



PALMERSTON NORTH CITY COUNCIL

AGENDA

MINUTES ATTACHMENTS ECONOMIC GROWTH COMMITTEE

9:00 AM, WEDNESDAY 24 APRIL 2024

COUNCIL CHAMBER, FIRST FLOOR
CIVIC ADMINISTRATION BUILDING
32 THE SQUARE, PALMERSTON NORTH

ECONOMIC GROWTH COMMITTEE MEETING

24 April 2024

8	Palmerston North Airport Limited - Interim Report for 6 months to 31 December 2023	
	1. Palmerston North Airport Limited - Interim Report for 6 months to 31 December 2023, and Draft Statement of Intent for 2024/25 to 2026/27	4
18	Overseas Mission to China and Japan 2024	
	1. Overseas Mission to China and Japan 2024	39
15	Palmerston North Quarterly Economic Update	
	1. Palmerston North Quarterly Economic Update	57
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	1. Palmerston North Economic Structure Summary Report 2023	75



PALMERSTON NORTH AIRPORT LIMITED

FY24 INTERIM RESULT & FY25-FY27 SOI



AGENDA

- FY24 Interim Report
- FY25 – FY27 SOI
- FY25 – FY27 Financial Outlook



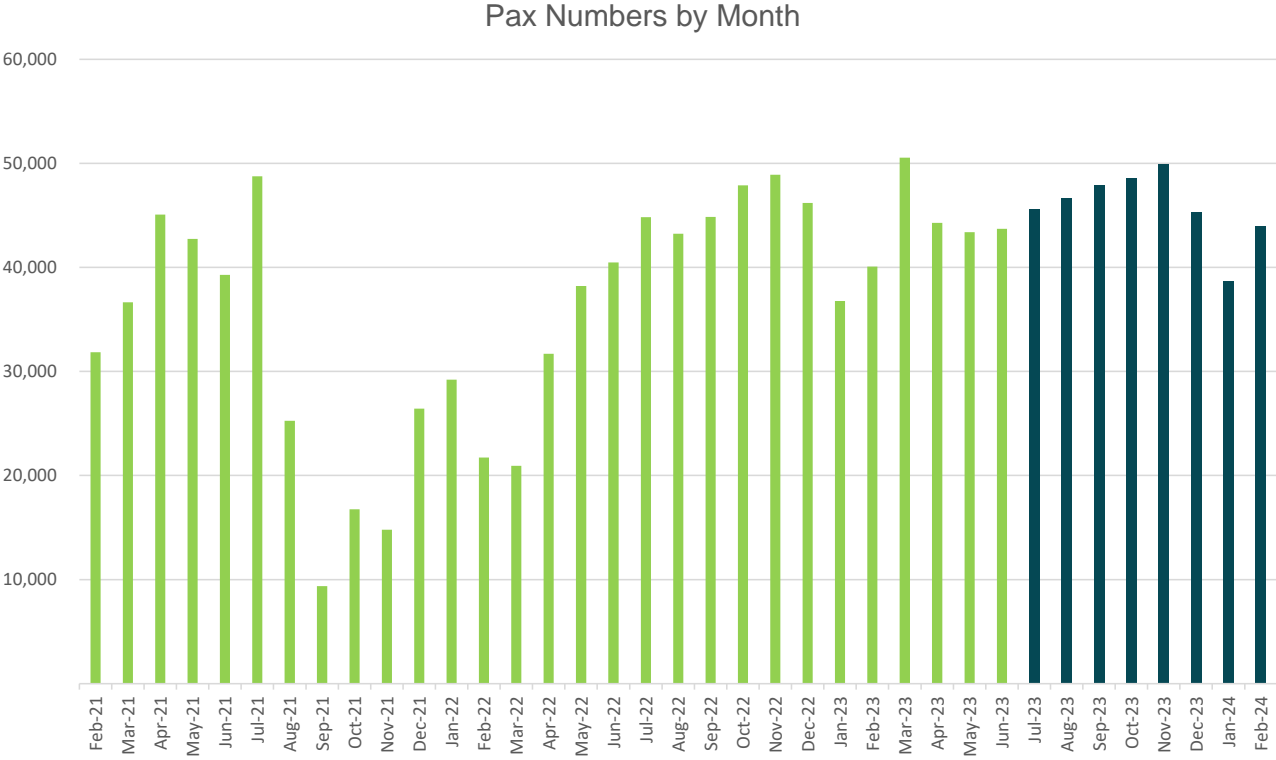
FY24 INTERIM RESULT

FY24 HI HIGHLIGHTS



- ✓ Zero lost time injuries
- ✓ CAA Part 139 compliance maintained NPS of 43 (stretch SOI target: 45)
- ✓ Team engagement score of 78%. Response rate up to 84% (from 62%)
- ✓ Stage 1 of Pick-up/Drop-off Shelters opened – including Bike Zone
- ✓ Airport Carbon Accreditation Level 4 achieved
- ✓ Preparing for expansion - \$2.7m debt repaid (to \$10.7m)

FY24 HI FINANCIALS



- 284,000 passengers (SOI: 295,000)
- 3.8% unfavourable on SOI but 2.9% favourable to prior year
- Income of \$7.98m – 11% favourable to SOI
- Normalised expenditure of \$3.6m – 5% favourable to SOI
- Normalised profit before tax of \$2.28m – 133% favourable to SOI
- Temporary & partial recovery of terminal write-off via landing charges
- Capex of \$1.7m (SOI: \$10.9m)

FY24 H2 PLANS

- ✓ Airside Pavement Maintenance ~\$600k
- ✓ Airport Drive Vesting \$2.1m loss to P&L (minimum)
- ✓ Carpark License Plate Recognition Go-Live
- ✓ Qualmark Gold Recertification
- ✓ CAA 5 Yearly Audit and Recertification
- ✓ Airfreight/Logistics Warehouse Design Progressing
- ✓ Terminal Design and Planning Progressing

FY24 FORECAST

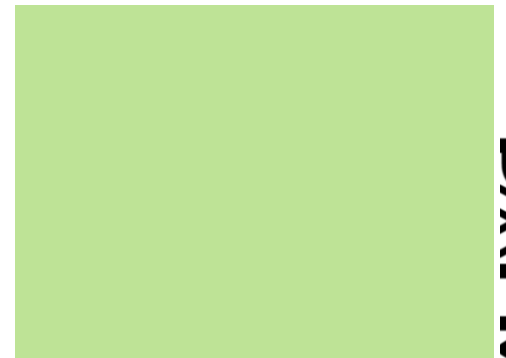
- 551,000 passengers – 5% below SOI but 3% above prior year
- NPAT forecast of \$1.63m -\$300k below SOI
- Includes write-off of Airport Dr (\$2.1m minimum loss to P&L)
- Capex of \$7.2m (SOI: \$22.5m)
- Dividend in line with SOE – 10% of NPAT

FY25 – FY27 SOI





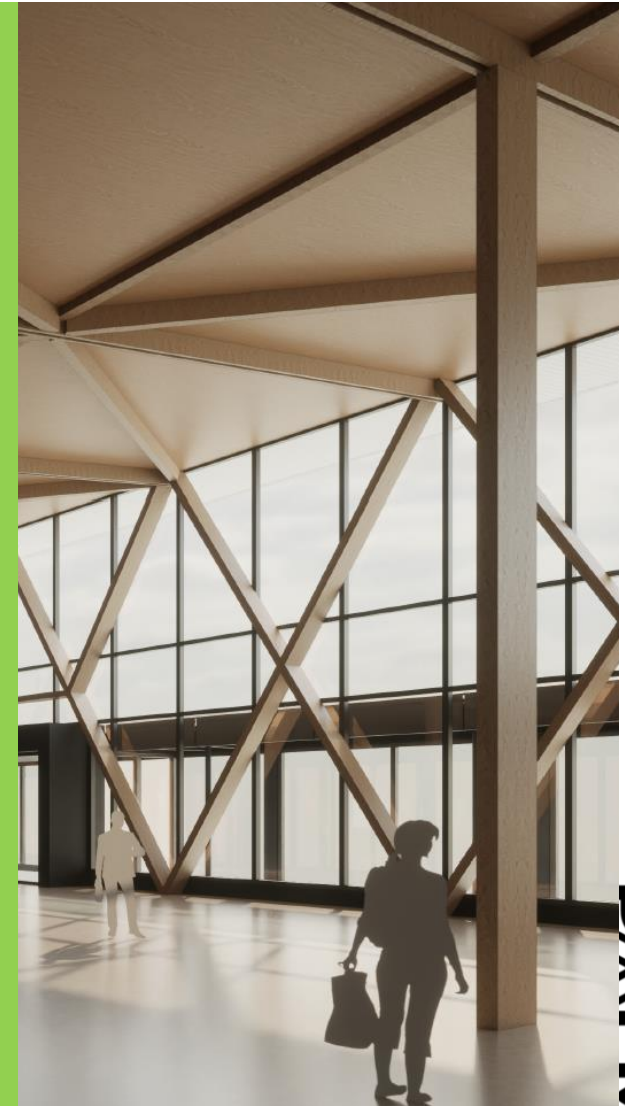
Terminal Development Plan



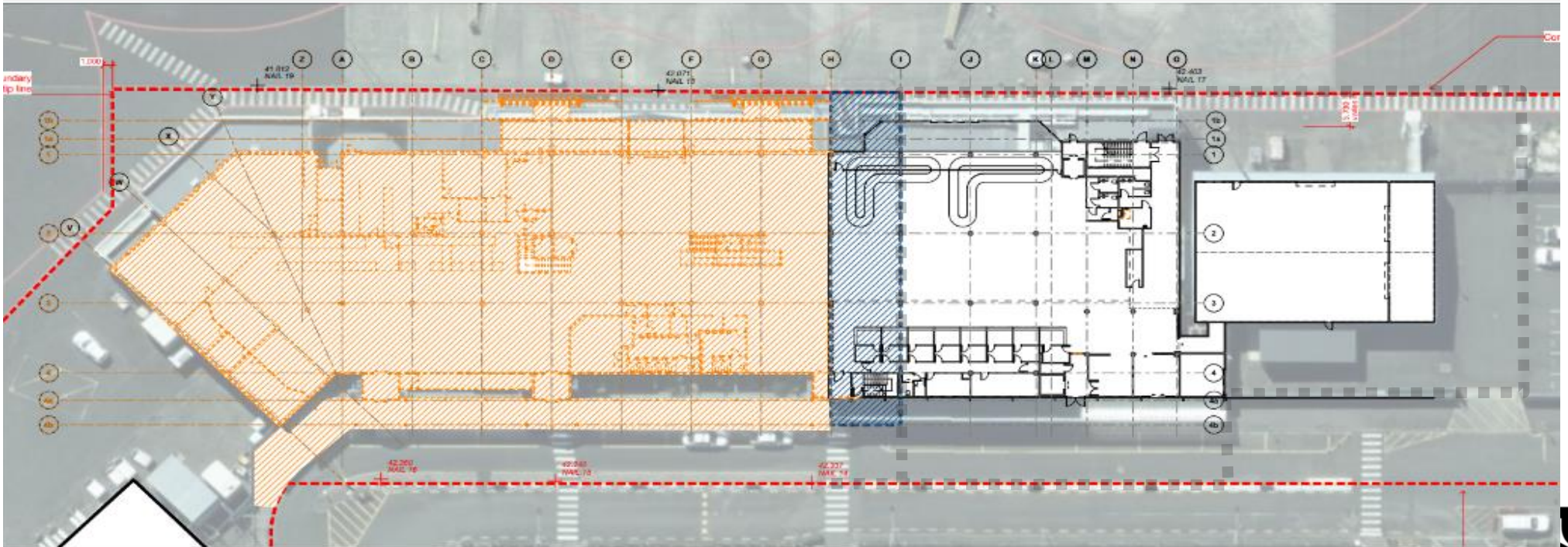


Terminal Development Progress

- LT McGuinness appointed on early contractor involvement basis – high quality bid
- Potential for LTs to be engaged for construction pending tender process at end of ECI
- Use of local sub-contractors where possible a condition of engagement
- Safety focus critical
- Budget remains at \$40m
- Chris Dhyrberg – PNCC Observer on Governance Committee



Stage I temporary terminal





Disruption Planning



- Communication plan under development
- Palmerston North-based *Little & Loud* assisting with plan
- Key Principles:
 - **Community engagement/** ownership of our shared project. On- & off-site briefings, easy feedback options. Opportunity to forge new community relationships.
 - **Delivering the right message** at the right time, simple & tailored to the users. - 'What does that mean for me?'
 - **A 'no surprises' approach** – proactive & transparent communications.
 - **Leveraging partnerships** (PNCC, Iwi, airlines ...) to amplify our messaging.

Terminal Development Timeline*



Now
Early Contractor Involvement underway



July 2024
Enabling works begin



September 2024
Stage 1 Demolition/ Construction begins



September 2025
Stage 2 Construction begins



September 2026
Construction complete

*Subject to ongoing refinement/validation



Airside and Landside Projects

Airside and Landside Projects

FY25-FY27 SOI:

- \$6.3m on airside infrastructure – mainly pavement upgrades
- \$4.9m on landside infrastructure and PPE – additional covered walkways and pick-up/drop-off shelters





PALMERSTON NORTH AIRPORT

RUAPEHU
AEROPARK



Ruapehu Aeropark Investments

Airfreight / Logistics Warehouses

- 6,000m2 warehousing with airside access on Northern side of Airport Dr
- Facilitate growth of air freight and logistics activity
- Blue chip freight and logistics tenant for Warehouse A – lease in negotiation
- Construction expected to commence in Q2 of FY25. Approx one year build time.





