

A Memorandum of Understanding was established between Air Chathams and Kapiti Coast District Council dated 22 June 2018 along with a supporting Grant Funding Agreement between Kapiti Coast District Council and Air Chathams Limited, dated 26 April 2022. Both documents are attached to this letter. However, some information has been withheld on the grounds that its release would be likely unreasonably to prejudice the commercial position of Air Chathams (see section 7(2)(b)(ii) of the LGOIMA). In responding to this request Council has carefully considered the need to provide information in the public interest and on this occasion has made the decision that withholding the loan documentation is not outweighed by other considerations which render it desirable in the public interest that the information be released. Please note details of the loans have been disclosed in the Council's Annual Reports which can be found here: Annual reports - Kāpiti Coast District Council (kapiticoast.govt.nz).

At the beginning of the Covid lockdowns in 2020, further discussions took place between Council and Air Chathams regarding the difficulties being experienced during that time. Council subsequently resolved on 28 May 2020 to loan Air Chathams \$500,000.

The reports dated 14 June 2018 and 28 May 2020 were considered during public excluded meetings. However, given the time that has passed since then, Council considers there is less sensitivity around the release of the majority of the content of those reports. Therefore, please find copies of these papers and decisions attached.

During discussion with Tim, [REDACTED] I understand that you agreed that you did not require additional search of our email system to be undertaken at this time, as you understood the significant time and cost that it would take. Accordingly, this part of your request has not been responded to.

2. KCDC Discussions, Decisions and Documents

a) Please provide all documentation regarding both discussions in Chambers, private meetings and txt messages

i) Between the Entities & KCDC requesting financial support and KCDC Responses

ii) Internal KCDC documentation, emails and txt messages

Please see the attached reports which were provided to Council in relation to the request for financial support.

As noted above in regards to your original request, I understand that you agreed that you did not require additional search of our email system to be undertaken at this time, as you understood the significant time and cost that it would take. Accordingly, this part of your request has not been responded to.

3. KCDC Consultation with Ratepayers

a) Period of time and dates of commencement and closure of the Consultation Process - please forward wording of the request

i) Outcome of Consultation, number of responders, number for and against

I understand you have previously been provided with information on our website that outlines the consultation that occurred.

In addition, I now attach relevant Council papers which provide further details on this matter.

4. List of Councillors, Mayor and Officers who reviewed and recommended the use of NCDC Ratepayers money to support the Entities.

a) Decision making process

i) Please provide all documentation regarding both discussions in Chambers, private meetings etc

b) Business Case

i) Please forward KCDC Business Case to financially support the Entities Request

c) Cost Benefit Analysis

i) Please forward KCDC Cost Benefit Analysis to financially support the Entities Request

Regarding your request around decisions and documentation, please refer to the attached Council papers.

I can confirm that no business case was produced by the Council.

The voting records of the decisions were as follows:

- For the resolution made on 14 June 2018, it is recorded that the resolution was “Carried”. The way individual Councillors vote is only recorded when a division is called, which did not occur on this occasion.
- For the resolution made on 28 May 2020, it is just recorded that the resolution was “Carried”. The way individual Councillors vote is only recorded when a division is called, which did not occur on this occasion.

5. KCDC Financial support

a) Supply a list of ALL Ratepayers Financial assistance, past, present and future commitments

i) Total of KCDC Financial Assistance agreement with each Entity and period of committed assistance

ii) Identify ALL Sunk Costs to date by Entity dates of payments amounts and reasons for each payment

b) Advise Future financial Commitments

i) Identify all future ratepayers money that has been committed to each Entity, the reasons and breakdown of costs

The Kapiti Coast District Council has provided a loan and grants to Air Chathams Limited in the last five years. The following table provides details of all Kapiti Coast District Council financial assistance, past, present, and future commitments related to ratepayers' money that has been committed:

