement:

- fair value through surplus or deficit;
- loans and receivables;
- held-to-maturity investments; and
- fair value through other comprehensive revenue and expense.

The classification of a financial asset depends on the purpose for which the instrument was acquired.

The company has the following relevant category:

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance date, which are included in non-current assets.

After initial recognition they are measured at amortised cost using the effective interest method less impairment. Gains and losses when the asset is impaired or derecognised are recognised in the surplus and deficit account.

## Impairment of Financial Assets

Financial assets are assessed for evidence of impairment at each balance date. Impairment losses are recognised in the surplus or deficit.

### *Loans and receivables*

Impairment is established when there is evidence that the company and group will not be able to collect amounts due according to the original terms of the receivable.

Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy, receivership, or liquidation and default in payments are indicators that the asset is impaired. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate. For debtors and other receivables, the carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the surplus or deficit. When the receivable is uncollectible, it is written-off against the allowance account. Overdue receivables that have been renegotiated are reclassified as current (that is, not past due). Impairment in term deposits are recognised directly against the instrument's carrying amount.

## Statement of Cash Flows

### *Operating activities*

Includes cash received from all revenue sources of the company and records the cash payments made for the supply of goods and services.

### *Investing activities*

Are those activities relating to the acquisition and disposal of non-current assets.

### *Financing activities*

Comprise the change in equity and debt capital structure of the company.

## 16. MAJOR VARIANCES EXPLAINED

<i>Account</i>	<i>Actual</i>	<i>Budget/SOI</i>	<i>Variance</i>	<i>Notes</i>
Revenue	8,482,757	8,688,163	(205,406)	Higher than budgeted land and building revenue was offset by an unfavourable revenue result for car parking.
Operations and Maintenance Expenses	2,232,774	2,393,389	160,615	Savings against budget achieved on Maintenance, Valet Car Park and Energy costs.
Finance Costs	279,238	486,475	207,237	Borrowings were less than budgeted due to the timing of capital project payments and at rates lower than budgeted.
Depreciation	1,582,752	1,685,551	102,799	Depreciation costs were less than budgeted due to the timings of capital projects.
Dividends Paid	519,649	577,281	57,632	Lower payment due to 2016/17 Net Profit after Tax being lower than SOI.
Deferred Tax Liability	7,844,320	6,128,585	(1,715,735)	The impact of the asset revaluation in June 2017 was unknown at the time of setting the 2017 Budget/SOI.
Current Assets	1,267,144	780,464	486,680	2018 actual figures include the prepayment of insurance premiums for the 2018/19 year (not budgeted) and the reclassification of Assets held for Resale of \$288,151.
Current Liabilities (excluding bank overdraft)	2,086,845	484,685	(1,602,160)	Higher than budgeted trade creditors and prepayments relating to major payments due on capital projects.
Property, Plant, Equipment and Intangible Assets	76,627,004	79,399,832	2,772,828	Capital expenditure on buildings lower than budgeted.
Total Borrowings	7,258,876	10,205,000	2,946,124	Relates to deferral of budgeted capital projects.

## 17. FINANCIAL INSTRUMENTS

The accounting policies for financial instruments have been applied to the line items below.

<i>Financial Assets</i>	<i>Rating*</i>	<i>2018</i>	<i>2017</i>
Cash and Cash Equivalents	AA-	196,233	288,028
Trade Receivables		615,811	548,051
<b>Total Financial Assets</b>		<b>812,044</b>	<b>836,079</b>

\*

Standard & Poor's Rating for BNZ

<i>Financial Liabilities</i>	<i>2018</i>	<i>2017</i>
Trade Accounts and Other Payable	1,849,219	911,892
Bank Overdraft	1,158,876	
Borrowings - Secured Loans	6,100,000	4,850,000
<b>Total Financial Liabilities</b>	<b>9,108,095</b>	<b>5,761,892</b>

## 18. EVENTS AFTER BALANCE DATE

Since Balance Date, Palmerston North Airport Limited has signed a conditional Agreement For Sale and Purchase of Real Estate for 1,700m<sup>2</sup> for land situated within Ruapehu Business Park on Airport Drive, Palmerston North. There have been no other significant events occurring after Balance Date.

## 19. CONTINGENCIES

The New Zealand Environmental Protection Agency recently commenced a review into the use of foam containing PFOS in firefighting applications, including at airports. An initial investigation at Palmerston North Airport has confirmed that this foam may have been used for firefighting training exercises at the airport up until the late 1980s.

In the last 20 years its use has been limited to monthly testing of equipment by PNAL's rescue fire contractor, Task Protection Services Limited. An estimated 250 litres have been discharged over this period. A small stock of this foam remains at Palmerston North Airport, with the Environmental Protection Agency authorising its use only in emergency situations. A compliant replacement foam (Solberg) has now been selected by Task for use at Palmerston North Airport.

PNAL has engaged an accredited consultancy firm to commence preliminary investigations (including soil and water testing) to determine the level and extent of any possible residual contamination that may be present on site. As at balance date, the extent of any costs from the investigations remain unknown until the preliminary tests are completed.



## FINANCIAL HIGHLIGHTS

Year Ending	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
<b>Statement of Financial Performance:</b>	<b>(000)</b>	<b>(000)</b>	<b>(000)</b>	<b>(000)</b>	<b>(000)</b>	<b>(000)</b>	<b>(000)</b>	<b>(000)</b>	<b>(000)</b>	<b>(000)</b>	<b>(000)</b>
Total Revenue	8,483	7,313	5,523	4,943	4,818	4,590	4,480	4,225	3,981	4,090	5,181
Net Surplus Before Interest, Depn, Taxation	4,074	3,534	2,391	2,064	1,847	1,765	1,739	1,821	1,674	1,888	2,864
Net Surplus Before Taxation & Misc Items	2,211	1,849	841	911	756	709	684	748	501	658	1,611
Net Surplus After Taxation Excluding Deferred Tax Adjustments	1,609	1,299	805	662	544	492	496	535	327	423	1,090
Earnings Per \$ of Paid Up Share Capital (excl. any Premium on Issue and Deferred Tax Adjustments)	17.50c	14.13c	8.75c	7.20c	5.92c	5.35c	5.39c	5.82c	3.56c	4.61c	11.86c
Dividend Proposed or Paid Per \$ of Paid Up Share Capital (excl. of any Premium on Issue)	7.00c	5.65c	3.50c	2.88c	2.37c	2.14c	2.10c	2.30c	1.56c	1.80c	4.30c
<b>Statement of Financial Position</b>	<b>(000)</b>	<b>(000)</b>	<b>(000)</b>	<b>(000)</b>	<b>(000)</b>	<b>(000)</b>	<b>(000)</b>	<b>(000)</b>	<b>(000)</b>	<b>(000)</b>	<b>(000)</b>
Total Assets	77,894	73,588	62,946	61,543	44,904	43,727	43,878	44,645	44,664	40,828	41,057
Shareholders Funds	60,704	59,615	49,810	49,305	35,823	35,475	35,177	35,516	35,124	31,526	31,498
Share Capital Paid Up (excluding of any Premium on Issue)	9,195	9,195	9,195	9,195	9,195	9,195	9,195	9,195	9,195	9,195	9,195
Net Asset Backing Per Share	\$6.60	\$6.48	\$5.42	\$5.36	\$3.90	\$3.86	\$3.83	\$3.86	\$3.82	\$3.43	\$3.43
Return On Shareholder Funds (excluding Deferred Tax Adjustments)	2.65%	2.18%	1.62%	1.34%	1.52%	1.39%	1.41%	1.51%	0.93%	1.34%	3.46%

# INDEPENDENT AUDITOR'S REPORT

TO THE READERS OF THE PALMERSTON NORTH AIRPORT  
LIMITED'S FINANCIAL STATEMENTS AND PERFORMANCE  
INFORMATION FOR THE YEAR ENDED 30 JUNE 2018

The Auditor-General is the auditor of the Palmerston North Airport Limited (The Company). The Auditor-General has appointed me, Andrew Clark, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and the performance information of The Company on his behalf.