Hangar Upgrade

- H1 hangar acquired in July 2023
- Refurbishment and seismic strengthening required
- Budgeted refurbishment cost of ~\$2m
- Lease terms under negotiation
- Subject to cost validation and rental return discussions

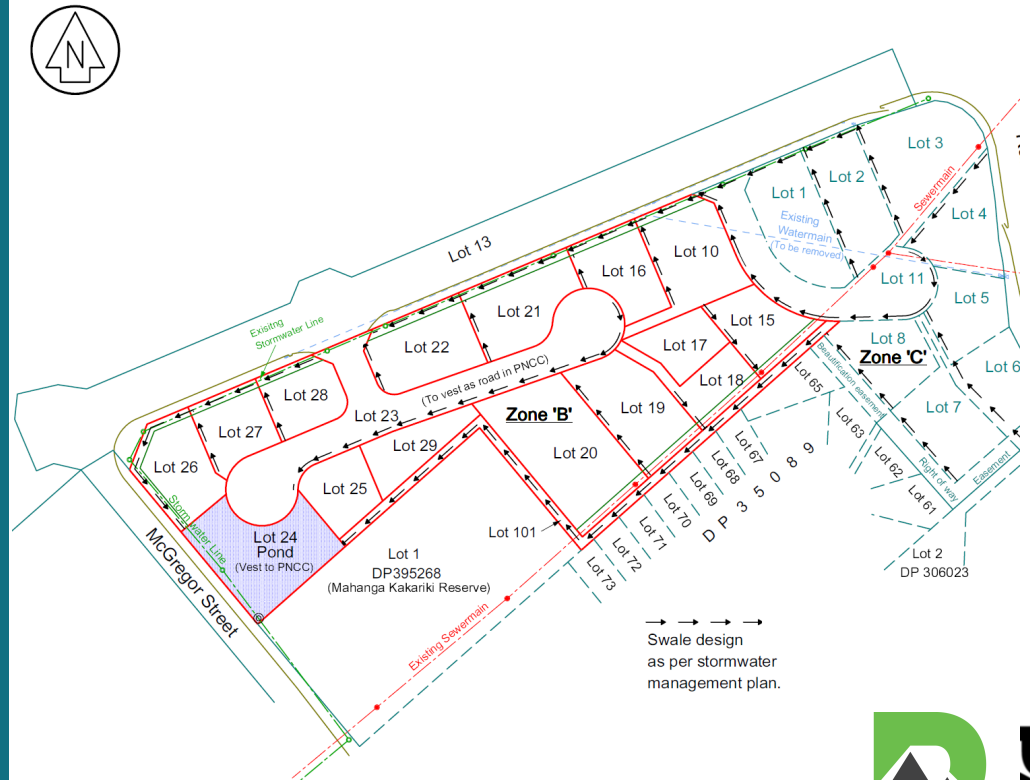




Unbudgeted Future Developments

Future Developments

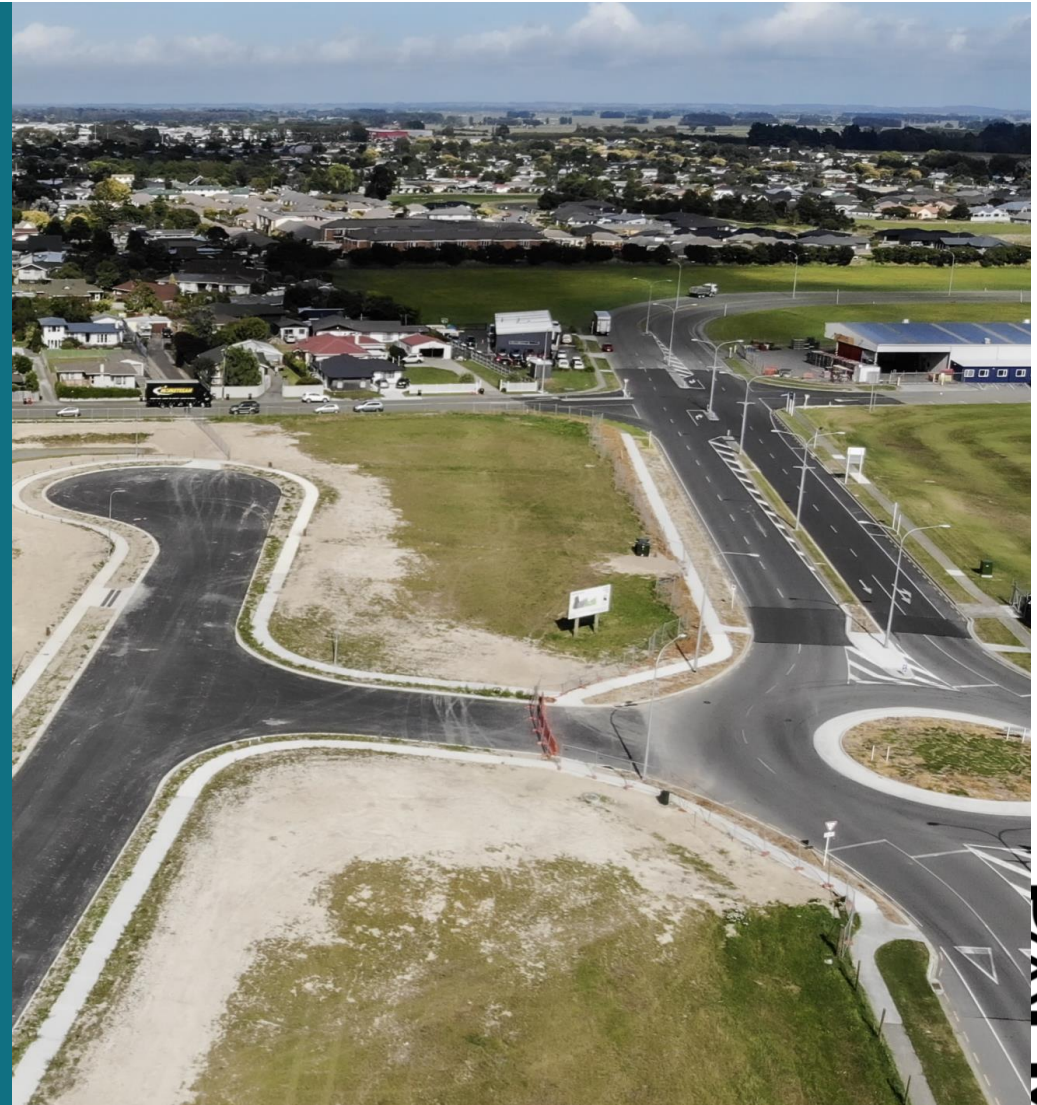
- ~\$350m development to fully develop Ruapehu Aeropark over 20+ years
- Short-medium term developments of ~\$12m identified but on hold - pending funding option
- Includes rental car precinct, medical precinct, retail, solar and/or motel opportunities



Strategic Investment

Ongoing project by PNAL to resolve funding constraints. Expected outcomes:

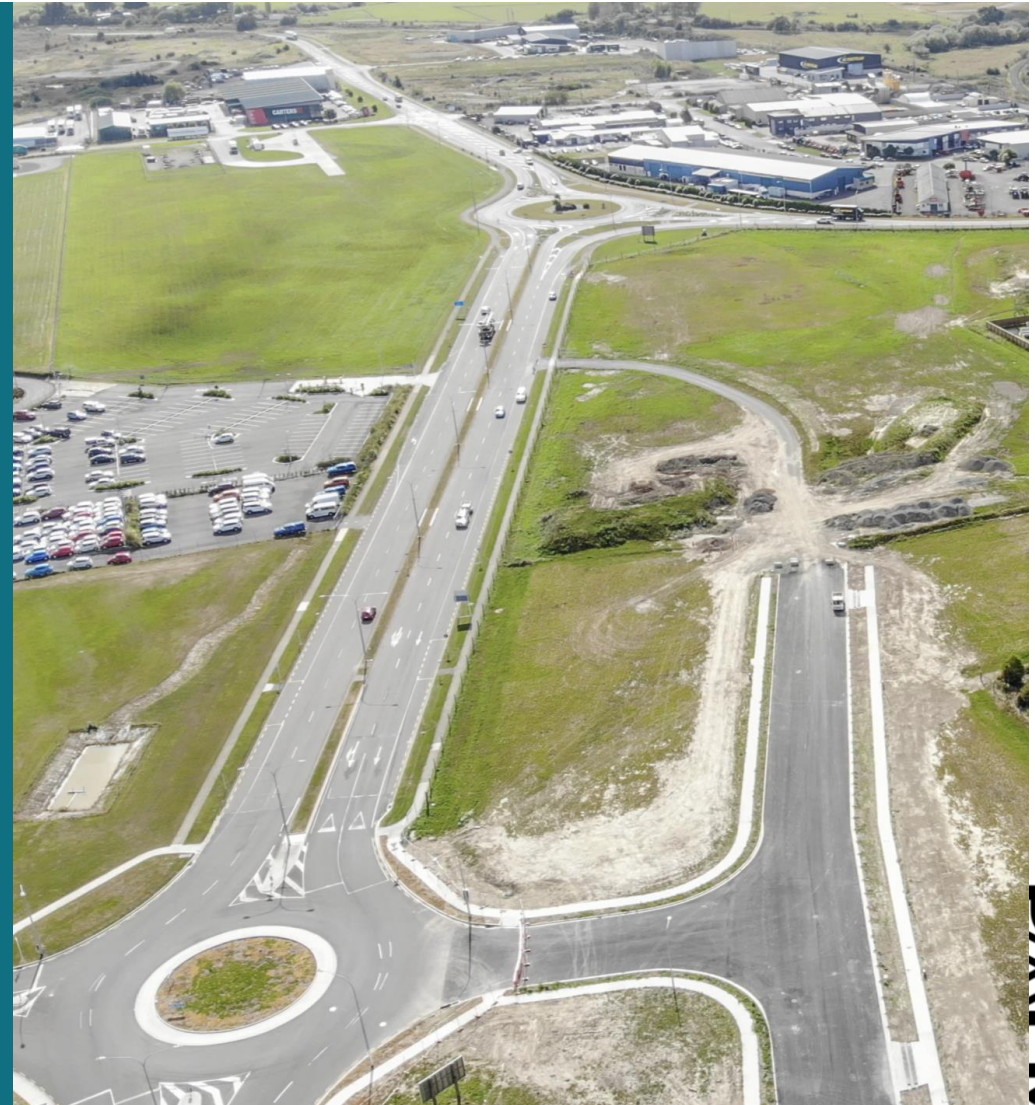
- Reduce debt below SOI forecast /and or
- Increase debt capacity above current facilities and/or
- Accelerate investment in Ruapehu Aeropark
- Initially to fund ~\$12m unbudgeted developments before progressing further



Strategic Investment Options

- Options being considered include:
 - Refreshed banking arrangements with Bank lenders
 - Establishment of 100% owned property subsidiary
 - Divestment of non-strategic land
 - Share issuance at PNAL level
 - Establishment of joint venture arrangement(s) with third parties on property activities
- Option selection expected to be completed by end of FY25 with some options requiring Shareholder approval

Note: Airfreight/Logistics Warehouses and Hangar upgrade discussed earlier have funding.