Financial Year	Recipient	Type	Purpose	Amount
2018/19	Air Chathams Ltd	Grant	Air service support	\$190,000
2018/19	Air Chathams Ltd	Grant	Air service support	\$200,000
2019/20	Air Chathams Ltd	Grant	Air service support	\$174,167
2019/20	Air Chathams Ltd	Grant	Marketing Support	\$24,390
2020/21	Air Chathams Ltd	Grant	Marketing support	\$50,000
2020/21	Air Chathams Ltd	Loan	Re-establish services – Covid 19	\$500,000
2021/22	Air Chathams Ltd	Grant	Marketing support	\$50,000
2021/22	Air Chathams Ltd	Grant	Covid 19 support	\$20,000
2022/23	Air Chathams Ltd	Grant	Marketing support	\$50,000

We are not able to provide details around sunk costs by entity.

There is no Council resolution to provide further financial support to Air Chathams.

6. Benefits to KCDC ratepayers

a) List of all perceived benefits to ratepayers

b) List of all benefits to KCDC Officials and Officers -ie free or reduced costs of flights for themselves, family or friends

c) Number per year of KCDC Ratepayers who have used Chatam Air flights too and from Paraparaumu Airport during the period that Ratepayers have been financially supporting the Airport and Entities

Please refer to the information outlined in the attached Council papers around the benefits for ratepayers.

I can confirm that no agreed benefits were established for elected members or officers in any shape or form beyond the general benefits to the community outlines in the attached Council papers.

Council does not collect detailed information on Air Chathams' flight loadings; therefore, this is a question which is better directed to either Air Chathams or the owner of the airport: Kāpiti Coast Airport Holdings Ltd.

Accordingly, this part of your request is declined on the basis of section 17(g) of the LGOIMA as the information requested is not held by the local authority and the person dealing with the request has no grounds for believing that the information is either—
(i) held by another local authority or a department or Minister of the Crown or organisation; or(ii) connected more closely with the functions of another local authority, or a department or Minister of the Crown or organisation.

7. Ongoing financial commitments.

a) *Is it KCDC's intention of consulting with KCDC Ratepayers if they agree to any further financial support to the entities.*

b) *What is the future plans of Paraparaumu Airport*

i) *Is there any re-zoning plans etc being considered*

ii) *What are the total annual rates for all Entities and Airport land*

I can confirm that in line with Council's obligations to consult under the Local Government Act 2002, that the Council will consult with ratepayers if there are further decisions required around additional financial support.

I am not able to provide information on the future plans for Paraparaumu Airport, as the Council does not own the airport. Therefore, this is a question which is better directed to the owner of the airport: Kāpiti Coast Airport Holdings Ltd. Accordingly, this part of your request is declined on the basis of section 17(g) of the LGOIMA as the information requested is not held by the local authority and the person dealing with the request has no grounds for believing that the information is either—
(i) held by another local authority or a department or Minister of the Crown or organisation; or(ii) connected more closely with the functions of another local authority, or a department or Minister of the Crown or organisation.

I can confirm that Council has not received a private plan change application for future re-zoning related to the Airport.

Details for rates paid by the airport owner can be found by searching the Rating Information Database which is available to the public by visiting the front counter of the Council offices on Rimu Road.

In your email dated 20 January 2023, following your perusal of the annual report you posed further questions which are set out and responded to below:

Please could you point to where in the Financial Statement is the line item detailing the ongoing interest costs to the ratepayers identified?

Council does not track interest costs for individual grants in Financial Statements. Instead, our interest expenses are budgeted based on the weighted average cost of borrowings for the year prior to the budgeting year and our actuals are recognised when actual interests are paid.

Please could you point to where in the Financial Statement is the associated Risk and Mitigation of Air Chatham's should they default of payment of the Loan? (there appears to be no security lodged against default).

The loan is unsecured and has been fully impaired in 2021/22 financial year in accordance with the accounting standards, which can be found in the [2021/22 Annual Report](#). The report indicates that the impairment does not alter Air Chathams' obligations.

What loans or grants has Kāpiti Coast District Council given Air Chathams?

