

Report for Agenda Item: 3**Department: Finance, Legal & Regulatory****Statement of Intent, Queenstown Airport Corporation 2018/19****Purpose**

To receive the Statement of Intent for Queenstown Airport Corporation (QAC) for the 2018/19 year in accordance with sections 64 and 65 of the Local Government Act 2002.

Recommendation

That the Council:

- a. ***Receive the Statement of Intent for 2018/19 for the Queenstown Airport Corporation.***

Prepared by:



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GM Finance, Legal & Regulatory

Reviewed and Authorised by:



Mike Theelen
Chief Executive

Background

- 1 The QAC is a Council Controlled Trading Organisation (CCTO) as per Section 6 of the Local Government Act 2002 (the Act).
- 2 Section 64 of the Act requires all CCOs to have a Statement of Intent.
- 3 The Draft Statement of Intent for 2018/19 must be delivered to the shareholder (Council) before 1 March 2018. This was considered by the Council at the 23 March, 2018 meeting.
- 4 QAC must consider any comments that are made by Council on the draft Statement of Intent within 2 months i.e. before 30 April 2018.
- 5 The completed Statement of Intent must be delivered to Council by 30 June 2018.

Comment

6. Section 6 of the Local Government Act 2002 (the Act) creates the following types of organisations for which Councils have governance responsibilities:
 - Council Organisations (CO) - organisations in which one or more local authorities controls any proportion of the voting rights or rights to appoint directors;
 - Council Controlled Organisations (CCO) – Council organisations in which one or more local authorities control 50% or more of the voting rights or have the rights to appoint 50% or more of the directors;
 - Council Controlled Trading Organisations (CCTO) - Council Controlled organisations which operate a trading undertaking with the intent of making a profit.
7. The QAC is a Council Controlled Trading Organisations (CCTO) as per Section 6 of the Local Government Act 2002 (the Act). Section 64 of the Act requires all CCOs to have a Statement of Intent (SOI).
8. Schedule 8 of the Act contains the process for adoption of the SOI, which is:
 - Draft SOI to be delivered to Council before 1 March each year
 - CCO must consider any comments on the SOI that are made by Council within 2 months i.e. before 30 April
 - Completed SOI delivered to Council by 30 June.
 - Council can, by resolution, compel the Board to amend the SOI by omitting or including any of the following:
 - Objectives
 - Statements of the Boards approach to governance
 - Nature and scope of activities to be undertaken
 - Ratio of shareholders funds to total assets
 - Accounting Policies
 - Performance targets and measures by which the CCO will be judged
 - Estimates of the amount or proportion of Accumulated profits or Reserves that may be distributed
 - Kind of information to be provided to Council, including the content of the six monthly report
 - Procedures to follow for the CCO to purchase shares in any other venture

Financial Implications

9. There are no budget or cost implications resulting from the decision.

Local Government Act 2002 Purpose Provisions

10. The Queenstown Airport is a key infrastructure asset for the district. As such, the Council's consideration of its Statement of Intent is appropriate and within the ambit of section 10 which requires Councils to meet the current and future needs of communities for good-quality local infrastructure in the most cost-effective way for households and businesses.

Consultation

11. The report provides a basis for communication between the company and the shareholder, and as such no wider consultation is required.

Queenstown Airport Corporation Statement of Intent

12. The Statement of Intent is one of QAC's key strategic documents. The content forms a summary of its 10-year Strategic Plan and its annual Operating Plan.

SOI Commentary

13. In response to the feedback from QLDC, QAC has made the following changes to the commentary:
- The Directors have adopted and disclosed an external valuation completed by Northington Partners as at 30 June 2018. QAC is valued at \$XX
 - Acknowledgement of the impact the airport has on destination infrastructure pressures and how QAC works collaboratively with QLDC and other agencies to resolve these
 - Inclusion of an objective that **QAC will continue to ensure that its planning is closely integrated to the long-term planning by QLDC for the Frankton Flats, Wakatipu Basin, and Wanaka environs.**
 - Clarification of the timeline for the Wanaka Master Plan
 - Expansion on how Queenstown and Wanaka airports will be operated in a complementary way
 - Modification of the Dividend Policy as agreed with QLDC

Financial Forecast (FY19 to FY21)

14. The 3 year forecast has improved since the draft SOI due to:
- Improvement in aeronautical pricing
 - Tightening of operating expense budget
 - Deferral of some capital expenditure, deferring depreciation and interest costs
15. This has improved Net Profit After Tax (NPAT) and consequently dividends which are calculated on a 50% of prior year normalized NPAT. In these three years there are no normalizing adjustments.
16. QAC forecasts EBITDA to grow with passenger movements, increasing aero prices, improved commercial returns and operating expenditure growing more slowly than in the past. However, QAC expect NPAT to be relatively flat over the three years, slowed by accelerated depreciation of noise mitigation expenditure required under PC35. Consistent with the policy approved by the Board, these costs are being depreciated over the period to FY23.
17. Two versions of the final Statement of Intent are provided, one with changes tracked from the original draft to provide clarity on what has changed and a clean copy that incorporates the changes.

Attachments

- A Queenstown Airport Corporation Statement of Intent 2018-19 (Track Changes and Final).