## OPINION

### We have audited:

- the financial statements of The Company on pages 32 to 52, that comprise the statement of financial position as at 30 June 2018, the statement of comprehensive revenue and expense, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the performance information of The Company on page 14.

### In our opinion:

- the financial statements of The Company pages 32 to 52:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2018; and
    - its financial performance and cash flows for the year then ended; and
  - comply with generally accepted accounting practice in New Zealand in accordance with the Public Benefit Entity Standards Reduced Disclosure Regime; and
- the performance information of The Company page 14 presents fairly, in all material respects, The Company's actual performance compared against the performance targets and other measures by which performance was judged in relation to The Company's objectives, for the year ended 30 June 2018.

Our audit was completed on 22 August 2018. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the financial statements and the performance information, we comment on other information, and we explain our independence.

## BASIS FOR OPINION

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## RESPONSIBILITIES OF THE BOARD OF DIRECTORS FOR THE FINANCIAL STATEMENTS AND THE PERFORMANCE INFORMATION

The Board of Directors is responsible on behalf of The Company for preparing financial statements and performance information that are fairly presented and that comply with generally accepted accounting practice in New Zealand. The Board of Directors is also responsible for preparing the performance information for The Company.

The Board of Directors is responsible for such internal control as it determines is necessary to enable it to prepare financial statements and performance information that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the performance information, the Board of Directors is responsible on behalf of The Company for assessing The Company's ability to continue as a going concern. The Board of Directors is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to liquidate The Company or to cease operations, or there is no realistic alternative but to do so.

The Board of Directors' responsibilities arise from the Local Government Act 2002.

## RESPONSIBILITIES OF THE AUDITOR FOR THE AUDIT OF THE FINANCIAL STATEMENTS AND THE PERFORMANCE INFORMATION

Our objectives are to obtain reasonable assurance about whether the financial statements and the performance information, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers taken on the basis of these financial statements and the performance information.

For the budget information reported in the financial statements and the performance information, our procedures were limited to checking that the information agreed to The Company's Statement of Intent.

We did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements and the performance

## AUDIT NEW ZEALAND

Mana Arotake Aotearoa

information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of the internal control.

- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of The Company's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We evaluate the appropriateness of the reported performance information within The Company's framework for reporting performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on The Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause The Company to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify in our audit.

Our responsibilities arise from the Public Audit Act 2001.

### OTHER INFORMATION

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 3 to 13, 15 to 31, 53 and 56 but does not include the financial statements and performance information, and our auditor's report thereon.

Our opinion on the financial statements and the performance information does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements and the performance information, our responsibility is to read

the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements and the performance information or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### INDEPENDENCE

We are independent of The Company in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

Other than the audit, we have no relationship with, or interests in, The Company.



### Andrew Clark

Audit New Zealand  
On behalf of the Auditor-General  
Wellington, New Zealand

# COMPANY DIRECTORY

PALMERSTON NORTH AIRPORT LIMITED

## DIRECTORS

As at June 2018

Murray Georgel	Chairman
Jon Nichols	Chairman of Audit & Risk Committee
Gerard Gillespie	
Josie Adlam	
Christopher Cardwell	

## MANAGEMENT

As at June 2018

David Lanham	Chief Executive
George Clark	Commercial Manager
David Yorke	Infrastructure Manager
Angela Scott	Visitor Development Manager
Terry Cooney	Safety and Security Manager
Brent Lawry	Terminal Manager
Darren Humphreys	Manager Valet and Agency Services

## REGISTERED OFFICE

Palmerston North Airport Limited  
Terminal Building  
Airport Drive  
PALMERSTON NORTH

Phone: +64 6 351 4415

Fax: +64 6 355 2262

e-mail: [help@pnairport.co.nz](mailto:help@pnairport.co.nz)

Web: [www.pnairport.co.nz](http://www.pnairport.co.nz)

## TRADING BANKERS

Bank of New Zealand

## LEGAL ADVISORS

Cooper Rapley Lawyers

## AUDITOR

Audit New Zealand (on behalf of the Auditor-General)







TOHUNGA  
WHAKAIRO  
WARREN WARBRICK





## MEMORANDUM

**TO:** Finance and Performance Committee

**MEETING DATE:** 17 September 2018

**TITLE:** Recommendation for Adoption 2017/18 Annual Report

**DATE:** 4 September 2018

**PRESENTED BY:** Stuart McKinnon, Finance Manager, Finance

**APPROVED BY:** Grant Elliott, Chief Financial Officer

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### RECOMMENDATIONS TO COUNCIL

1. That the 2017/18 Annual Report and 2017/18 Summary Annual Report be adopted.
2. That Council note that an Auditor's "opinion" from Audit New Zealand would be expected to be received immediately following recommended adoption by Council on 24 September 2018 and Council signing of the reports.
3. That delegated authority is given to the Chairperson and Deputy Chairperson of the Finance and Performance Committee to make minor amendments to the 2017/18 Annual Report and 2017/18 Summary Annual Report.

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### 1. ISSUE

The Council has a legal obligation to adopt its audited Annual Report within four months after the end of the financial year to which it related. Adoption at the 24 September 2018 Council meeting is within this period. Adoption of the Annual Report will allow the Council to report to the community on the Council's performance in the 2017/18 year.

The Annual Report is a key part of the 10 Year Plan and Annual Budget process. Those plans show the community what the Council intends to do, including what it intended to do in the 2017/18 year. The Annual Report shows the community how well the Council did that work.

Adoption of the recommended actions will allow the Council to deliver the 2017/18 Annual Report and Summary Annual Report.

The recommended actions fit within the whole 10 Year Plan process and reports on all levels of service. All costs involved with preparation of the Annual Report are provided for within the current budget.

## 2. BACKGROUND

The quarterly report for June 2018 indicated a Parent draft, unaudited net surplus after tax of \$14,900,000 for the 2017/18 year. This has now been finalised with the final net surplus after tax unchanged. Minor annual valuations resulted in Other Comprehensive Revenue and Expense of \$42,000. This gives a Parent Total Comprehensive Revenue and Expense surplus of \$14,942,000 and for the consolidated Group \$17,628,000 surplus.

Audit New Zealand have completed their audit of the Annual Report. Audit clearance is expected before the Committee meeting.

A copy of the draft Annual Report and the draft Summary Annual Report have been circulated with this report.

The presentation of the Annual Report is the culmination of the quarterly reports presented to the Council, which have monitored progress against the 2017/18 Annual Budget.

The levels of service and performance measures by activities in the 2017/18 Annual Budget reflect a clear link to what the Council was aiming to achieve. The Council received comprehensive quarterly reports on its performance during the 2017/18 year.

The Council's strategic direction is incorporated into the 10 Year Plan and Annual Budgets and shows the community how Council intended to achieve its vision and goals. The Annual Report includes reporting on progress to achieve those vision and goals.