Sustainability

Sustainability

ACA Level 4 achieved December 2023

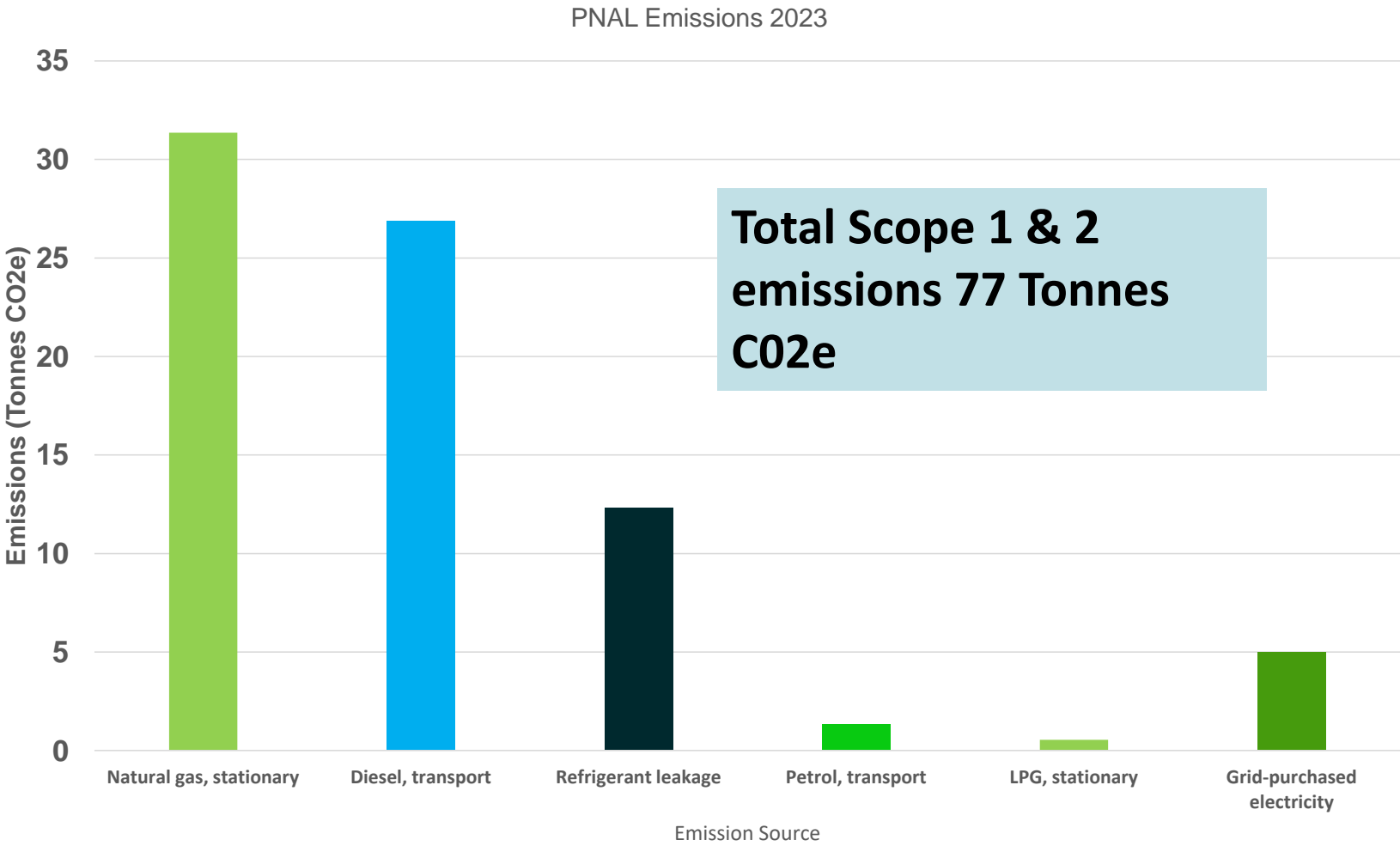
One of only 24 airports worldwide

Scope 1&2 emissions reduction of 59% in FY23 to 77 tonnes of CO2e

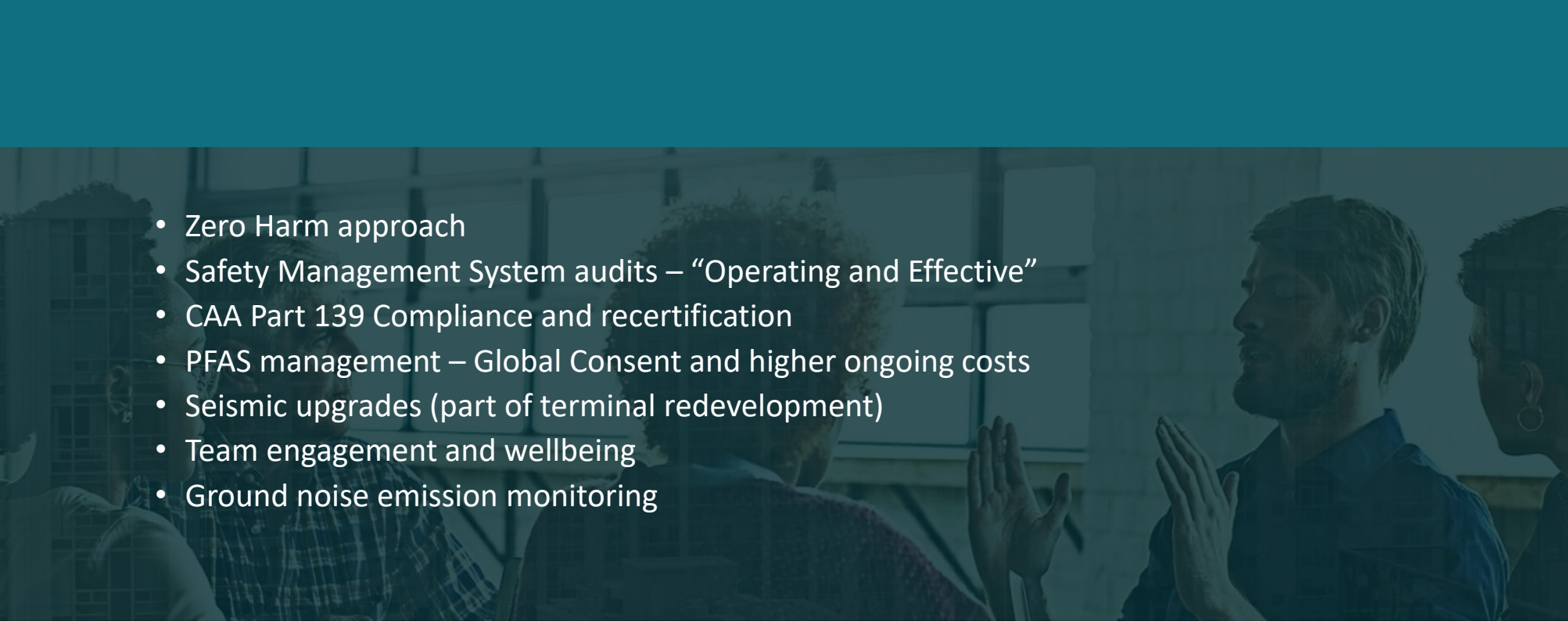
However more work to be done

- Scope 3 emissions (3rd Party) make up 99.77% of total.
- A key focus of PNAL – Stakeholder Participation:
 - Hiringa and Cafe Ignition selected
 - Ongoing preparation for electric / aircraft – cooperation with airlines and aviation partners.



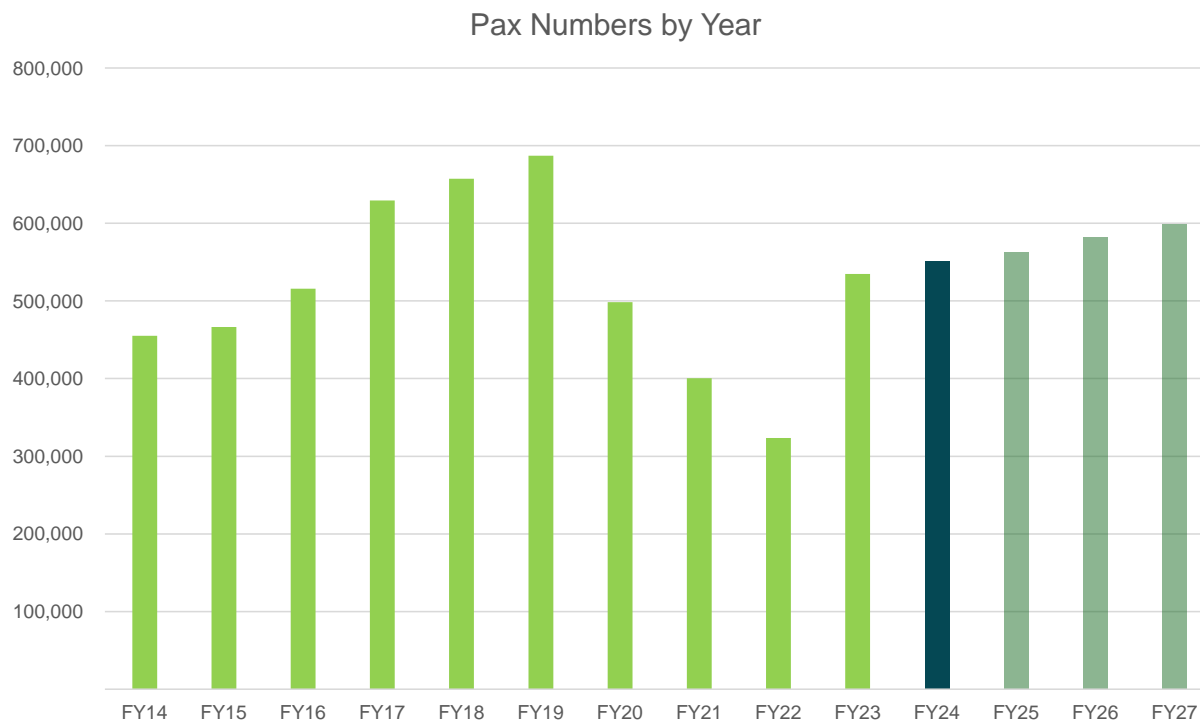


SAFETY AND COMPLIANCE

- 
- Zero Harm approach
 - Safety Management System audits – “Operating and Effective”
 - CAA Part 139 Compliance and recertification
 - PFAS management – Global Consent and higher ongoing costs
 - Seismic upgrades (part of terminal redevelopment)
 - Team engagement and wellbeing
 - Ground noise emission monitoring

FY25 – FY27 FINANCIAL OUTLOOK

Passenger Forecast



- 600,000 passengers by FY27
- <2% growth p.a.
- Suppressed demand
- Higher airfares, Air NZ engine issues, TDP impact

Profit and Loss Outlook

Positive EBITDA performance throughout SOI period
 \$2.4m loss on disposal in FY24 – mainly Airport Dr vesting
 \$1.9m extraordinary items in FY25 / FY26 – cost of demolition of existing terminal
 Additional depreciation in FY25/FY26– write-off of existing terminal
 Loss in FY25 a result of the above.
 Approx equal to FY24 NPAT.
 Dividends calculated as % of NPAT.
 Funded via debt in FY25.
 Dividend base exclude fair value gains/losses and one-off capital gains

	FY24 forecast	FY25 SOI	FY26 SOI	FY27 SOI
Aeronautical Income (incl carpark)	13.0m	14.6m	16.5m	17.6m
Other Income (incl leases)	2.5m	2.4m	3.6m	3.8m
Total Income	15.5m	17.0m	20.1m	21.4m
Extraordinary items	-	1.1m	0.8m	-
Other Operating Expenditure	8.2m	8.9m	9.0m	9.5m
EBITDA	7.4m	7.0m	10.3m	11.9m
Loss on Disposal	2.4m	-	-	-
Depreciation	2.1m	7.7m	3.8m	3.6m
Interest	0.6m	1.6m	3.4m	4.1m
Net Profit / (Loss) After Tax	1.6m	(1.7m)	2.2m	3.1m
Dividend declared	0.16m	-	0.87m	1.23m

Balance Sheet and Metrics Outlook

- Debt/metrics manageable but at top end of existing facilities and equity
- Debt remains within existing facilities - minimal headroom
- Interest cover covenant compliant throughout
 - FY27 Interest head room of \$721k or (8% increase)
 - FY27 EBITDA headroom of \$1.8m (10% decrease)
- Long term metrics outside target range temporarily
- Strategic investment project outcomes to alleviate constraints

	FY24 forecast	FY25 SOI	FY26 SOI	FY27 SOI
Total debt	14.1m	44.9m	62.7m	64.4m
Capital spend	7.2m	38.5m	21.4m	6.0m
Debt/Equity Ratio	16.5%	53.4%	73.4%	73.8%
Interest cover ratio > 2.5 (covenant)	13.1	4.4	3.0	2.9
Net Debt / EBITDA < 4.5 (long term)	1.9	6.4	6.1	5.4
Funds from Operations / Net Debt > 11% (long term)	43.6%	13.5%	9.5%	10.4%

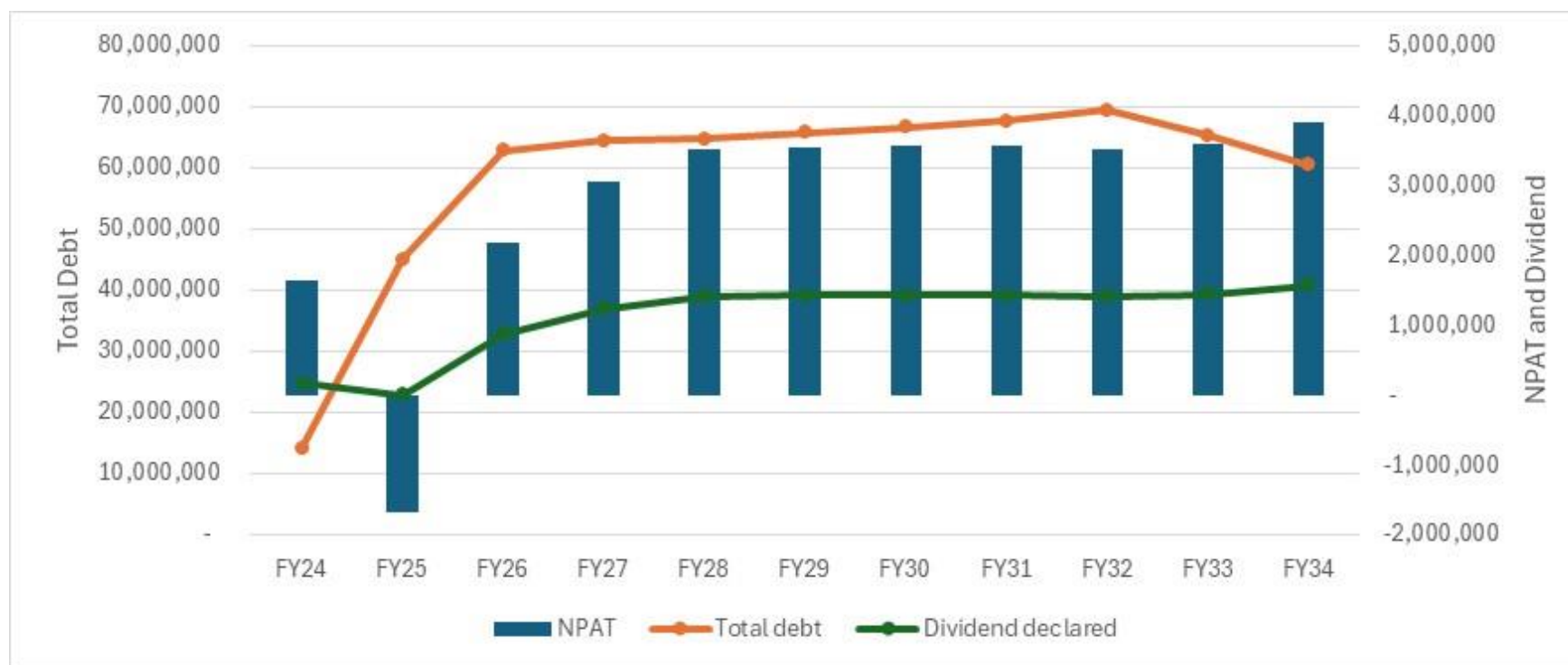
Ten Year Financial Outlook

- Assumes no further developments in Ruapehu Aeropark
 - Requires \$15m capital spend on runway overlay over three years – inflates required debt
 - 143% increase in NPAT over 10 years
 - Consistent improvement in key metrics
 - Dividend growth strong
- >\$1m pa from FY27

	FY27 SOI	FY30 forecast*	FY32 forecast*	FY34 forecast*
Net Profit after Tax	3.1m	3.6m	3.6m	3.9m
Total debt	64.4m	66.6m	69.4m	60.5m
Debt/Equity Ratio	73.8%	71.1%	70.8%	59.0%
Interest cover ratio > 2.5 (covenant)	2.9	3.4	3.4	3.8
Net Debt / EBITDA < 4.5 (long term)	5.4	5.1	5.1	4.3
Funds from Operations / Net Debt > 11% (long term)	10.4%	11.7%	11.9%	14.8%
Dividend declared	1.23m	1.43m	1.41m	1.57m

* Long term estimates based on specific assumptions that may or may not eventuate. These estimates are subject to change.

Ten Year Financial Outlook



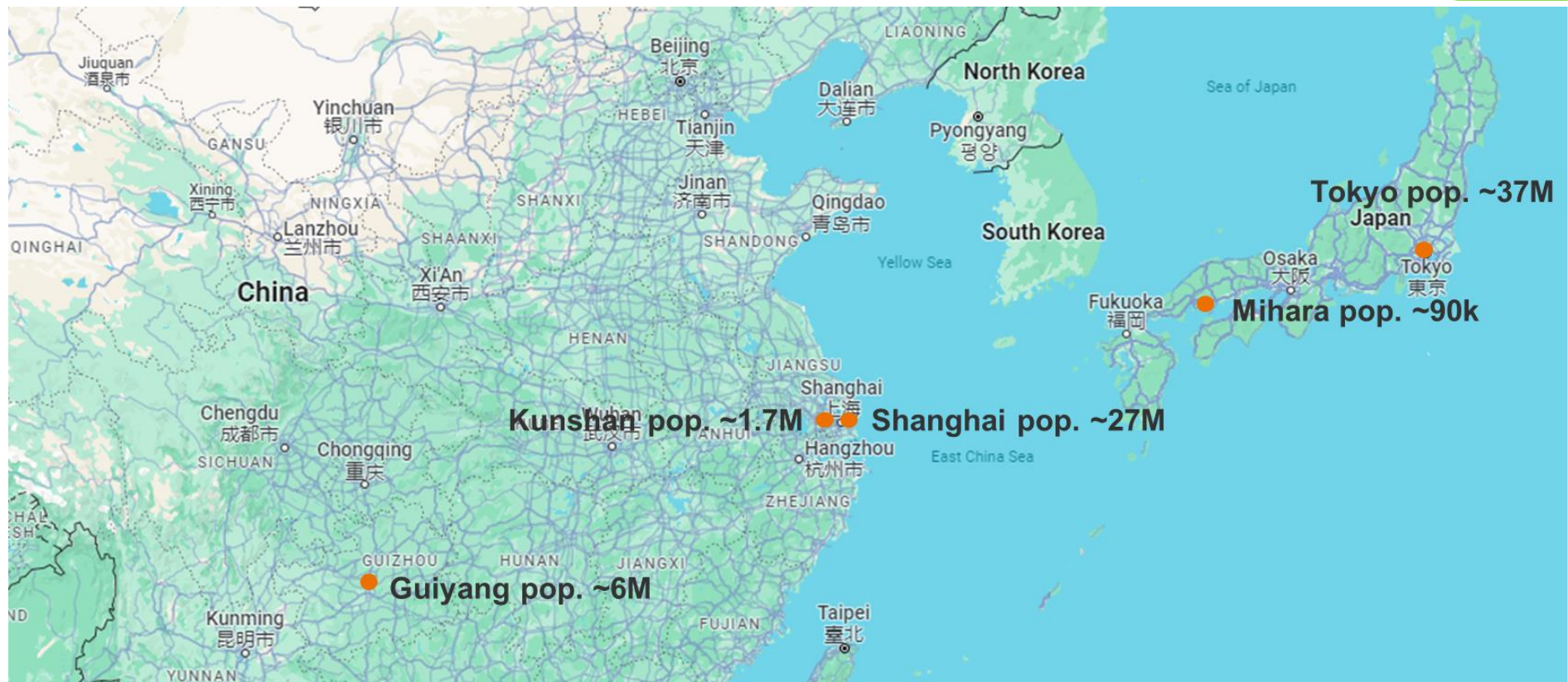


Questions?