The total of grants and loans to Air Chathams is set out above at question 5.

You have the right to request the Ombudsman to review this decision. Complaints can be sent by email to info@ombudsman.parliament.nz, by fax to (04) 471 2254, or by post to The Ombudsman, PO Box 10152, Wellington 6143.

Ngā mihi,



Kris Pervan

Group Manager Strategy and Growth
Te Kaihautū Rautaki me te Tupu

**Mayor and Councillors
COUNCIL**

14 JUNE 2018

Meeting Status: **Public Excluded**

Purpose of Report: For Decision

COUNCIL SUPPORT FOR A PROPOSED AIRLINE SERVICE

General subject of each matter to be considered	Reason for passing this resolution in relation to each matter	Grounds under Section 48(1) for the passing of this resolution
To seek Council support for a proposed airline service.	<p>Section 7(2)(b)(ii) – to protect information where the making available of the information would be likely unreasonable to prejudice the commercial position of the person who supplied or who is the subject of the information.</p> <p>Section 7(2)(i) – to enable the local authority holding the information to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations).</p>	Section 48(1)(a) - that the public conduct of the whole or the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding would exist.

PURPOSE OF REPORT

- 1 The purpose of this report is to seek the Kāpiti Coast District Council's support for a proposed airline service.

DELEGATION

- 2 The Council has the delegation to make this decision.

BACKGROUND

- 3 In March 2018 the Council was advised by Air New Zealand of their intention to withdraw their Kāpiti-Auckland service, with effect from 3 April 2018. Since that time, the Mayor and Council officers have been working with various parties with the objective of securing a replacement service.
- 4 Air Chathams has expressed an interest in providing this service, and they have started working through the necessary steps to gain technical approval, as well seeking to understand the financial viability of their proposal. [REDACTED]

- 5 There is significant financial risk to any operator looking to replace the Air New Zealand service. While Air New Zealand was operating a financially viable route between Kāpiti and Auckland, they had significantly more market exposure than any replacement provider. This included their levels of marketing and the reach of their bookings engine through their website and through travel agents.
- 6 [REDACTED]
- 7 Given the time that has elapsed since the Air New Zealand service ceased, and noting that passengers have alternatives out of Wellington and Palmerston North, it is expected that initial flight loads could be low, and that it could take some months for a new operator to get up to stable load levels. During this time the airline would be incurring significant losses. This has been Air Chatham's experience when starting services in Whanganui and Whakatane.
- 8 Many Councils, including Whanganui and Whakatane support airline services in their district, especially during the start-up phase through lower landing fees (where they own the airport), underwrites, grants and marketing.
- 9 At the end of April, Air Chathams said that the uncertainty of the financial viability was deterring them from considering the route further. They specifically identified three issues that needed to be resolved before they could provide flights out of Kāpiti Airport. These were airport recertification, reduction in airport charges and a reduction in Airways charges. It is also clear from discussions to date that there is a need for Council support to promote the service as an extension of its existing destination marketing efforts.
- 10 The current Air Chathams proposal is for an initial three year period which aligns with the support options discussed below.

ISSUES AND OPTIONS

Other contributions

- 11 While this report is about the level of support the Council may wish to provide, for context the following contributions are noted:

Air New Zealand

- 12 Air New Zealand has offered a package of support to any airline that steps in to replace the Kāpiti to Auckland service. This includes ground equipment, passenger data and support.

- 13 [REDACTED]

Todd Property/Kāpiti Coast Airport

- 14 [REDACTED]

- 15 In addition, Kāpiti Coast Airport is commencing its airport recertification process immediately (18 months before recertification is required) in order to provide certainty about future requirements as soon as possible.
- 16 This support is significant, as it is widely understood that airports throughout New Zealand do not generate an operating surplus from core airport activity, but rather they rely on ancillary income sources.
- 17 Now that the Airport has announced its support of Air Chathams, the ball is effectively in the Council's court, in terms of what support it feels is appropriate to offer to Air Chathams.