The adoption of the Council's Annual Report marks a milestone of the Council's accountability and dedication to the public. The wide-ranging and complex nature of Council activities together with the requirements for disclosure under the Local Government Act, and Public Benefit Entity Accounting Standards, means the Council's full Annual Report is relatively lengthy and yet necessary. This complexity makes the Summary Annual Report an ideal document for those readers who wish to have an easy read and yet still understand the Council's activities.

After considering the issues, background, all relevant options, the community views, Council's policies and plans, along with the financial and legal implications, it is recommended that the Committee receive the 2017/18 Annual Report and the Summary Annual Report. Further it is proposed that the Committee recommends the Annual Report and the Summary Annual Report for Council's adoption in its meeting scheduled for 24 September 2018.


### 3. NEXT STEPS

Once the Annual Report has been adopted by Council and Auditor's opinion received, copies of both the full and summary annual report will be immediately printed and become available for distribution. Copies will be sent to the organisations prescribed by legislation and to regular readers according to Council's existing mailing list. The Annual Report and its Summary will also be made available on the Council's website, at the City Library and the Customer Service Centre.

### 4. COMPLIANCE AND ADMINISTRATION

Does the Committee have delegated authority to decide? If Yes quote relevant clause(s) from Delegations Manual	<b>No</b>
Are the decisions significant?	<b>No</b>
If they are significant do they affect land or a body of water?	<b>No</b>
Can this decision only be made through a 10 Year Plan?	<b>No</b>
Does this decision require consultation through the Special Consultative procedure?	<b>No</b>
Is there funding in the current Annual Plan for these actions?	<b>Yes</b>
Are the recommendations inconsistent with any of Council's policies or plans?	<b>No</b>
The recommendations contribute to Goal 5: A Driven and Enabling Council	
The recommendations contribute to the outcomes of the Driven and Enabling Council Strategy	
The recommendations contribute to the achievement of action/actions in a plan under the Driven and Enabling Council Strategy	
The action is: to enable Council to exercise governance by reviewing financial performance and operating performance and provide accountability to the public.	
Contribution to strategic direction	As above.

### ATTACHMENTS

1. Draft Annual Report (attached separately) 
2. Draft Summary Annual Report (attached separately) 





## MEMORANDUM

**TO:** Finance and Performance Committee

**MEETING DATE:** 17 September 2018

**TITLE:** Papaioea Place Redevelopment Quarterly Update

**DATE:** 29 August 2018

**PRESENTED BY:** Bryce Hosking, Acting Property Manager, Infrastructure

**APPROVED BY:** Ray Swadel, Acting Chief Infrastructure Officer

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### RECOMMENDATION(S) TO COUNCIL

1. That the memorandum dated 29 August 2018 and titled 'Papaioea Place Redevelopment Quarterly Update' be received for information.
- 

#### 1. ISSUE

- 1.1 Stage 1 of the Papaioea Place housing project is funded through Programmes 357 and 1277 – C/fwd of the 2018 10 Year Plan.
- 1.2 The Finance and Performance Committee Chairperson has requested a quarterly update to be brought back to the Finance and Performance meeting for the duration of the construction period.
- 1.3 The Construction Programme was received from Latitude Homes in June and presented to Finance and Performance at the 18 June 2018 meeting for information.

#### 2. BACKGROUND

- 2.1 The Papaioea Place project form of contract is a design and build contract between Palmerston North City Council (Principal) and Latitude Homes (Contractor) of New Plymouth. The overall project management is being provided by WT Partnership Advisory from Auckland. Day to day project management is being carried out by Council Technical Services staff.

- 2.2 Site meetings and Project Control Group meetings are held on the last Thursday of each month. The most recent being 30 August 2018.

### **Summary - Project Control Group Meeting 3 – 30 August 2018**

#### **2.3 Health and Safety**

There have been two health and safety incidents on site to date. One was a subcontractor that fell off a ladder; one was a Latitude staff member who twisted an ankle. Both incidents had incident reports submitted to WT Partnership and PNCC.

Two members of the public were seen walking through the site at the weekend. Additional 'No Admittance' signs have been erected at the site entrances.

#### **2.4 Programme**

Blocks 1a and 1b are on programme.

Blocks 2a and 2b are two weeks behind due to inclement weather, soft ground conditions that required additional excavation and discovery of underground services that were not located on any site plans. Latitude will be submitting a claim for two weeks for weather delays.

#### **2.5 Regulatory**

The amendment to the Resource Consent for the two additional units in Stage 1 was to be submitted to Council on 31 August 2018.

#### **2.6 Design**

Internal wall colours have been confirmed.

Connections and cables into the ceiling spaces for Sky dishes have been approved. This means that one dish can be used for multiple Sky connections.

The contractor proposed an additional light switch by the bed which was approved.

#### **2.7 Financial**

Variations to date	\$37,854	Excavation of soft spots, asbestos removal
	\$ 4,760	Provision for Sky connections
	<u>\$ 5,040</u>	Additional light switches
	\$47,654	

These variations are able to be accommodated within the project contingency as can be seen from the Project Budget Status table below.

Description	Project Budget	Budget Variance	Final Forecast
<b>Construction</b>	\$6,646,031	<b>\$116,046</b>	\$6,529,985
<b>Professional Fees</b>	\$265,400	\$0	\$265,400
<b>Authorities Fees</b>	\$55,000	\$0	\$55,000
<b>Construction Contingency</b>	\$332,561	\$116,046	\$448,607
<b>Project Contingency</b>	\$333,000	\$0	\$333,000
<b>Total</b>	<b>\$7,631,992</b>	<b>\$0</b>	<b>\$7,631,992</b>

### 3. NEXT STEPS

- 3.1 Continue the construction programme to complete Stage 1 as per the budget and timeline.

### 4. COMPLIANCE AND ADMINISTRATION



Does the Committee have delegated authority to decide?	<b>No</b>
If Yes quote relevant clause(s) from Delegations Manual <Enter clause>	
Are the decisions significant?	<b>No</b>
If they are significant do they affect land or a body of water?	<b>No</b>
Can this decision only be made through a 10 Year Plan?	<b>No</b>
Does this decision require consultation through the Special Consultative procedure?	<b>No</b>
Is there funding in the current Annual Plan for these actions?	<b>Yes</b>
Are the recommendations inconsistent with any of Council's policies or plans?	<b>No</b>
The recommendations contribute to Goal 3: A Connected and Safe Community	
The recommendations contribute to the outcomes of the Connected Community Strategy	
The recommendations contribute to the achievement of action/actions in the Social Housing Plan	