Global Infrastructure: Insights from PNCC Mayoral Delegation Visit to China and Japan

20 January – 6 February 2024

Overview of trip focus: Stormwater – Wastewater – Sludge



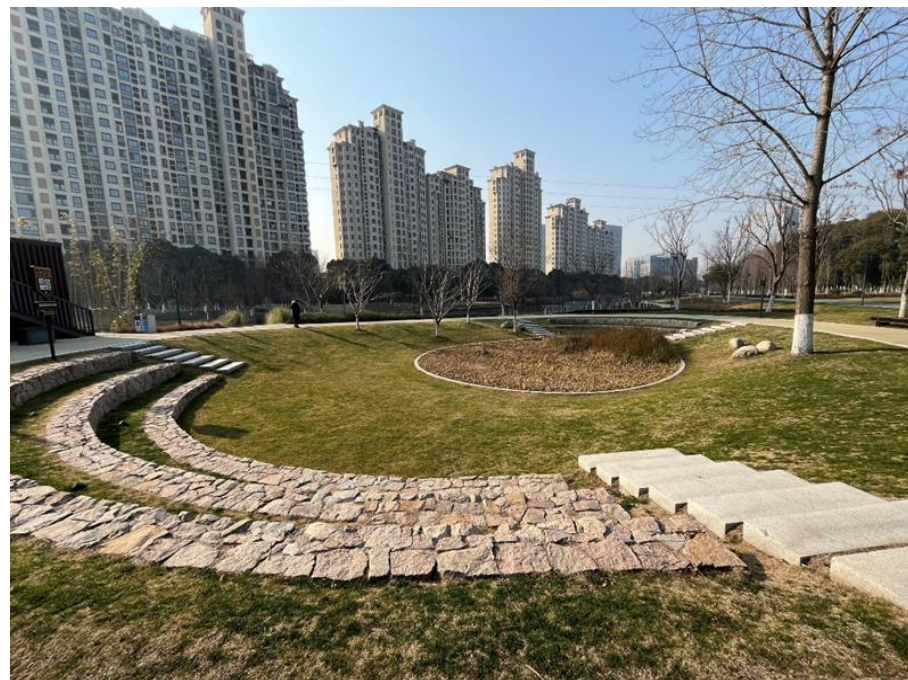
Sponge City

Kunshan

Forest Park, Temple Jinghe Corridor



Attenuation pond with controlled outlet



Soakage basin doubling as amphitheatre

Sponge City - Kunshan



Sponge City Project Base



View over Kunshan

Considerations for Palmerston North

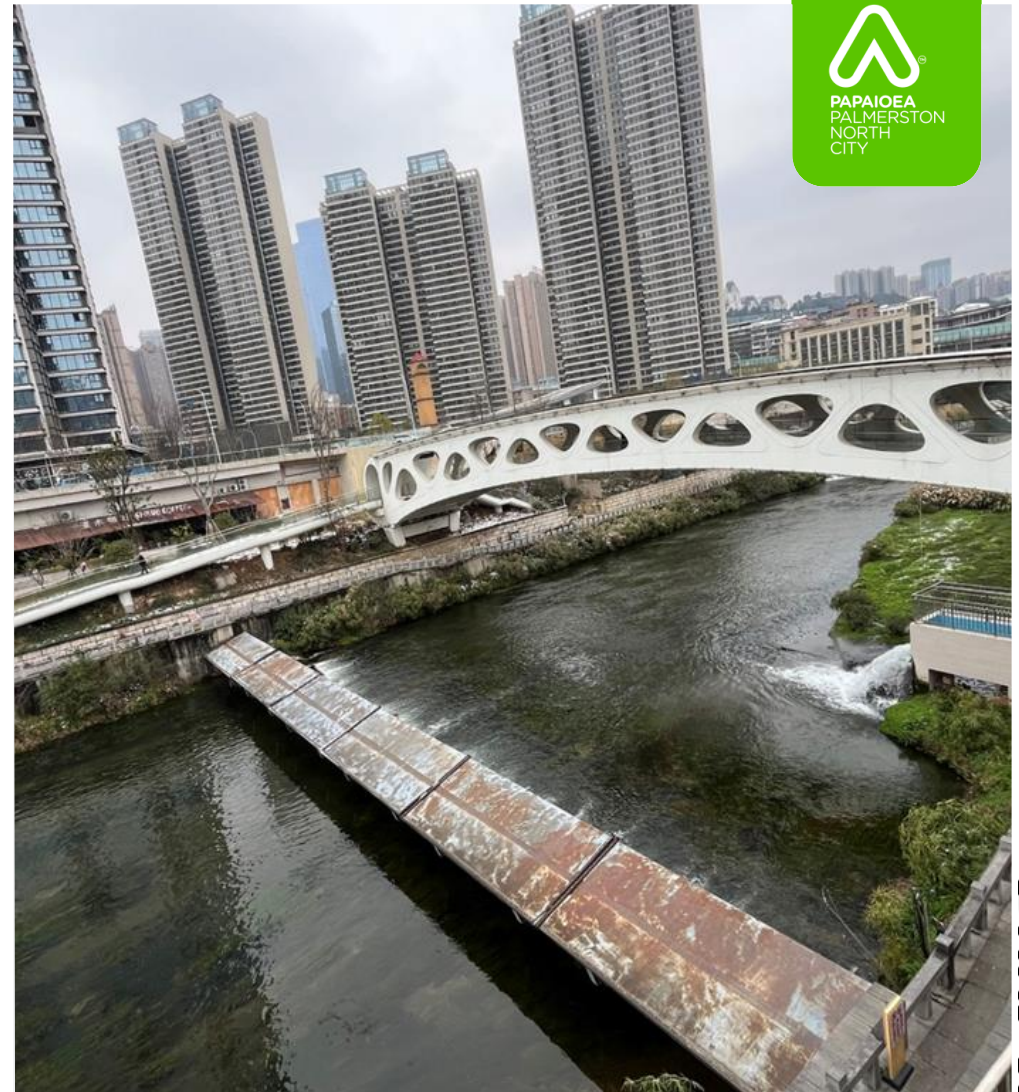
- The sponge city concept is already being incorporated into city planning and design: rain gardens, wetlands, and storm water attenuation ponds becoming regular features in our growth areas.
- From the examples seen in Kunshan, we're keen to explore how to maximise sponge city concept into the Palmerston North landscape.



Wastewater treatment

Overview

- Commonly referred to as Water Reclamation Plants, Water Reuse or Water Recycling
- Primary and secondary treatment processes similar to NZ
- Tertiary treatment - generally no UV Treatment, chlorine dosing only



Te Kaunihera o Papaioea | Palmerston North City Council

Qingshan Water Recycling Plant, Guiyang

Integrating into the Cityscape



Te Kaunihera o Papaioea | Palmerston North City Council

DAI MY

ITEM 18 - ATTACHMENT 1

Nishino Water Purification Plant

- Multistage Biological nutrient removal
- Discharge into Mihara river at estuary
- Celebration of process / public education



Te Kaunihera o Papaioea | Palmerston North City Council



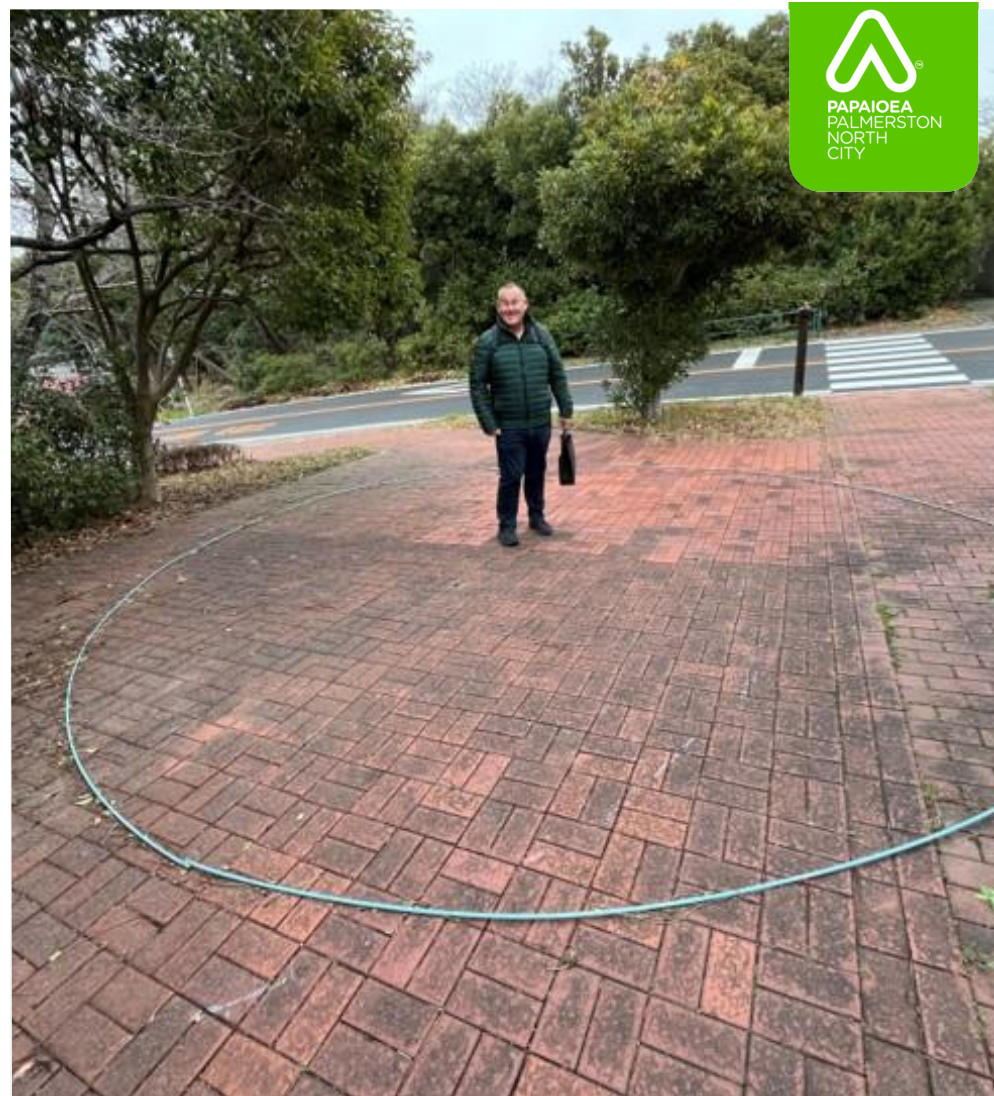
DAIMY

Sunamachi Water Reclamation Centre

- Multistage Biological nutrient removal
- Multi million population served
- Only now piloting final filtration technology



Te Kaunihera o Papaioea | Palmerston North City Council



Considerations for Palmerston North

- Even with lower level of treatment, still consider the final product as a resource, not a waste
- High level of public education
- Celebrate the work to improve environmental condition by the treatment of wastewater



Biosolids Handling

Sludge

- Dewatered to between 20-30%
- Incineration primary disposal mechanism
- Ash made into varying concrete products

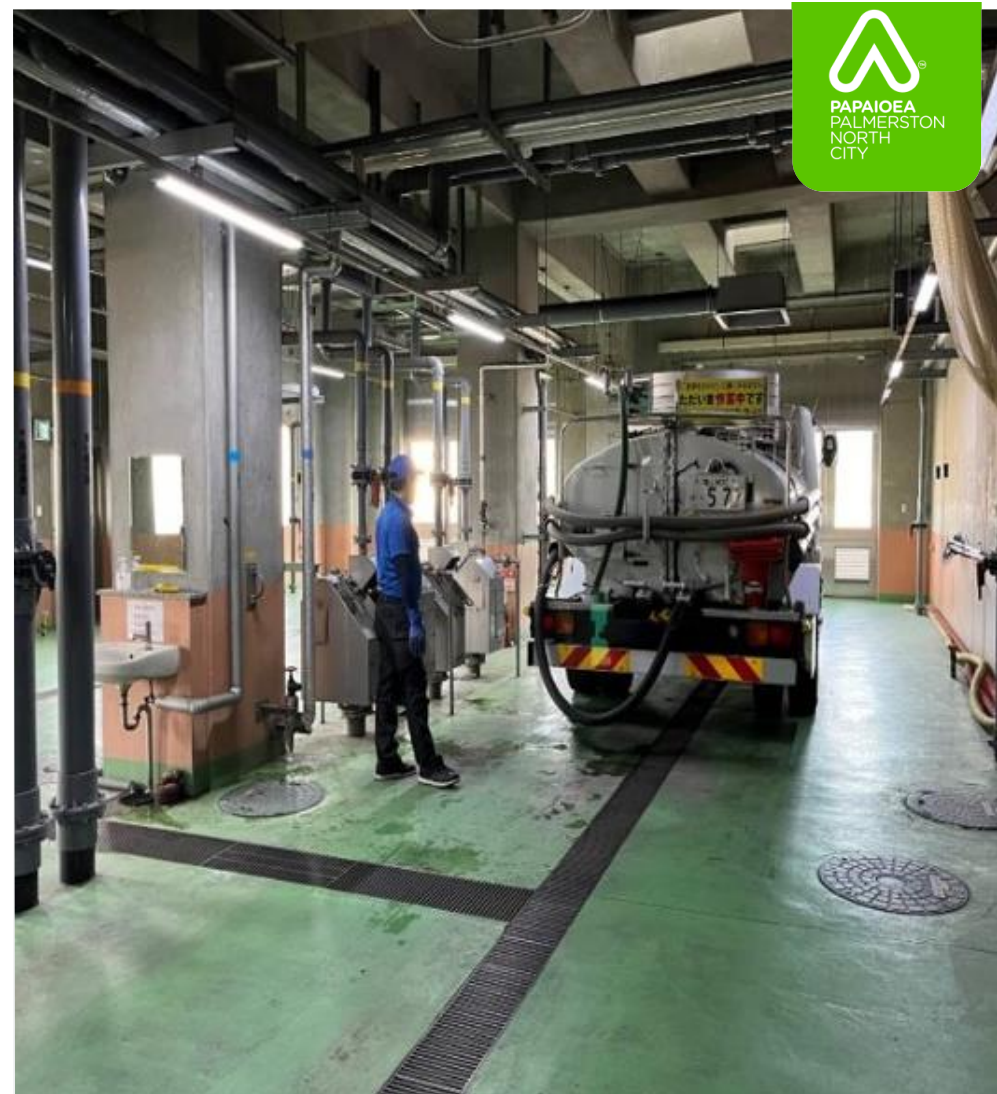


Te Kaunihera o Papaioea | Palmerston North City Council



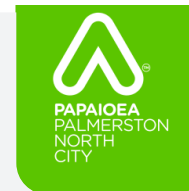
Trade waste treatment

- Industrial & 50% domestic sewage treated at purpose-built facility
- Biosolids dewatered and sent to mixed waste incineration
- Bi-products beneficially re-used



Considerations for Palmerston North

- Incineration rather than landfill is a widely preferred method for disposal of sewage, sludge and kerbside waste
- High level of environmental monitoring for air discharge
- Beneficial reuse of by-products- fly ash used in concrete production, bricks, and land reclamation
- Live dashboard monitoring for compliance and performance of all sites



Many other plants and facilities visited

- Water treatment
- Kerbside recycling sorting
- Fluidised bed incineration
- Emergency management
- Stormwater pump stations
- River re-alignment



Te Kaunihera o Papaioea | Palmerston North City Council



Questions please?