Issues

- 18 The Council will now enter into negotiations with Air Chathams, in order to secure their commitment. The following items will be part of the negotiations, and therefore approval is sought from the Council to negotiate an agreement, up to the maximum proposed for each item:

Airways - Aerodrome Service Charge (ASC)

- 19 [Redacted]

- 20 The Council is working with government Ministers and officials, and is in dialogue with Airways in an attempt to identify a way to reduce this cost to an affordable level. While there is progress, the issue has not yet been resolved, and is thus a potential barrier to the airline service being able to commence.

- 21 The Council therefore needs to consider whether it is willing to provide financial assistance in order to ensure a start date for resumption of flights. It is suggested that an underwrite of up to \$190k is offered to Air Chathams, over the first year of operations, to offset the higher Airways charges.

- 22 [Redacted]

- 23 [Redacted]

Marketing support

- 24 As part of a package of support, Air New Zealand has offered \$50k in funds for marketing the service in the first year, on a matching basis. The Council is the logical partner for this funding, and officers have been working on a proposal based on a commitment from the Council of \$50k per annum, for the first three years. It is proposed that this would be funded from the Council's Economic Development budgets.

Performance underwrite

- 25 As noted in the background section, Air Chathams will be taking a financial risk in commencing with a replacement air service. [REDACTED]
- 26 The Council has been asked to consider what financial support it is prepared to offer. Officers recommend that an underwrite of up to \$200k per annum is offered, over the first three years. This underwrite would only be utilised after other support (such as from Air New Zealand) has been fully used.

Summary of support

- 27 The following table sets out the maximum level of Council support that is being recommended by officers for each year:

- 28 [REDACTED]

- 29 It should be emphasised that the first year of operations is critical and that this is when significant losses are most likely to be incurred. The Air Chathams' operating forecast is very sensitive to changes in passenger loadings. [REDACTED]

- 30 The levels of support being proposed by the Council are maximum commitments. It is expected that through negotiation, and the subsequent operation of Air Chathams' flights that these maximum amounts will not eventuate.

Funding options

- 31 The first action before funding is to lobby the Minister of Transport to reduce the Airways charges. This has been initiated and there is an on-going dialogue which Council officers hope will result in reduced Airways charges.
- 32 The following options have been prepared in order to ensure no additional rates cost to Kāpiti ratepayers:

¹ The preferred option is for the government to fund this, either directly through Airways, or through another funding mechanism, for example, the PGF.
² Matched with an equivalent amount of Air NZ funding.

Option 1: Access the Provincial Growth Fund

33 An expression of interest has already been lodged with the government's Provincial Growth Fund (PGF), for an amount of \$600k towards the airline project. The Council originally targeted the cost of traffic lights plus professional fees for survey and economic studies however the request has been reworked to remove the traffic lights and instead ask for three years of Airway fee reduction (3 x \$190k), plus some minor costs.

[Redacted]

34 [Redacted]

35 [Redacted]

36 [Redacted]

37 [Redacted]

Option 3: further utilise Economic Development funds

38 If the other options do not provide sufficient revenue to cover the support costs that are incurred, or if the Council is not willing to adopt either of options 1 or 2, staff will identify what activity in Economic Development could be reallocated to airline support.

39 This option is not recommended.

CONSIDERATIONS

Policy considerations

40 The Council's Treasury Management Policy notes that loan advances can be made 'to community organisations in exceptional circumstances' and states the following:

40.1 New loan advances are by Council resolution only.

40.2 All loan advances are monitored to ensure that interest and principal repayments comply with the terms of the loan agreement. All loans in excess of \$25,000 are reported on a quarterly basis to the Operations and Finance Committee.

41 The Treasury Management Policy will be amended in July to better reflect the substance of the financial support that is being proposed.

Legal considerations

- 42 If the Council agrees to offer its support to Air Chathams, officers will work with legal advisors to develop legally binding contractual documentation to ensure that Council's position is appropriately recognised and protected.