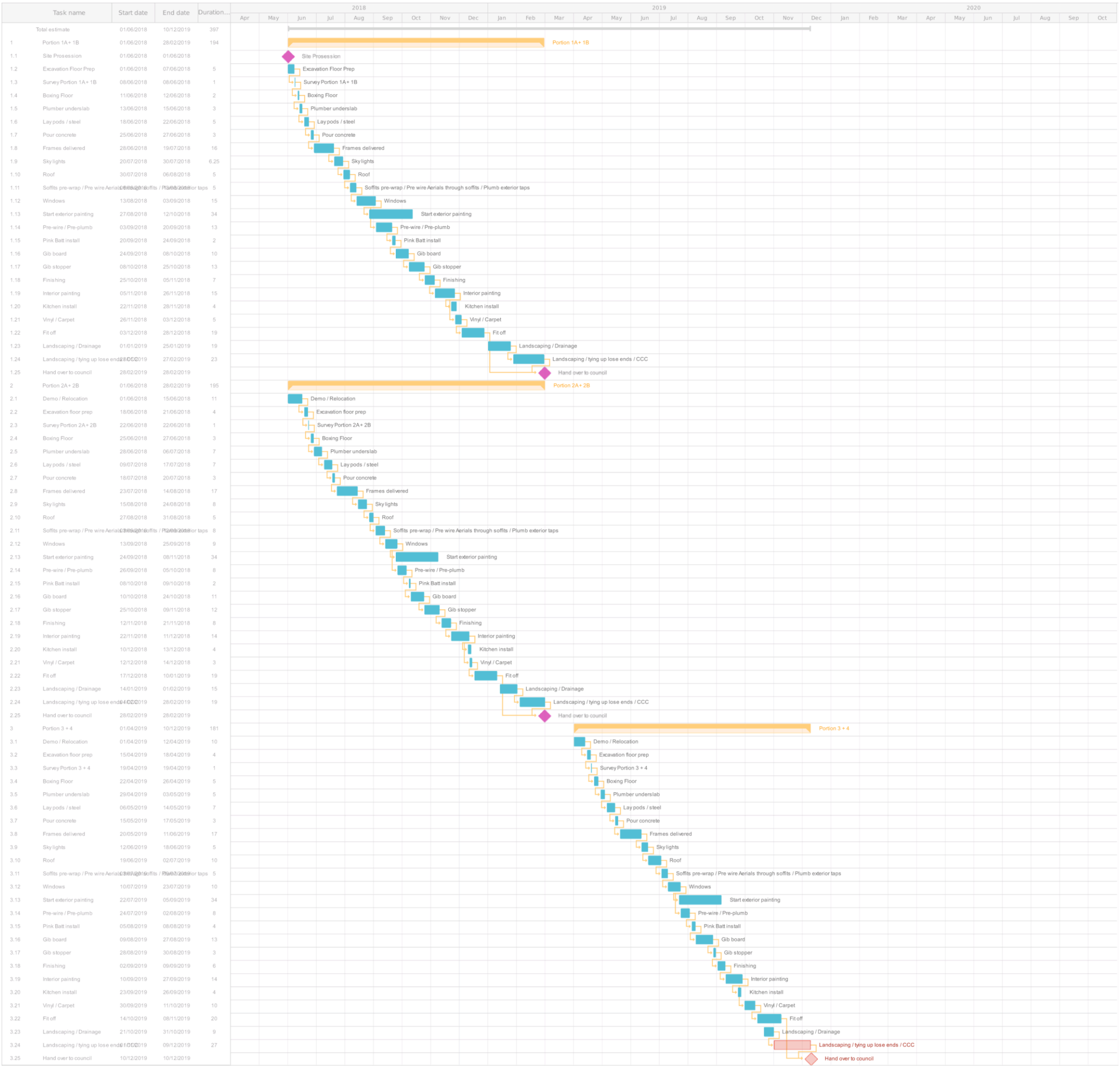
The action is:

- Upgrade the Papaioea housing complex (by end of 2018/2019).

Contribution to strategic direction	Programme 357 is stage 1 of the Papaioea Place Redevelopment project to demolish 32 existing units and create 50 new units in their place which will be suitable for tenants to age in place.
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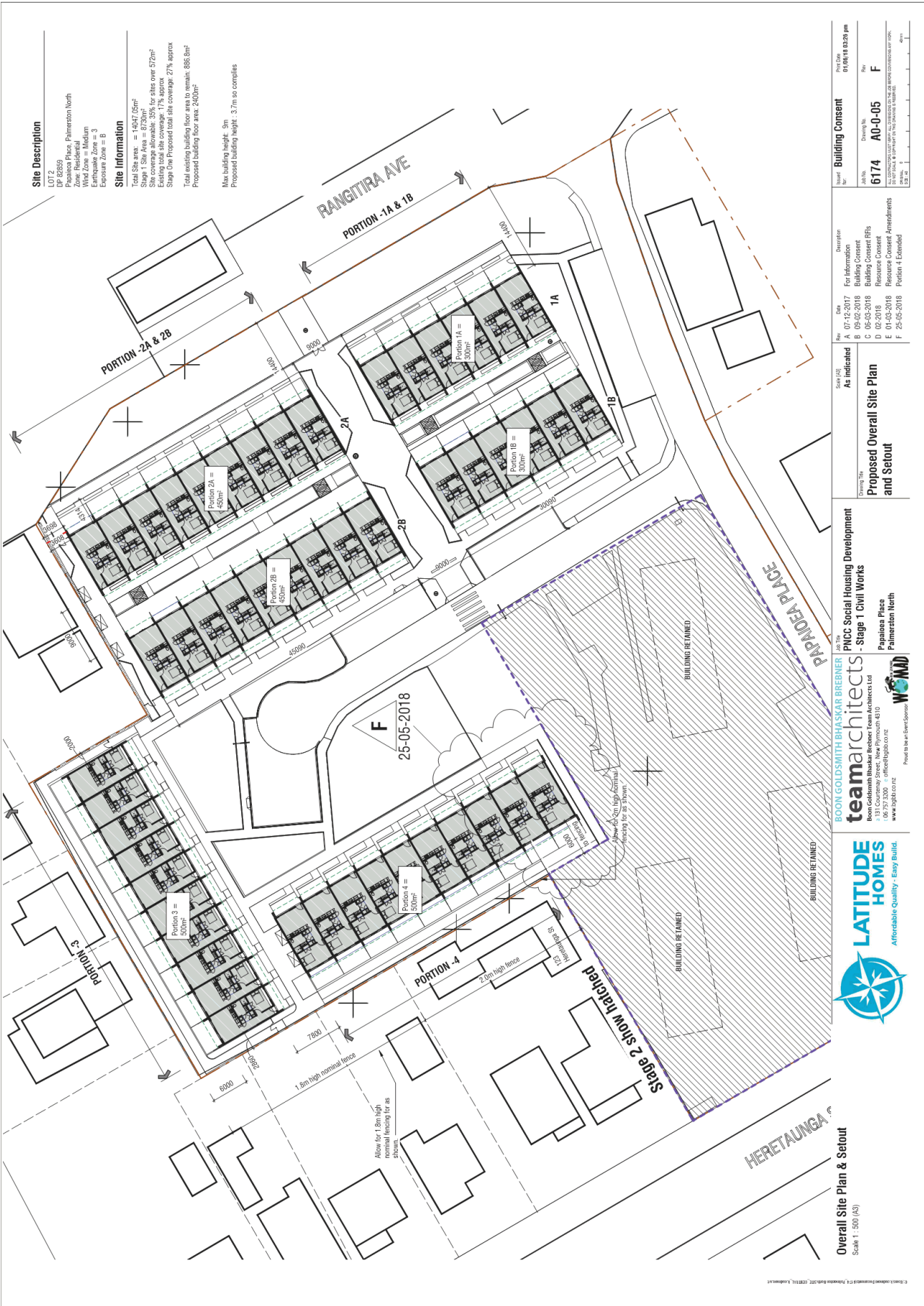
### ATTACHMENTS