Palmerston North Economic Update

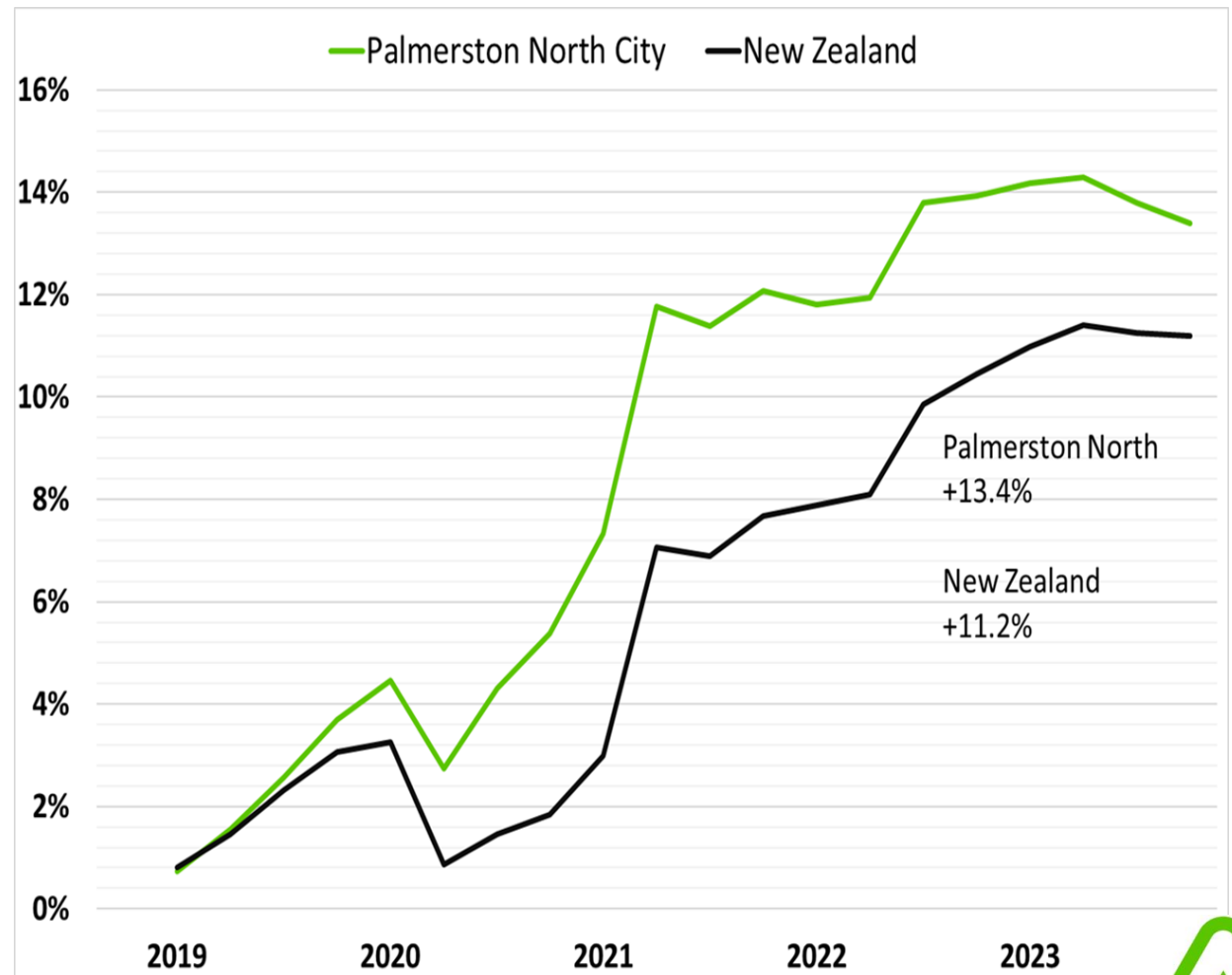
24 April 2024

ECONOMIC UPDATE

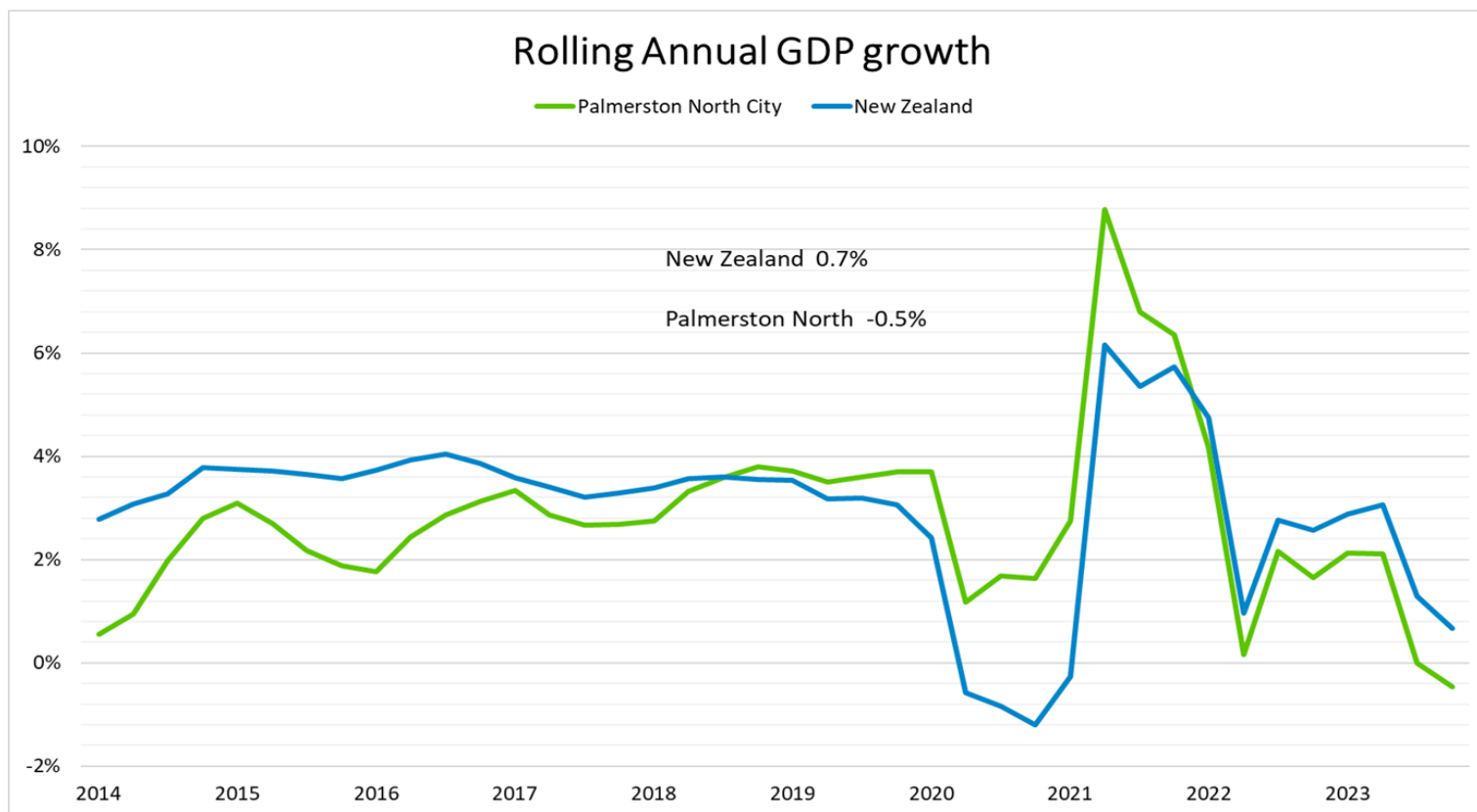
- Economic growth indicators
- Cities snapshot
- Electronic Card Spending Report



It's been a solid
five-years for the
City economy



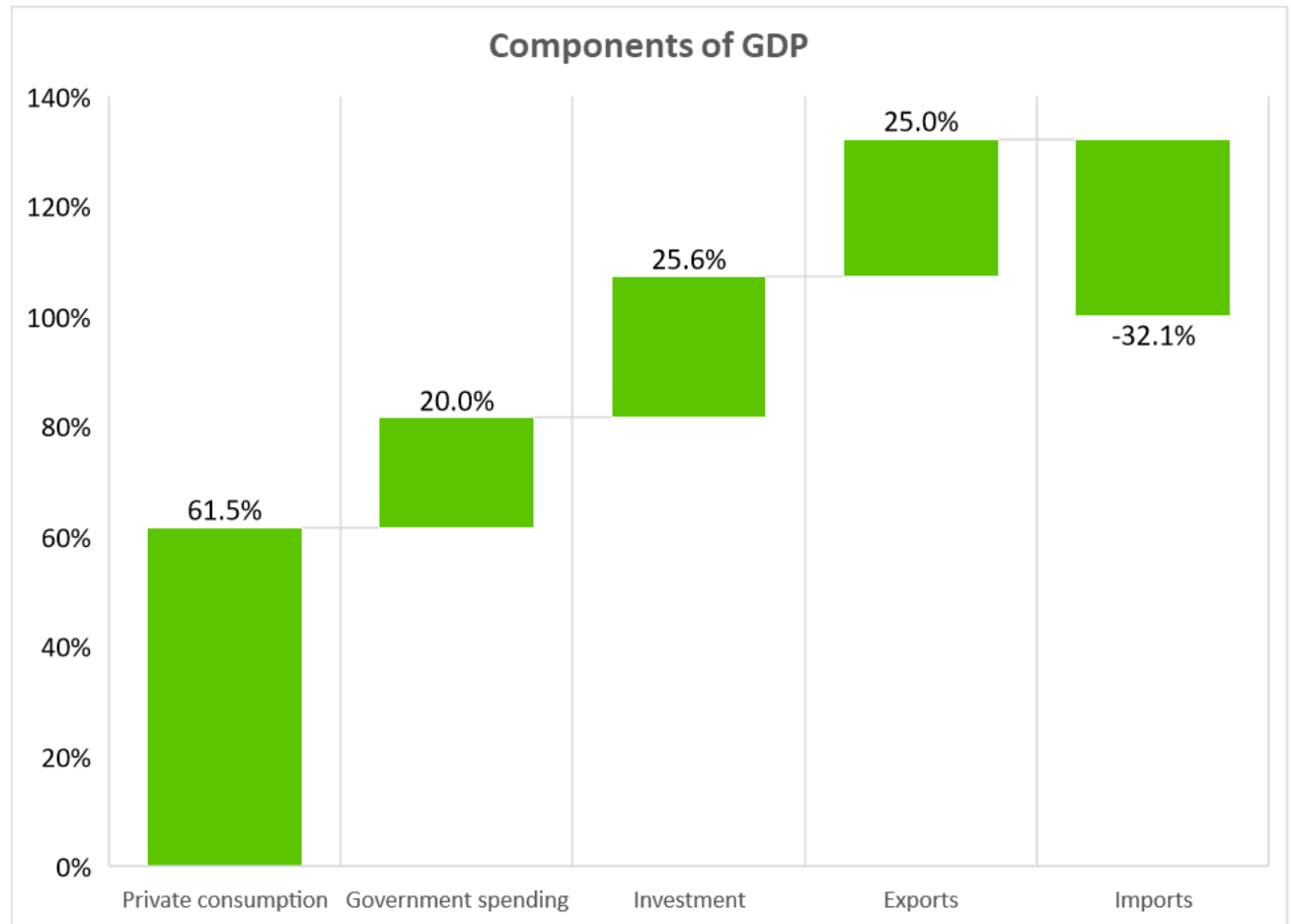
Wider economic challenges weigh on economic activity



Economic activity slowing by design

- It is a national and international story
- Tough time for businesses as consumers shut their wallets
- Efforts of the RBNZ to rein in inflation are working but higher than expected domestic inflation may delay rate reductions
- International conditions volatile
- Economic structure continues to buffer the highs and lows
- Longer term investment outlook positive

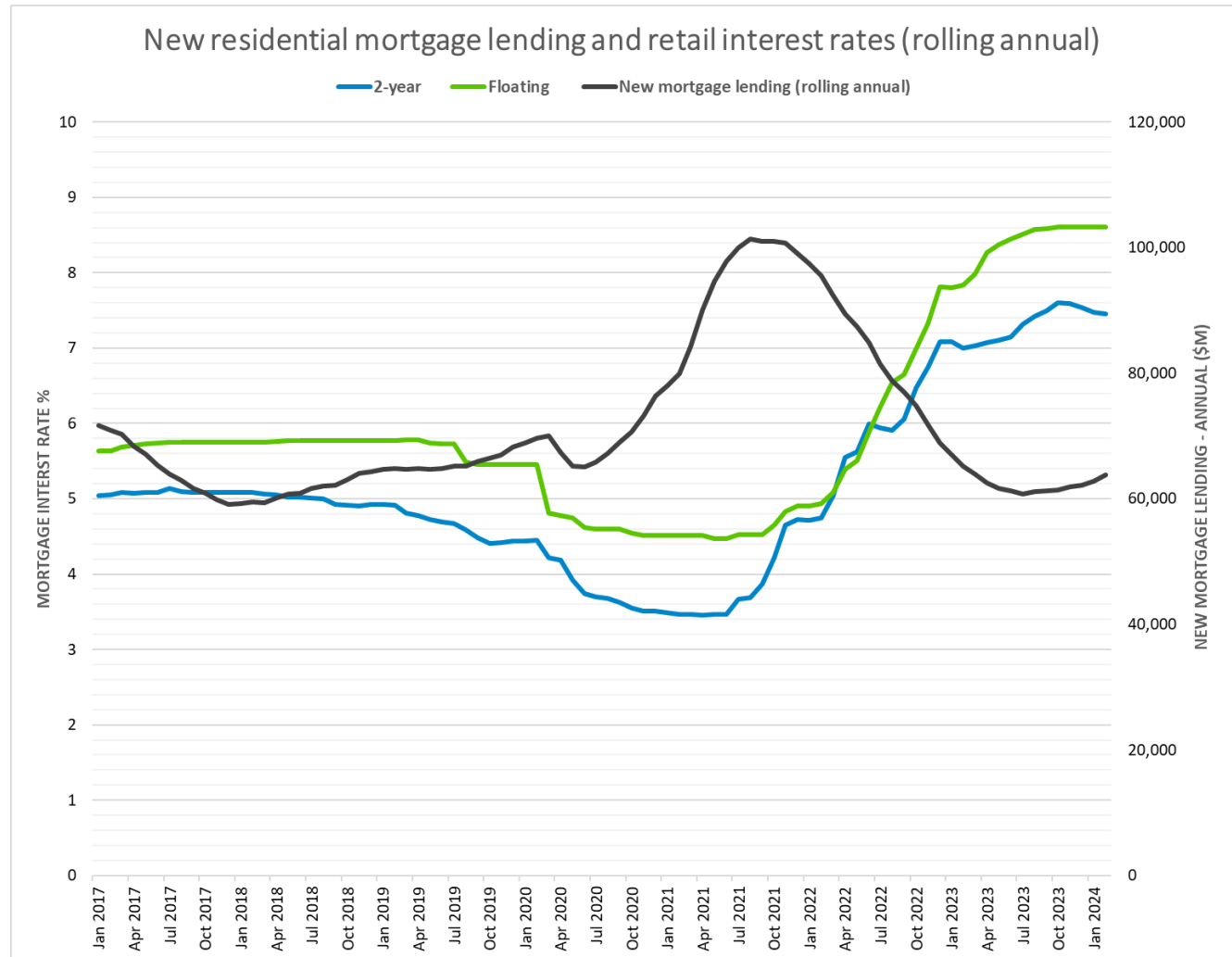
None of this is
surprising








Inflation and high interest rates reduce spending across the economy

- Real decline in annual spending continues
- New car registrations down but not as much as many
- New Commercial vehicle registrations buck the trend
- Guest nights stable compared with strong growth nationally
- CPI falls to 4.0% in the March 2024 year
- Pockets of domestic inflation remain stubbornly high
- NZDUSD low supporting our exporters but also boosting NZD prices for imports
- International conditions volatile

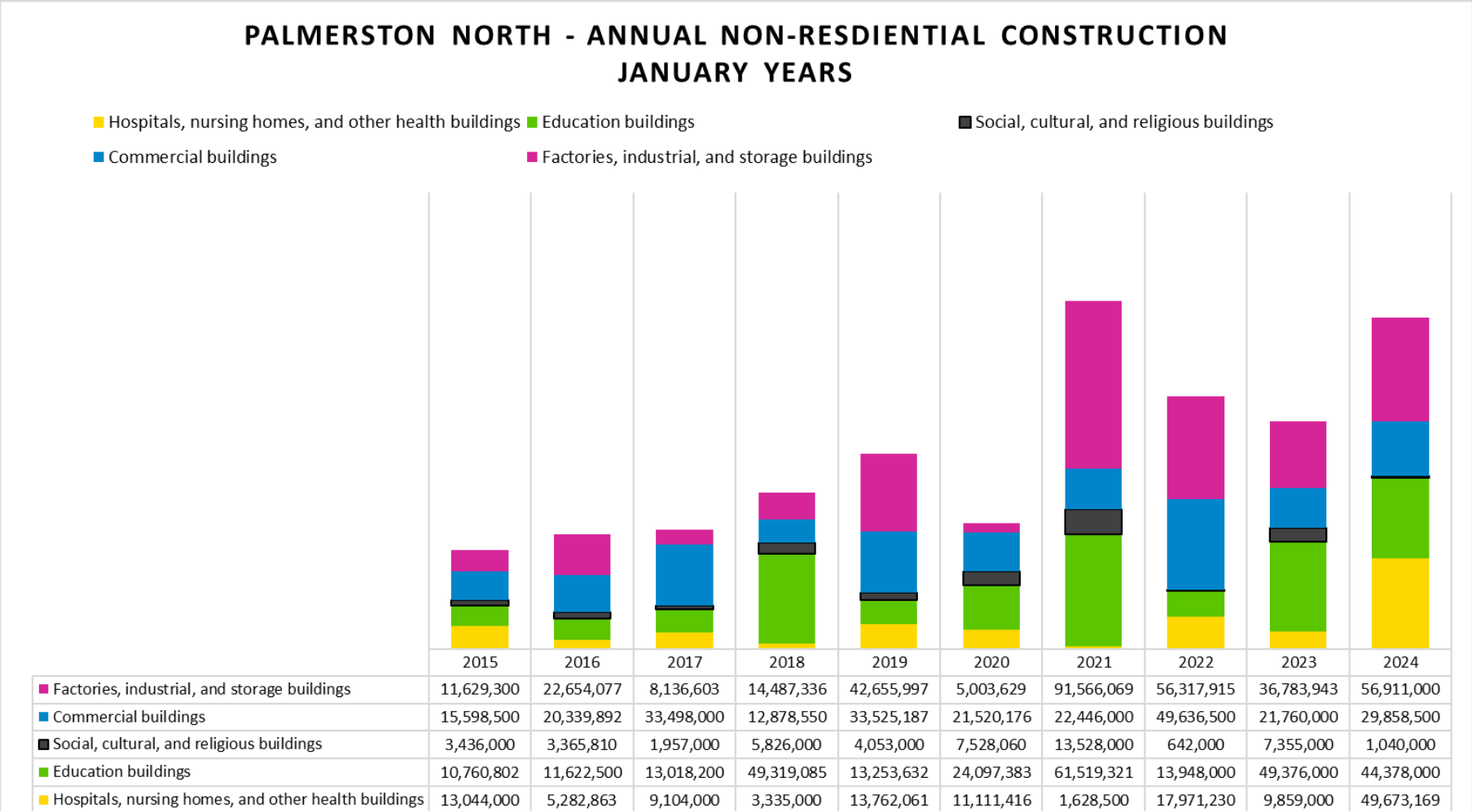
... and weigh on mortgage lending



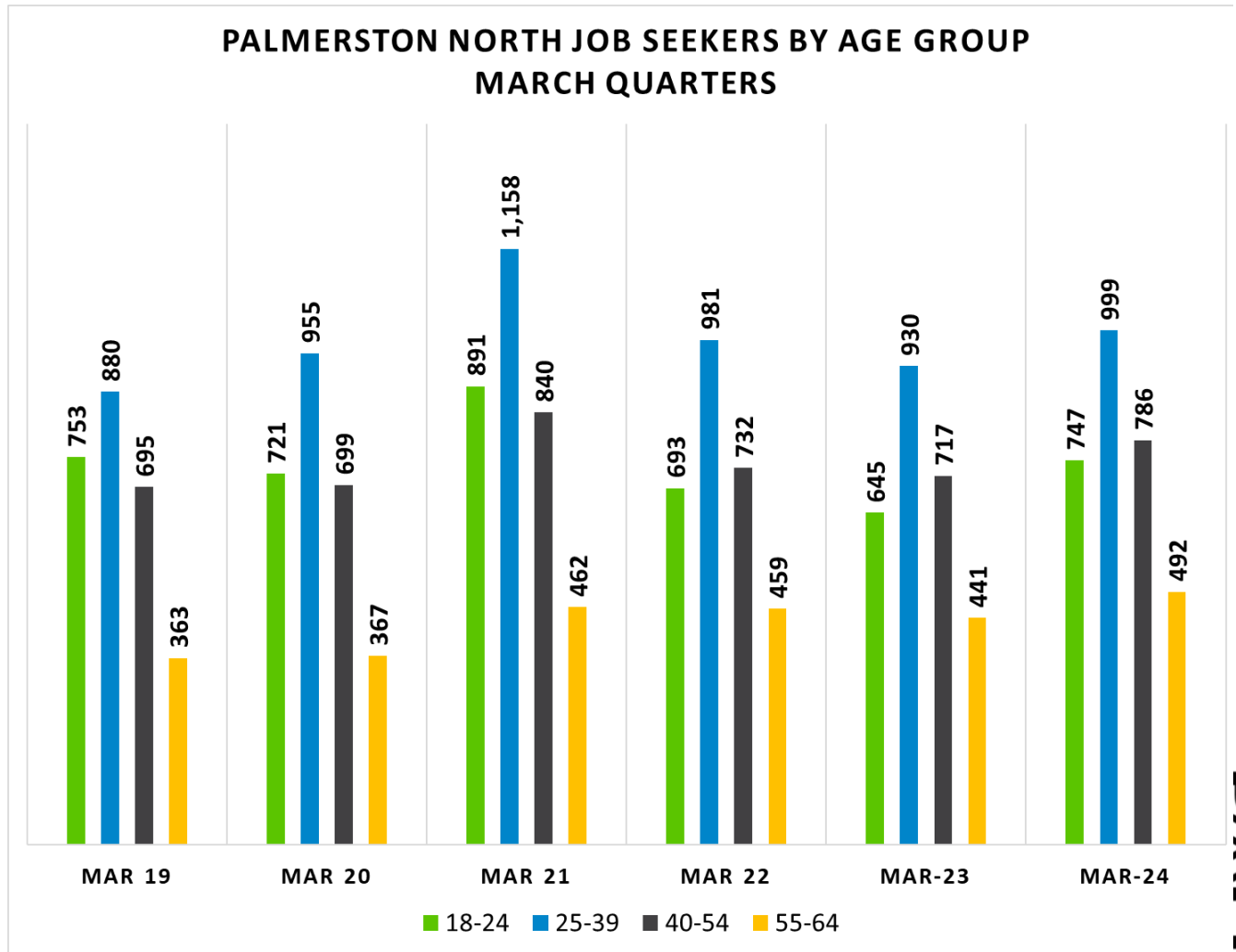
Business and jobs data mixed

Business counts <small>Dec 2023 (a) Source: Infometrics</small>	8,138	 +0.1%	+1.1%
Non-residential construction investment <small>Jan 2024 Source: Stats NZ</small>	\$185.3m	 +42.7%	+4.0%
Filled jobs (place of residence) <small>YE Dec 2023 Source: Stats NZ</small>	35,940	 +2.0%	+2.9%
Filled jobs (workplace location) <small>As at Dec 2023 Source: Stats NZ</small>	46,446	 -2.7%	+2.8%
Unemployment rate (average of four recent quarters) <small>As at Dec 2023 Source: Infometrics</small>	4.4%		3.7%
Change in MSD Jobseeker Benefits <small>As at Dec 2023 Source: MSD</small>	+309	 +11.1%	+11.6%

BOOSTED BY PUBLIC & PRIVATE NON-RES CONSTRUCTION



Jobseeker
benefits rise
across age
groups





Earnings growth reflects tight labour market conditions in 2023

- Earnings +10.0% YE Dec 2023 vs 9.5% NZ
- Median earnings from salaries and wages YE Dec 2022 (excluding self-employment) +6.4% vs +7.5% NZ
- LCI +4.3% YE Dec 2024
 - Private sector +3.9%
 - Public sector +5.7%
- Earnings growth is expected to ease in 2024 alongside easing labour market conditions



Housing market indicators positive for the city

KO contributes to new dwelling consents

Average house value <small>Feb 2024 Source: Corelogic House Price index</small>	\$650,302	 -0.5% <small>Annual change</small>	-1.4% <small>Annual change (\$930,495)</small>
Home ownership affordability <small>Dec 23 Quarter Source: Infometrics</small>	5.2	<small>(Ratio of average house value to estimated annual average household income)</small>	7.0
Home rental affordability <small>Dec 23 Quarter Source: Infometrics</small>	19.5%	<small>(Percentage of average annualised rent to estimated annual average household income)</small>	21.5%
New dwelling consents <small>Jan 2024 Source: Stats NZ</small>	468	 +16.4% <small>Annual change</small>	-26.3% <small>Annual change</small>

Cities snapshot



Indicator	Rank	Value vs average (cities)
Housing affordability	1	5.2 vs 6.4
Rental affordability	1	19.5% vs 23.8%
School attendance	1	56.3% vs 50.8%
Commercial vehicle registrations	1	+1.7% vs -20.8%
Car registrations	2	-2.0% vs -6.6%
Non-res consent values	3	+45.5% vs +21.7%
New dwelling consents	3	+7.1% vs -5.7%
NEET rate	3	+11.8% vs +12.2%
GDP	4	-0.5% vs -0.7%
Guest nights	4	+6.2% vs +7.8%
Consumer spending	4	+3.0% vs +5.6%
Unemployment rate	5	+4.4% vs +3.8%
Employment (place of residence)	6	+1.6% vs +2.1%

Spending highlights

- Spending \$1.5b +3.0% vs 4.3% nationally
- 56.0% of total spend in central city increasing 4.2% over the year
- Accommodation in the city centre +26.6% compared with Dec 2022 year
- Annual spending falls on home and recreational retail (-7.1%) and other consumer spending (-33.2%) .
- Spending on groceries and liquor highest \$ growth (+8.6%)
- Cafes, restaurant and bars spending increases compared with previous year, but are under pressure
- Loyalty rates remain high at 81.6%
- Net flows into the city are positive

Economic outlook

Riding out 2024 is the key theme...