1. Papaioea Place Construction Programme [↓](#) 
2. Papaioea Place Stage 1 Portions [↓](#) 











## MEMORANDUM

**TO:** Finance and Performance Committee

**MEETING DATE:** 17 September 2018

**TITLE:** Water Source Development and Security - Programme Budget Adjustments

**DATE:** 21 August 2018

**PRESENTED BY:** Robert van Bentum, Water & Waste Services Manager, Infrastructure

**APPROVED BY:** Ray Swadel, Acting Chief Infrastructure Officer

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### RECOMMENDATION(S) TO COUNCIL

1. That the budget for the 2018/19 Capital New Programme 985 “Kelvin Grove Water Supply Zone - New Bore” be revised from \$537,000 to \$887,000 by utilising:
    - savings of \$100,000 from 2018/19 Water Capital New Programme 592 “Turitea WTP – Sludge Handling and Disposal Improvements,
    - savings of \$100,000 from 2018/19 Water Programme 1005 “Industrial Growth – Installation of Water Supply Systems to an Expanded NEIZ, and
    - reallocating funding of \$150,000 from Capital New Programme 246 Water Subdivision Contributions.
  2. That a new 2018/19 Capital New Programme called “UV Treatment for Papaioea Park Bore 3” with a budget of \$550,000 be approved by:
    - reallocating budget of \$130,000 from 2018/19 Capital New Programme 1404 “Turitea WTP – New Retaining Walls on Access Road and
    - approving additional unbudgeted funding of \$420,000.
  3. That approval be given to bring \$750,000 forward two years in the LTP from 2020/21 to 2018/19 for Programme 1384 – Citywide New Water Reservoirs to Enhance Supply Storage to enable construction of a contact tank at Railway Road bore.
  4. That the budget for the 2018/19 Water Capital New Programme 593 “Water Safety and Security Mitigation” be revised from \$23,000 to \$264,500 by approving an additional \$241,500 in unbudgeted funding.
-

## 1. ISSUES

1.1 Council's Long-Term Water Supply Development Strategy, previously outlined to Council has identified several key vulnerabilities in respect of the current water supply source provision, particularly in respect of the level of redundancy to cater for unplanned outages and seismic events. The strategy also sets out a programme of investment in replacement and new bores required to maintain current source capacity and provide for residential and industrial growth.

1.2 As part of the 2018-28 Long Term Plan (LTP) Council has approved programmes of work to improve resilience and meet expected new treatment standards for surface water supply. In addition, Council had previously approved in 2017-18 a programme of work to address water supply safety and security concern at the Turitea WTP and the bores. Funding for some of these programmes has been carried forward to enable completion of the programme of works in the 2018-19 year. The specific programmes include:

- Programme 985 (1235 c/fwd) – Kelvin Grove Water Supply Zone – New Bore - to fund construction of a new bore at Kelvin Grove both to meet growth and provide for resilience
- Programme 1384 Citywide – New Water Supply Reservoirs to Replace Earthquake Prone Reservoir and Enhance Supply Storage Across City
- Programme 124 – Turitea Water Treatment Plant – for upgrades to the treatment plant at Turitea to respond to Review of Drinking Water Standards
- Programme 593 – Water Safety and Security Mitigation
- Programme 1058 – Groundwater Bores Renewal - to fund renewal of existing bore capacity to address the decline in bore yield over time.
- Programmes 1285, 1170, and 1005 to support growth by funding new bores and/or network infrastructure in Whakarongo, City West and NEIZ.

1.3 While the programmes provide significant capital funding for investment in new and upgraded water supply source, treatment and storage infrastructure several issues have emerged which necessitate and justify rescheduling of existing funding within the first 3 years of the LTP, reallocation of 2018-19 capital budgets and approval of additional unbudgeted expenditure. Four specific issues, summarised below, are considered in detail in this report.

- Issue 1. Allocated budgets for completion and commissioning of the new Railway Road bore under Programme 985 (1235 c/fwd) are inadequate to complete and commission the bore.
- Issue 2. The new Papaioea Park bore, constructed under Water Capital Renewal Programme 1058, cannot now be commissioned without provision of UV disinfection which is beyond the scope of the original programme given that UV



disinfection has never previously been required for groundwater bores in Palmerston North.

- Issue 3. The development of a new bore at Railway Road and replacement bores at Papaioea Park and Keith Street, has provided an opportunity to realise both resilience and efficiency benefits associated with providing storage at each bore location. Unfortunately funding under Programme 1384 of the LTP for construction of storage is not scheduled to occur until 2019/20 and 2020/21.
- Issue 4. Additional water safety and security risks have emerged since finalisation of the 2018-28 LTP, which Officers now believe need to be prioritised in order to ensure PNCC maintains its current 100% drinking water supply compliance record and meets its obligations under the Health and Safety at Work Act – 2015.

1.4 Each of the issues is detailed more fully and analysis provided of options for reallocation of savings, transfer of funds by deferral of works in the current year and as a last resort approval of additional unbudgeted expenditure. The consequences of not progressing with the projects will be an inability to complete and commission new and replacement bore capacity both to meet summer peak demand requirements and on-going demand growth.

1.5 In submitting this report, Officers wish to stress the challenges which are currently facing the water supply sector, including the high level of national scrutiny amid multiple external reviews, significant increased vigilance in respect of compliance as well as the high level of uncertainty around regulatory and compliance changes. It is within this context that Officers have recommended a risk averse approach to providing and investing in water supply services. It is regretted that this has led to a request for further unbudgeted expenditure, however every attempt has been taken to identify offset savings both in respect of 2018/19 capital programmes and future savings in respect of both renewals and re-current operational costs.

## 2. RAILWAY ROAD BORE COMMISSIONING – PROGRAMME 985

2.1 The new Railway Road bore is a key component of the city's investment in additional source water capacity to meet growing residential and commercial demand and provision of a second supplementary source of supply for the Kelvin Grove zone. The bore will also provide critical back-up and resilience for the Roberts Line and Keith Street bore stations in the event of unplanned outage.

2.2 The drilling, testing and consenting of the Railway Road bore has been completed, with the yield and water quality more than meeting expectation. Unfortunately, the drilling work was protracted due both to the selected drilling method (cable-tool) and low level of productivity of the contractor. The significant delay of nearly a year has resulted in several unexpected changes to the scope of works.

- 2.3 The final commissioning components of the project have been designed and tendered and final costs for many of these changes are now known. Significant scope changes and additional costs have been incurred for the following:
- Changes to HSNO regulations requiring more stringent provisions for storing and handling chemicals including making provision for bulk transporter delivery of chemicals
  - More stringent water quality monitoring following the Havelock North event requiring additional on-line monitoring equipment
  - Increases in the cost of construction due to the delay in final design and tender for the pump station and chemical dosing plant including civil works, electrical and controls and pipe works
  - Higher than expected costs for installing a new transformer
  - Additional landscaping assessment, planting and fencing requirements
  - Additional costs to purchase land along the north-western boundary to mitigate the loss of effective land footprint due to the landscaping offset requirements along each of the Robert's Line and Railway Line frontages
- 2.4 The original approved budget for Programme 985 (1235 c/fwd) was \$1,488,000 in the 2016-17 financial year. Carry forwards of \$644,000 into 2017-18 and \$537,000 into 2018-19 were approved by Council. The estimated cost to complete the overall programme of work is now estimated to \$1,838,000 or \$350,000 more than the original budget approved two years ago.
- 2.5 Officers have considered carefully the range of programmes being delivered in the three waters area to identify any potential savings to offset the additional costs. Three programmes have been identified with currently identified savings or unallocated funds. In two cases the savings have been identified following confirmation of the scope required to deliver on the programme outcomes for this financial year such that the budget reductions will not risk the achievement of the programme outcomes. In the third case there is no confirmed requirement for the work, as the requirements only emerge during the year. A brief description of the specific savings proposed for re-allocation are outlined as follows and summarised in Table 1 below.
- Programme 592-Turitea Water Treatment Plant - Sludge Handling and Disposal Improvements. The scope of work has been confirmed and the cost is significantly less than budgeted. Current budget of \$154,304 has a confirmed required commitment of \$54,304 leading to a surplus of \$100,000.
  - Programme 1005 – Installation of Water Supply Systems to an Expanded North-East Industrial Zone. The immediate scope of work to extend the mains to Richardson's Line is confirmed and will be constructed this financial year. A balance of \$100,000 is available to support commissioning the Railway Road

bore, because the known development requirements will be met by the expanded network, and funding in the following years will be available to construct further network extensions.

- Programme 246 – Citywide Water Subdivision Contributions. This programme is provided to enable Council to contribute to sub-division development costs for water infrastructure where there is a wider benefit to the city. Historically there has been a limited call on the funds. It is proposed to reallocate \$150,000 of the \$200,000 budget leaving a remainder \$50,000 to support any applications. There is a risk that this provision will not be adequate and this will require a further funding relocation or an approach for additional funding.

**Table 1 Proposed Capital New Programme Budget Adjustments**

Prog ID	Description	2018/19 Budget	Proposed 2018/19 Budget	Change
985	Kelvin Grove Water Supply Zone – New Bore	\$537,000	\$887,000	\$350,000
592	Turitea WTP – Sludge Handling and Disposal Improvements	\$154,304	\$54,304	-\$100,000
1005	Installation of Water Supply Systems to an Expanded NEIZ	\$384,000	\$284,000	-\$100,000
246	Citywide Water Subdivisions Contributions	\$200,000	\$50,000	-\$150,000
	<b>Totals</b>	<b>\$1,275,304</b>	<b>\$1,275,304</b>	<b>\$0</b>

### 3. UV TREATMENT FOR PAPAIOEA PARK BORE 3

- 3.1 There are currently two existing bores at Papaioea Park with a combined yield capacity of 270m<sup>3</sup>/hr. The bore capacity has declined significantly over time, as for example in 2013, Bore 2 alone was capable of producing 400m<sup>3</sup>/hr. In response to this yield decline and as allowed for in Programme 1058 - Citywide Ground Water Renewal, construction of a replacement bore was commenced in 2016/17. The drilling work for Papaioea Bore 3, installation of a submersible pump and construction of the bore headworks was completed ahead of proposed commissioning in January 2018. The bore test confirmed an available yield of 360m<sup>3</sup>/hr.
- 3.2 Unfortunately, during the commissioning process the unexpected presence of total coliform bacteria forced a halt to commissioning works. This was completely unexpected as thorough disinfection procedures had been followed for all elements of the bore construction works including thorough disinfection of the pumps and pipe work prior to installation in the bore.
- 3.3 It was elected to flush the bore for an extended period from late January to April 2018 in the expectation that the bacteria would be cleared from the bore. However, while the bacterial counts reduced during flushing to low levels, they subsequently returned at higher levels post flushing.

- 3.4 Officers and staff then implemented an in-situ disinfection procedure which involved injecting a super chlorinated solution into the bore. This method which is routinely used in Australia was approved by Horizons Regional Council and undertaken on the 22 May 2018. Unfortunately, after a few days with bacteria clear results, the coliforms returned albeit at very low levels. A few days after the bore disinfection, a single positive *e.coli* was also recorded during routine sampling. This has effectively disqualified the bore from achieving secure status in the interim.
- 3.5 Under the Current Drinking Water Standards, water from bores which achieve secure status do not require treatment although a disinfection residual is recommended to provide for contaminant entry to the distribution network. A key criterion for achieving secure bore status is the absence of *e.coli* from daily sampling and testing over a 12-month period. However, interim security status may be granted at the discretion of the Drinking Water Assessor while the daily testing is in progress.
- 3.6 Bore 3 had been given an interim security determination based on being connected to the same aquifer as Bore 1, only 23 m away, which had a long history of bacterial and protozoal compliance. Unfortunately the single positive *e.coli* has triggered the requirement for 12 months of bacterial monitoring before the bore can be commissioned in its current state. If any daily sample records a positive *e.coli* result then the 12-month monitoring period begins again.
- 3.7 The only practical way to enable the bore to be commissioned is to implement treatment for both bacterial and protozoal compliance. Any treatment process will also require 12 months of protozoal monitoring data.
- 3.8 Following discussions with the Drinking Water Assessor, Officers have received agreement in writing that given the chance of any positive protozoa test result is remote, interim security for protozoa, supported by 12 months of monitoring, can be assumed provided UV treatment is implemented sufficient to achieve both protozoa and bacterial compliance as required by the Drinking Water Standards. Officers have initiated protozoa monitoring of the bore.
- 3.9 Officers are working through the detailed scoping and design for implementing UV treatment of the bore, however firm cost estimates for the supply and installation of UV equipment and associated pipe works, building, electrical wiring and controls based on similar installations in other New Zealand locations are of the order of \$550,000.
- 3.10 While there is a chance that the 12 months of protozoa and *e coli* monitoring may result in no further positive results, awaiting this finding will delay commissioning of the bore until this time next year. There is also the very real risk that a further positive result will reset in the clock being re-set pushing out commissioning further. Without investment in UV disinfection, there is no possibility of the bore being

available to support summer water requirements, and it is almost certain that a similar cautious approach with implementing extended water restrictions will need to be applied this coming summer as in 2017-18. It should be noted that some level of water restrictions or conservation measures will be applied to manage demand to within consent limits.

- 3.11 Connecting the bore without UV treatment will result in a determination of non-compliance with respect to the Drinking Water Standards. Such a decision is strongly opposed by Officers as it undermines the strenuous efforts and significant investment made in maintaining Palmerston North's strong compliance record.
- 3.12 Officers have considered the full range of 2018/19 programmes of work to identify and potential savings. Only one available reallocation has been identified as follows:
  - Programme 1404 - Turitea Water Treatment Plant – New Retaining Walls on Access Road. The programme is provided to enable funding of new retaining walls in response to instability. Recent inspection of the access road has not identified any work requirements so the programme is currently unallocated. If the funds are reallocated as proposed, there is the risk that Officers will need to return to Council to seek funding for any remedial works. Current budget of \$130,000 has no current commitments and therefore the available budget for re-allocation is \$130,000.
- 3.13 Aside from the programme reallocation identified, an additional sum of \$420,000 of unbudgeted expenditure in 2018/19 is required to provide the required budget of \$550,000 for the works.
- 3.14 Allowing for the reallocation of \$130,000 from Programme 1404, the net new borrowing in 2019/20 will be \$420,000. The estimated additional rates impact of an additional \$400,000 of capital borrowing is an increase in rates of \$30,000 per annum from 2019/20 or an extra \$1.1 on the targeted water rate.