- Elevated cost of living weighing on household spending driving a contraction in spending across the city and national economy
- Likely to continue this year as Interest rate pressures and high costs continue to dampen demand
- Inflation is moving in the right direction raising confidence that interest rates are at their peak and will start to ease by late 2024, early 2025
- Non-residential construction investment remains positive in the city
- Housing and rental affordability stands out, as does the quality of our education
- Characteristics of our public sector and industry make-up will support economic recovery and wellbeing
- In the meantime, times will be tough for many households, businesses and organisations
- Medium to long term outlook remains positive

\$8B INVESTMENT WILL SUPPORT ECONOMIC ACTIVITY



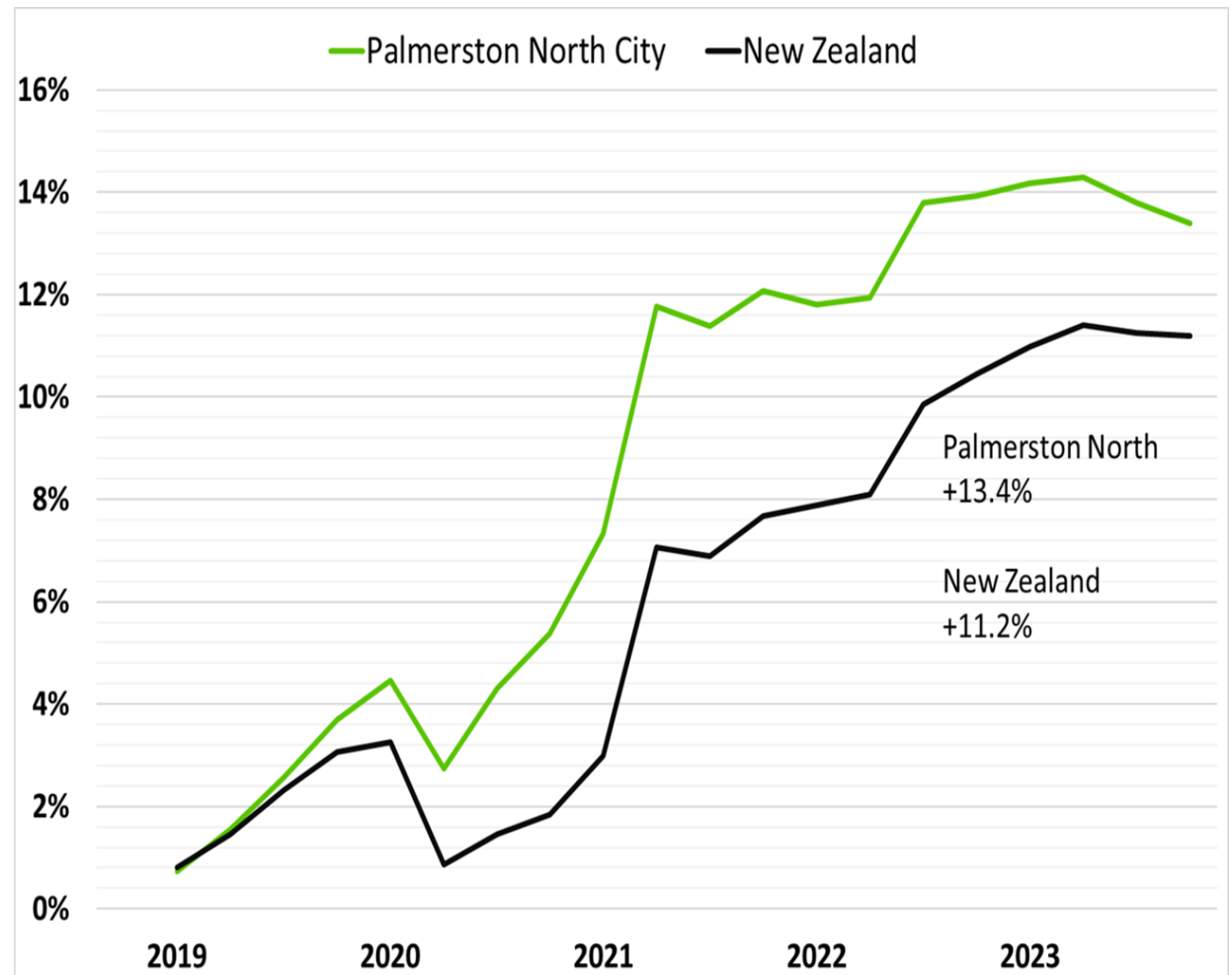
Major construction projects	\$ million
Te Ahu A Turanga (Manawatū Gorge)	650
Linton and Ohakea regeneration plan 2019	660
Mercury Energy - Turitea	450
Massey University capital plan	230
Powerco growth and security projects	245
Te Whatu Ora	427
Private hospital, Milson Line	70
Airport terminal building	40
Manukura School	38
PN Integrated Transport Investment	370
KiwiRail regional freight hub	1,016
PNCC capital investment	1,350
Manawatū district capital investment	308
NZTA Otaki to north of Levin	1,500
Kainga Ora - (496 units PN - Manawatu District - 14 units)	319
Te Rere Hau windfarm replacement	58
Massey Solar farm	10

Questions ?

Palmerston North economic structure

24 April 2024

Robust regional economic performance



Economic structure



- Diverse public sector supported by defence and health

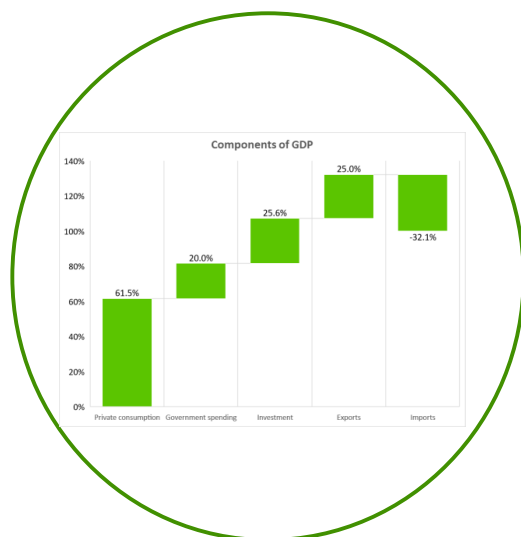


- High-value public and private industry with an eye to the future



- High proportion of workforce in highly skilled and skilled roles

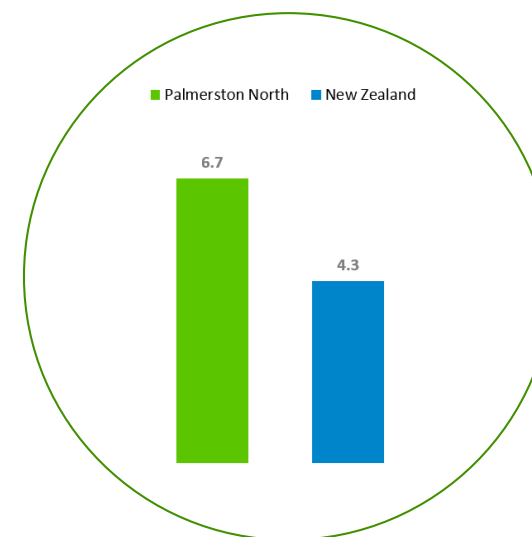
Economic growth



➤ Short term growth under pressure but long term outlook is positive

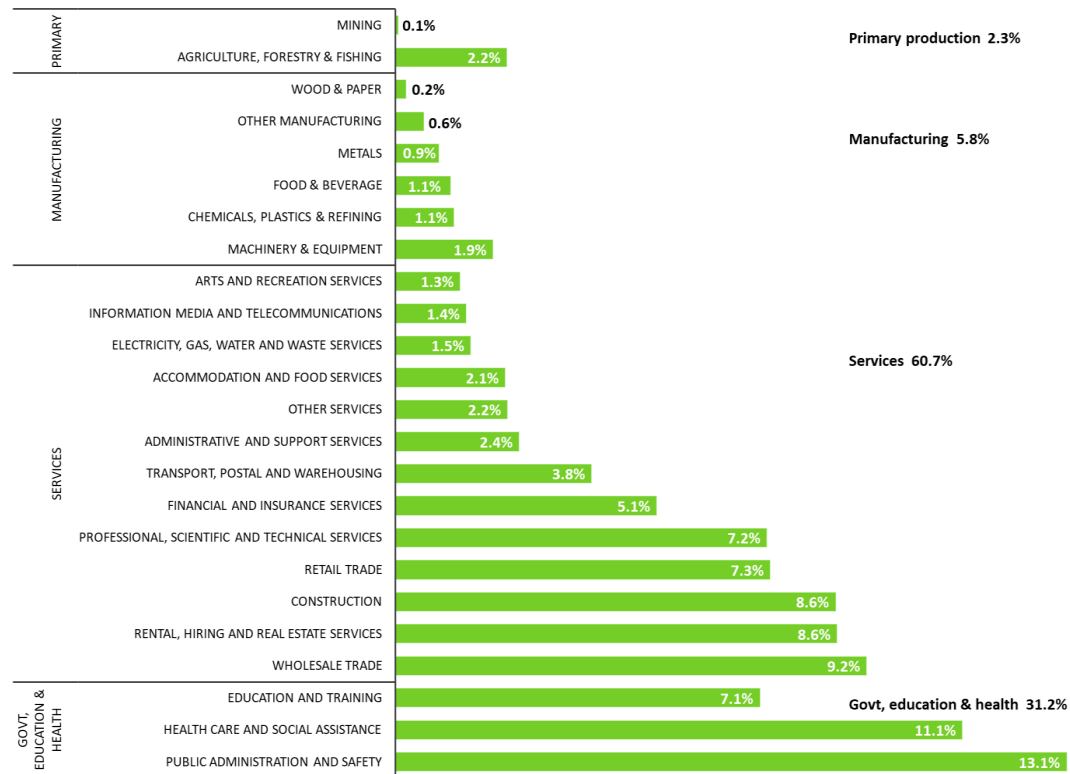


➤ Supported by diverse industry and public and industrial investment



➤ Big business adds to resilience

GDP structure



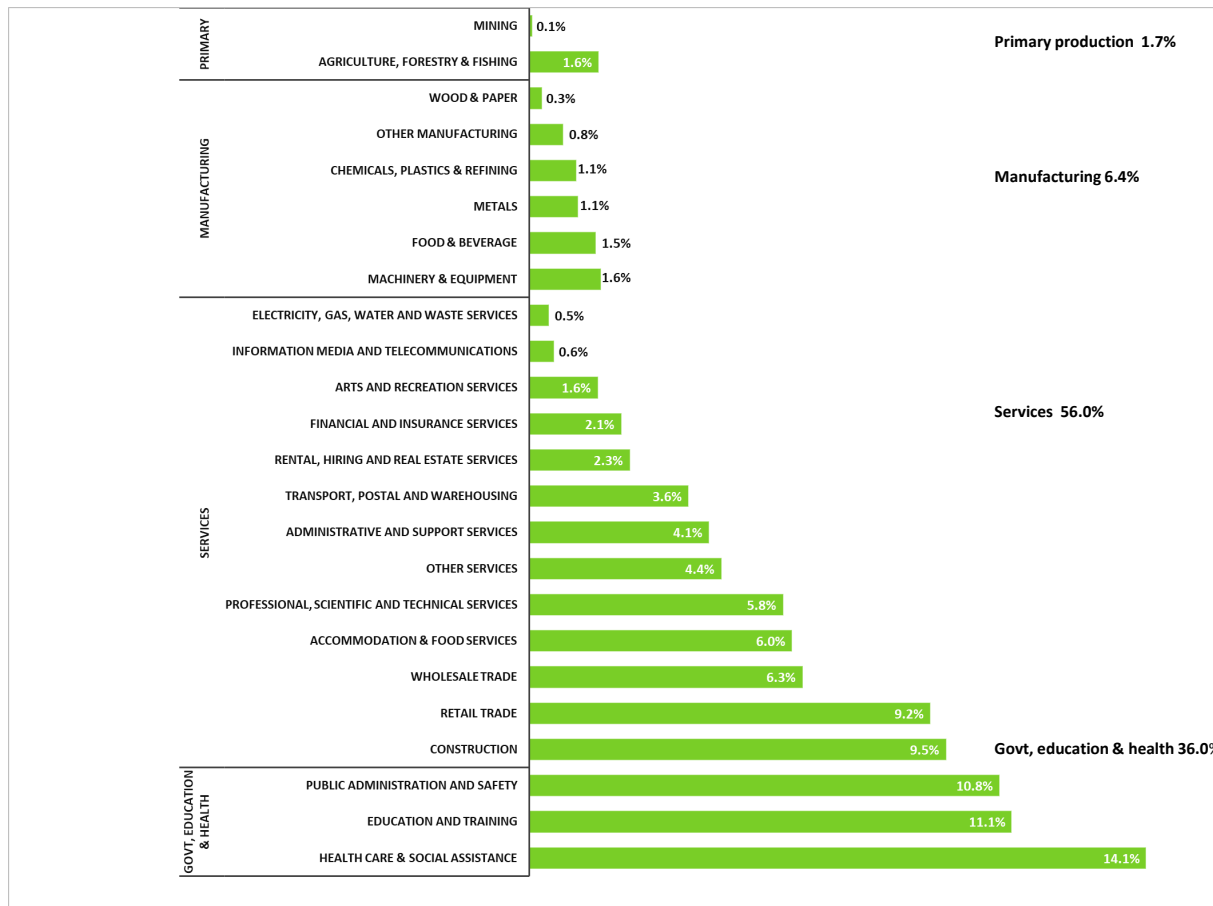
Largest sectors

1. Public admin & safety (\$704.4m)
2. Health care & social assistance (\$594.8m)
3. Wholesale trade (\$494.4m)
4. Rental, hiring & real estate services (\$463.2m)
5. Construction (\$462.0m)

Highest growth sectors

1. Rental, hiring and real estate services (+\$23.4m)
2. Health care & social assistance (+\$21.9m)
3. Professional, scientific and technical services (+\$16.6m)
4. Transport, postal and warehousing (+\$7.8m)
5. Administrative and support services (+\$10.9m)