#### **4. STORAGE AND TREATMENT ENHANCEMENT AT BORE STATIONS – PROGRAMME 1384**

- 4.1 Council approved Programme 1384 – Citywide – New Water Supply Reservoirs to replace an earthquake prone reservoir and enhance supply storage in the 2018-28 LTP. The programme provides for spending of \$8.2M over 10 years to build a new treated water reservoir at Ngahere Park and smaller reservoirs at each of the bore stations across the city.
- 4.2 The bore station reservoir storage will achieve three distinct benefits related to supply security, operational efficiencies and drinking water compliance including:



- enable bores to be either pumped or allowed to discharge by artesian head at a steady rate to on-site storage extending the life of the bore and delaying new bore investment
  - provide distributed treated stored water for emergency water supply post disaster e.g. seismic event
  - enable bore water to be effectively treated with chlorine to achieve Drinking Water Standard recommended Free Available Chlorine (FAC) levels of 0.2mg/l in the network
- 4.3 The bore station reservoirs as indicated will be sized to buffer within day peak flows from the network so enabling the bores to fill the reservoir either by artesian or low head pumping at a steady rate. Conservatively it is expected that this will extend the typical life of the bores once drilled from 15 to 20 years i.e. 5 years more life. In addition, it is estimated that because the installation of booster pumps provides additional peak day capacity with the current bores, new bore investment to meet growth can be delayed by several years.
- 4.4 The bore station reservoirs which will may vary from 250 to 1000m<sup>3</sup> in volume, will provide distributed stored water available in a post-disaster situation e.g. seismic event, for tanker distribution. This distributed clean water will be critical to cover the period prior to networks and source capacity being restored.
- 4.5 The bore station reservoirs will also provide the necessary storage volume to enable breakpoint chlorination of the bore water to be achieved and enable water with FAC levels of 0.2mg/l in the network to be delivered. Currently because of concerns with discoloured water generation as a result of direct chlorine injection into the delivery pipeline, Council relies on chloramine as the disinfection residual for network disinfection. While widely used in overseas jurisdictions, New Zealand Drinking Water Standards promote FAC.
- 4.6 In December 2017 the Government appointed panel released their Stage Two Report on the Havelock North Drinking Water Inquiry, which set out strong recommendations that the secure bore status be removed and that treatment and compliance with the Drinking Water Standards be made mandatory. At this stage Council is still awaiting the government's decision on the recommendations. However the panel were adamant in their recommendation that mandatory treatment be an immediate priority for all bores.
- 4.7 Chlorination by means of chlorine gas is the preferred treatment method of Council both due to its cost and because Council already provides for chlorination albeit to low levels. The key change is achievement of FAC levels not less than 0.2mg/l within the reticulation. Officers have identified that the only practical way to achieve FAC in the treated water is to provide a contact tank post-chlorination.

- 4.8 Programme 1384 already provides for funds to construct a reservoir tank at each of the bore stations. Given commissioning works are underway at three bore sites, Officers have identified the value of aligning reservoir construction with the bore commissioning. Alignment of the two programmes and completion of the work in 2018/19 will result in some capital savings. Delay of the reservoir construction by 2 years will require both pipe work and chlorination installation modifications at an estimated additional cost of \$80,000. These costs are avoided if the programmes are aligned.
- 4.9 Officers are seeking to bring forward \$750,000 from 2020/21 for Programme 1384 to fund one reservoir at Railway Road bore site.
- 4.10 The key disadvantages of not proceeding immediately with the storage tank at the Railway Road bore includes additional costs to modify pipe connections in 2 years' time, the delay of the opportunity to optimise the life of the bore and the likelihood that construction of storage will soon become mandatory if as expected the Drinking Water Standards are revised. An assessment of the net impact on rates is set out in Table 2 below based on the following assumptions:
- new bore life extended from 15 to 20 years with storage
  - cost of modifications if storage construction is delayed - \$80,000
  - delay to the date for investment in the new Whakarongo bore of 1 year
- 4.11 The impact of bringing forward the reservoir programme budget and delaying the new bore investment at Whakarongo is small compared to the impact of delaying renewal investment in bore development and renewal. The net impact on rates is small with an increase in years 1 to 3 and a reduction in years 4 to 7 of the LTP. Over the 10 years of the Plan, there is a net reduction of -\$54,000 in borrowing largely due to the deferral of the investment in the new Whakarongo bore by one year.

**Table 2 Assessment of Impact of Bringing Forward Reservoir Construction in Programme 1384**

Prog ID	Description	18/19 (\$000)	19/20 (\$000)	20/21 (\$000)	21/22 (\$000)	22/23 (\$000)	23/24 (\$000)	24/25 (\$000)	25/26 (\$000)	26/27 (\$000)	27/28 (\$000)
<b>Current Programme Schedule</b>											
1384	New Water Supply Reservoirs		\$513	\$1,783	\$0	\$1,869	\$0	\$1,966	\$0	\$2,071	\$0
1004	Whakarongo – New Waters Systems	\$135	\$739	\$836	\$1,463	\$323	\$0	\$0	\$0	\$0	\$0
<b>Revised Programme Schedule</b>											
1384	New Water Supply Reservoirs	\$750	\$513	\$1033	\$0	\$1,869	\$0	\$1,966	\$0	\$2,071	\$0
1004	Whakarongo – New Waters Systems	\$135	\$739	\$336	\$500	\$1,463	\$323	\$0	\$0	\$0	\$0
Difference Capital New		\$750	\$0	-\$1250	-\$963	\$1,140	\$323	\$0	\$0	\$0	\$0
Rates Impact		\$21	\$52	\$17	-\$62	-\$69	-\$13	\$0	\$0	\$0	\$0

## 5. PROGRAMME 593 – WATER SAFETY AND SECURITY MITIGATION

5.1 For the last two financial years, Council has approved new or re-allocated capital funding of \$138,000 for a series of security and safety initiatives to address identified risks and vulnerabilities in the water supply system which increased the risk of either delivery of unsafe drinking water or technical non-compliances which threatened Council's 100% compliance record for bacteria and protozoa free drinking water. Specific initiatives funded from this programme included:

- Renewal of several critical variable speed drives
- Replacement of the in-line valves between the raw and treated water mains at Turitea WTP
- Purchase of a replacement bore pump for the Takaro bore
- Modification of the filter modules at Turitea to prevent contamination
- Replacement and lowering of the Railway Road bore pump
- Raising of the Takaro bore head (still in progress)

5.2 While the last of the upgrade and improvement works is due to be completed in the current financial year, staff has continued to review and assess risks and vulnerabilities. During the 2017-18 year staff has identified three additional areas of safety and security concern. These have been highlighted by internal audits and by several incidents which have highlighted weaknesses in existing monitoring systems and processes.

5.3 The first area relates to monitoring of fluoride levels in treated water. Aside from Turitea WTP which has on-line monitoring, all the bores rely on weekly sampling and testing. During the year there were two technical non-compliances in respect of fluoride levels in the treated water supplies at Ashhurst and Longburn. These have indicated a need to strengthen monitoring systems in this area.

5.4 Secondly the specific requirements and obligations for the water sector of several recent national legislative changes have become clearer. These requirements relate particularly to the obligation of the employer for their staff and specific controls and safeguards for chemicals in the workplace. The two relevant pieces of legislation are:

- Hazard Substances and New Organisms Amendment Act – 2015 and
- Health and Safety at Work Act – 2015

5.5 The third area of security concern has arisen in respect of unplanned power outages at the Turitea WTP. During 2017/18 power supply to the Turitea plant was lost on

two occasions and for different reasons the back-up generator failed in both cases to supply power in time to avoid a loss of monitoring data, although there was no risk of unsafe drinking water being supplied. While in both cases operators were alerted to the issue and restored normal operation within hours, the consequences of the data monitoring gap is a non-compliance with respect to the Drinking Water Standards.