Employment structure



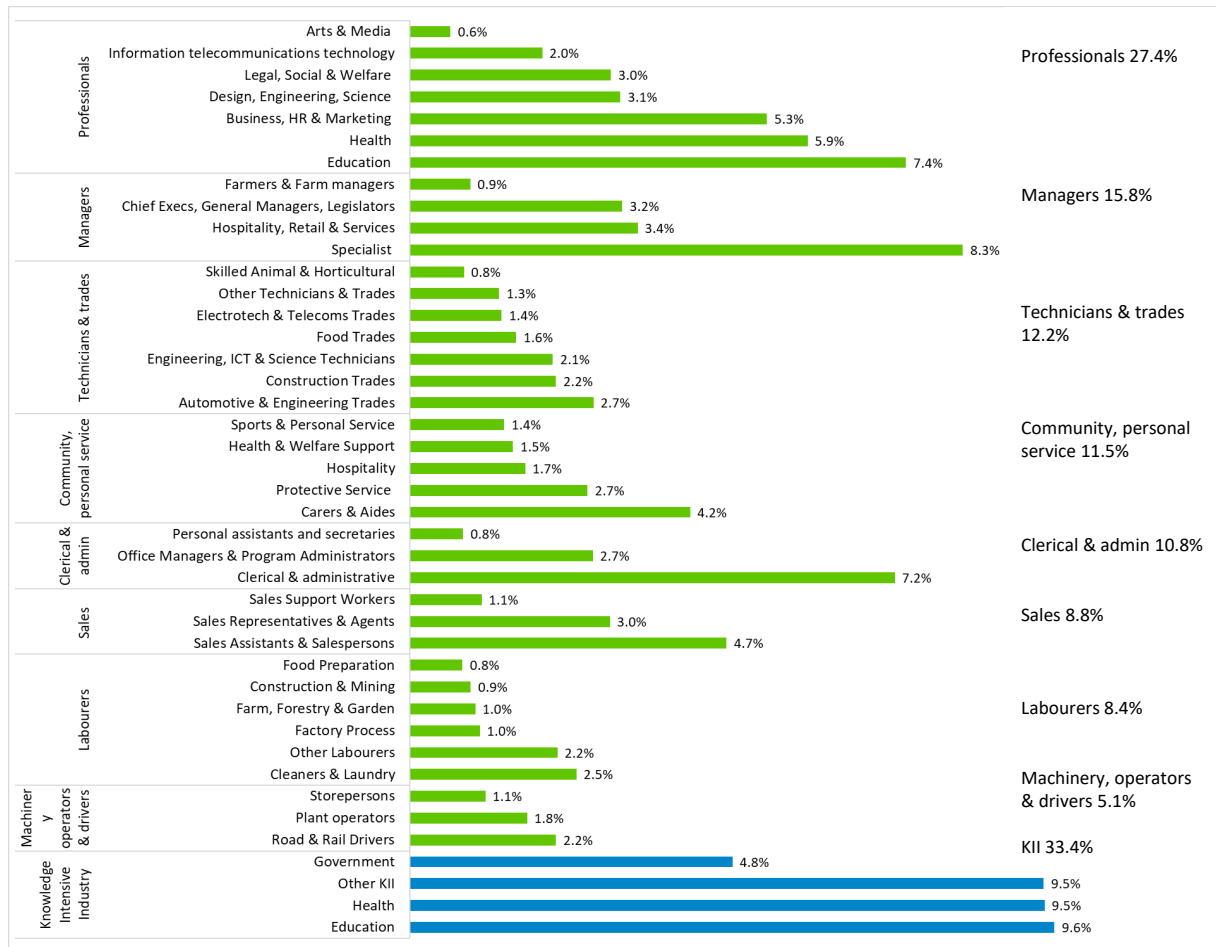
Largest employing sectors

1. Health care & social assistance (8,008)
2. Education & training (6,263)
3. Public admin & safety (6,105)
4. Construction (5,410)
5. Retail trade (5,207)

Highest growth sectors

1. Manufacturing (+132)
2. Construction (+131)
3. Rental hiring and real estate services (+111)
4. Professional, scientific & technical services (+109)
5. Transport, postal and warehousing (+100)

Employment by occupation



KII – 18,928



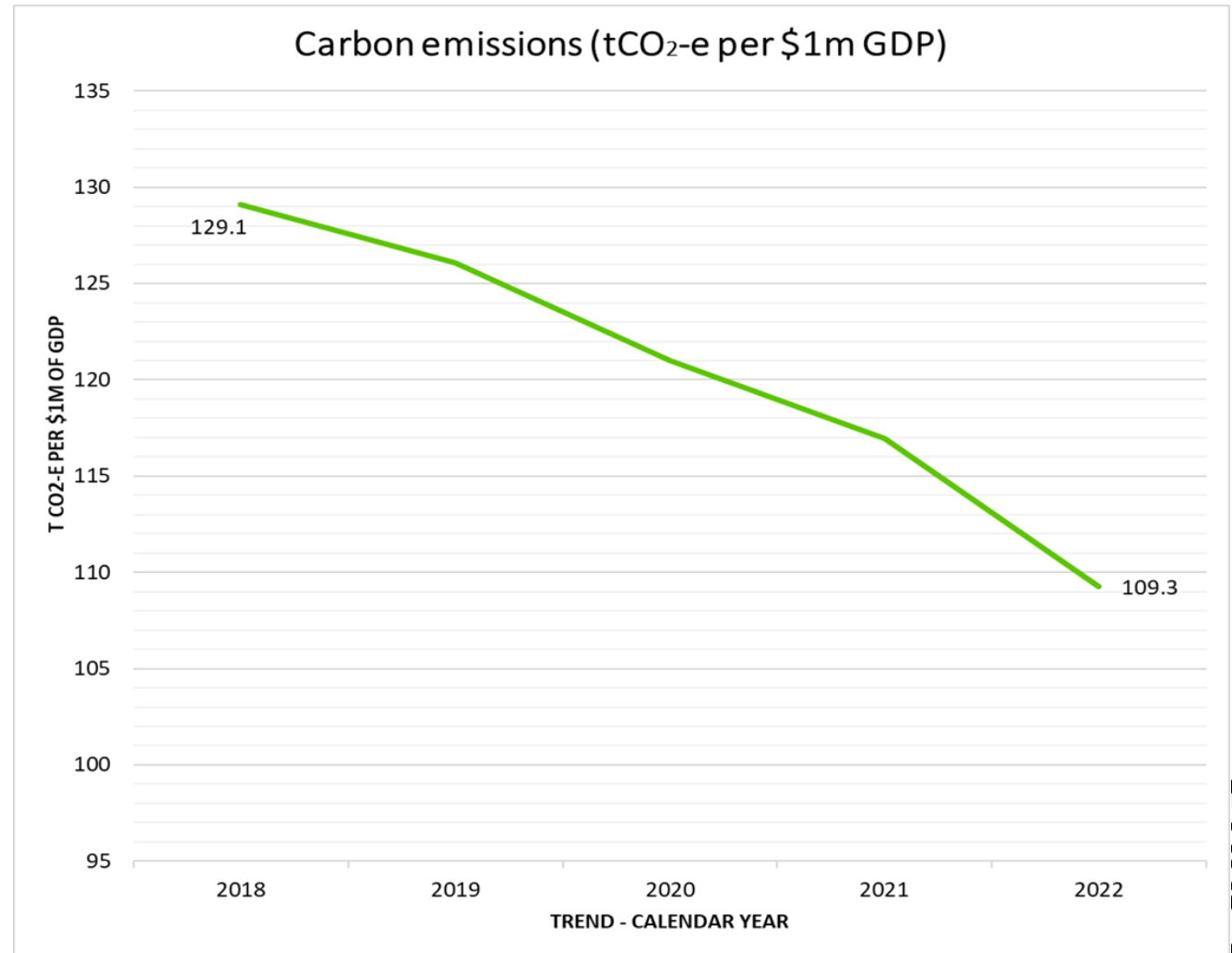
Largest occupation groups

1. Professionals (15,553)
2. Managers (8,929)
3. Community & personal service workers (6,533)
4. Technician & trade workers (6,904)
5. Clerical & admin workers (6,110)

Highest growth occupations

1. Professionals (+168)
 - Health professionals (+62)
2. Machinery operators & drivers (+104)
 - Truck drivers (+27)
3. Managers (+78)
 - Business administration (+22)

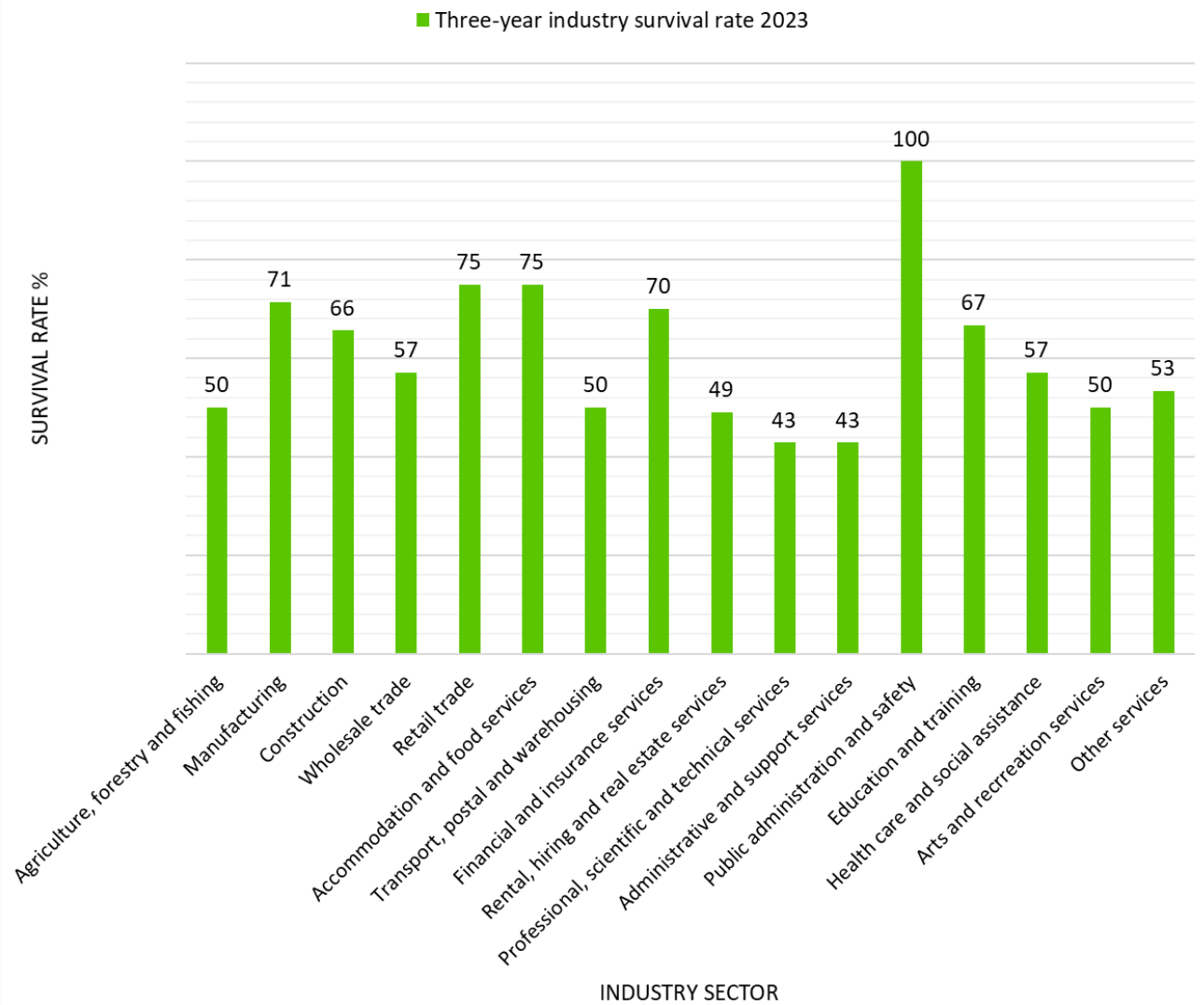
Renewable energy generation drives a decline in emissions by GDP



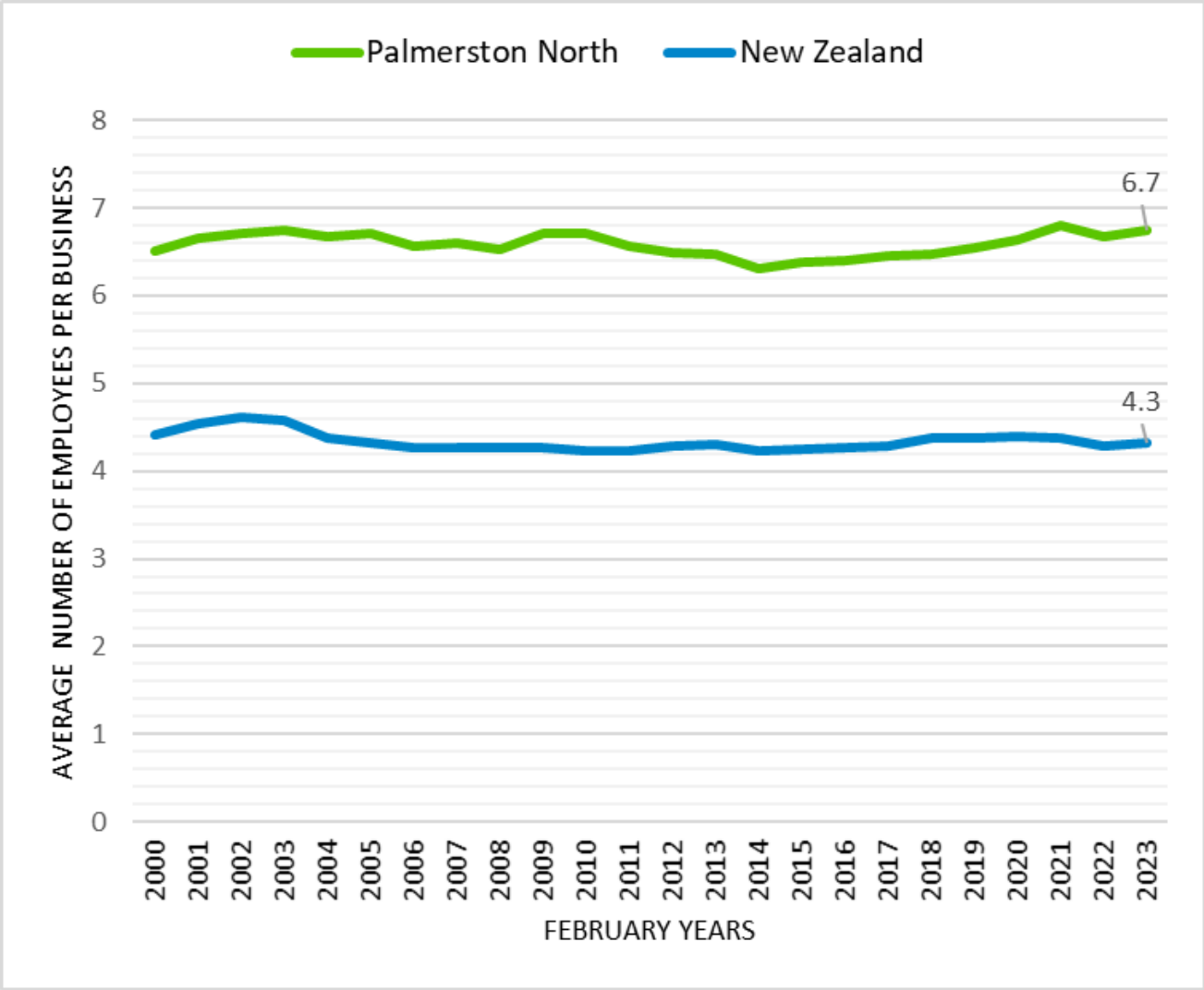
Business survival
trends down



Business survival rates vary across industries



Big business in the city drives up the average business size relative to the national average



Industry outlook

- Economic structure has proven supportive during period of disruption
- Defence and healthcare sectors less vulnerable to structural change
- Big business adds to the sustainability of the city economy
- Disruption of some industries is ongoing and widespread
- Inflation returning to range and easing monetary policy will support business activity



Questions ?