- 5.6 The risk associated with the current weekly fluoride sampling and testing at the bore stations while compliant with the Drinking Water Standards, was exposed in the last year. In one instance elevated levels of fluoride were dosed to the supply (Longburn) for a number of days following an error on the part of an external contractor. Officers recommend that the current weekly manual sampling and testing be replaced with on-line monitoring at all bore sites. On-line monitoring will provide alarm alerts when fluoride levels stray outside the target range, enabling timely response before there is any material delivery of water with elevated fluoride levels to the network. Council had already implemented day tanks at each bore which limit the total volume of fluoride solution which can be added in a single day.
- 5.7 The total cost for installing on-line fluoride monitors at each bore is estimated to be \$9,500 per site or **\$66,500** for all 7 bore stations. This work is considered high priority or Priority 1.
- 5.8 Following the passing into law of the new HSW Act and HSNO Amendment Act, and feedback on interpretation of the compliance requirements, Operations Staff have received expert advice and completed condition assessment of the Turitea WTP and bore installations to identify necessary improvements. There are a significant number of modifications to meet all aspects of the new legislation. The specific areas of improvement required include:
  - improvements to platforms and hand rails, installation of new permanent stairs where removable ladders had been used and installation of mountings for safety harness systems to access tanks and chambers for routine and scheduled maintenance (estimated cost **\$95,000** – Priority 1)
  - installation of weighing systems and seismic restraints to the chlorine installations at four bore sites (estimated cost **\$65,000** – Priority 2)
  - installation of emergency shutoff systems for chlorine gas at 5 bore sites (estimated cost **\$75,000** – Priority 2)
- 5.9 Finally Officers are recommending improvements at the Turitea WTP, to prevent any unplanned loss of power or plant malfunction which results either in a monitoring data gap of more than 3 minutes or treated water which is outside the compliance standard from being delivered to the network. Despite operator vigilance and significant additional investment in renewals and safety upgrades, there have been 7 incidents in the last two years which have met these criteria.

- 5.10 Officers have scoped and confirmed that the installation of automatically actuated shutdown valves on both the inlet to and outlet from the Turitea Water Treatment Plant will ensure that whatever conditions occur in the plant, any data loss or non-compliant water can be used to trigger valve activation. Closure of the two valves will provide confidence to the Drinking Water Assessor that no treated water was delivered to the network during any event. The valves will be powered from the existing IPS (interruptible power supply) to ensure near failsafe operation.
- 5.11 Currently valves can only be shut manually which continues to expose Council to a potential non-compliance given the plant is unmanned for most of the time. Despite the significant investment in improved systems, data capture and equipment reliability, there can be no guarantee that an outage will not occur. The firm estimate of cost to implement the auto shut system is \$80,000 including electrical and controls.
- 5.12 Officers have considered the priorities for all the above improvements and are seeking funding in the current year for the priority 1 works namely on-line fluoride monitors, health and safety improvements and the auto-shut system at the Turitea WTP. Funding to implement the priority 2 works namely chlorine gas storage and safety improvements will be applied for in the 2019-20 financial year.
- 5.13 The risk of not implementing the Priority 1 improvements as proposed includes:
- potential non-compliance with the fluoride requirements under the Drinking Water Standards
  - potential prosecution in respect of the HSE Act in the event of an health and safety incident resulting in injury which can be traced to the failure to mitigate the risks identified
  - potential non-compliance with the Drinking Water Compliance requirements particularly in respect of loss of monitoring data and/or provision of non-compliant drinking water
- 5.14 While none of the risks being addressed are likely to result in provision of unsafe drinking water, they all directly impact on compliance by Palmerston North with legislative obligations and failure to do so will contribute to reputational risk. Officers therefore seek additional unbudgeted funding for the 2018/19 year for Programme 593 – Water Safety and Security Mitigation of \$241,500 to take the programme budget to \$264,500 to provide for the following work:
- on-line fluoride monitoring equipment for all bore stations - \$66,500
  - health and safety improvements to platforms, railings, ladders and harness attachments - \$95,000
  - auto-shutoff valve installation at the Turitea WTP - \$80,000

- 5.15 The financial impact of the additional capital borrowing of \$241,500 is an additional \$16,000 per annum in rates starting in 2019/20 or \$0.75 on the targeted water rate. The additional cost needs to be weighed against both the reputational and other non-financial impacts of a serious water supply non-compliance or serious health and safety incident.

Does the Committee have delegated authority to decide?	<b>No</b>
If Yes quote relevant clause(s) from Delegations Manual <Enter clause>	
Are the decisions significant?	<b>No</b>
If they are significant do they affect land or a body of water?	<b>No</b>
Can this decision only be made through a 10 Year Plan?	<b>No</b>
Does this decision require consultation through the Special Consultative procedure?	<b>No</b>
Is there funding in the current Annual Plan for these actions?	<b>No</b>
Are the recommendations inconsistent with any of Council's policies or plans?	<b>No</b>
The recommendations contribute to Goal 4: An Eco City	
The recommendations contribute to the outcomes of the Eco City Strategy	
The recommendations contribute to the achievement of action/actions in the Three Waters Plan	
The actions contributed to include:	
<ul style="list-style-type: none"> <li>• provision of a safe water supply to the city</li> <li>• increase water supply source capacity through the development of additional bores</li> <li>• enhance and improve efficiency of water networks</li> </ul>	
Contribution to strategic direction	The recommendations will ensure Council is able to develop adequate new source capacity to maintain and augment source capacity as bore yields decline at Papaioea Park. The recommendations will enable completion of the Railway Road bore and so secure additional source water to meet industrial and residential growth in the Kelvin Grove zone. The recommendations will enable optimising of the investment in the new Railway Road bore by allowing for network peak demand to be supplied from storage and so enable the deferral of a new bore at Whakarongo for a few years until average daily demand requires. The recommendations will ensure Council continues to achieve 100% bacterial and protozoal compliance with the Drinking Water Standards and meets its legal obligations under the Health and Safety at Work Act.





PALMERSTON NORTH CITY COUNCIL

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**ATTACHMENTS**

Nil

## COMMITTEE WORK SCHEDULE

**TO:** Finance and Performance Committee

**MEETING DATE:** 17 September 2018

**TITLE:** Committee Work Schedule

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### RECOMMENDATION(S) TO FINANCE AND PERFORMANCE COMMITTEE

1. That the Finance and Performance Committee receive its Work Schedule dated September 2018.

### ATTACHMENTS

1. Committee Work Schedule  

## FINANCE AND PERFORMANCE COMMITTEE

### PART I

#### COMMITTEE WORK SCHEDULE – SEPTEMBER 2018

Item No.	Estimated Report Date	Subject	Officer Responsible	Current Position	Date of Instruction/ Point of Origin
1	TBA	Property Portfolio	Chief Infrastructure Officer	Additional Workshop to be scheduled.	21 February 2011 Clause 10-11
2	<del>September</del> November 2018	Options for Council to increase e-waste recovery in the City	Chief Infrastructure Officer		23 April 2018 Clause 25.2
3	<del>TBA</del> —November 2018	Report back on detailed costings of infill lighting required to achieve compliance in P and V categories	<del>Chief Infrastructure Officer</del>		Finance and Performance 18 June 2018 clause 56.2 (Part II Confidential)