Financial considerations

- 43 These are as discussed in the body of the report.
- 44 If the current draft Long Term Plan is approved in its current form, the recommended options for supporting Air Chathams will not have any impact on capital or operating budgets.

Tāngata whenua considerations

- 45 This matter has not been discussed with Tāngata whenua.

SIGNIFICANCE AND ENGAGEMENT

Significance policy

- 46 This matter has a low level of significance under Council policy.

Engagement planning

- 47 Officers will commence negotiations with Air Chathams after this report is considered by the Council, based on the level of support that is approved.
- 48 On-going engagement with other interested parties, including Kāpiti Airport, government ministers, members of Parliament and key local business interests will continue. The nature and timing of this engagement will reflect and protect the commercial sensitivity surrounding this matter.

Publicity

- 49 There is significant public interest in the future of air services from Kāpiti Airport. Council has a draft communications plan in place and will work closely with Air Chathams, Kāpiti Airport and other interested parties on any announcement. The Mayor and the Chief Executive will be the Council's spokespeople.

RECOMMENDATIONS

- 50 That the Council:
- 50.1 approves \$50k of funding from the Economic Development budget be directed towards marketing costs for Air Chathams for three years, starting in 2018/19;
- 50.2 approves the following maximum level of support, in addition to the marketing support:



50.3 [REDACTED]

50.4 notes that officers will update the Council as negotiations progress, including with Air Chathams and both the Airways fee and the Provincial Growth Fund;

50.5 notes that the cost implications will be revised as each of these matters is resolved.

Report prepared by Approved for submission Approved for submission

**Ian Clements
Corporate Advisor**

**Kevin Black
Acting Group Manager
Strategy and Partnerships**

**Janice McDougall
Acting Group Manager
Corporate Services**

Restricted

12.1 AIR SERVICE RESTART IN KAPITI**Author:** Ian Clements, Finance Team**Authoriser:** Wayne Maxwell, Chief Executive

Section under the Act	The grounds on which part of the Council or Committee may be closed to the public are listed in Section 48(1)(a)(i) of the <i>Local Government Act 2002</i> .
Sub-clause and Reason:	Section 7(2)(b)(ii) and Section 7(2)(h) - the withholding of the information is necessary to protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information and the withholding of the information is necessary to enable Council to carry out, without prejudice or disadvantage, commercial activities.

PURPOSE OF REPORT

- 1 The purpose of this report is to seek the Council's approval to offer Air Chathams financial support to assist them in re-establishing the Auckland-Kāpiti air passenger service.

DELEGATION

- 2 The Council has the delegation to make this decision.

BACKGROUND

- 3 In June 2018, following the withdrawal of Air New Zealand's Auckland-Kāpiti service at very short notice, the Council supported Air Chathams with the introduction of its new Auckland-Kāpiti service.
- 4 The reason for Council's support is the widespread community support for and appreciation of a regular Auckland-Kāpiti service, as well as in recognition of the important role that the service could play in the economic development of the District.
- 5 The Council's support comprised a number of key initiatives, including extensive lobbying of key stakeholders, liaising with Airways to try to reduce its fees, underwriting Air Chathams' performance and investing in marketing initiatives to support the introduction of the new service.
- 6 There was a good response by the community to the Air Chatham's service with a strong initial uptake and, following a period of adjusting the flight schedule to meet customer needs, passenger numbers continued robustly, up to the point where Air Chathams was forced to suspend its service.

- 7 Monthly passenger numbers since start-up:



- 8 [REDACTED]
- 9 Following the outbreak of Covid-19, Air Chathams stopped its air passenger service in March, retaining only some cargo flights, primarily to the Chatham Islands. While the government has provided some support in this regard, the suspension of the passenger service has obviously come at significant cost to them.
- 10 Fortunately, under Level 2 Air Chathams is now in a position to re-launch its air passenger service, to all its domestic markets. The other two mainland destinations are Whakatane and Whanganui. The Council has been in discussion with the other affected councils – Whanganui and Whakatane – to find a way forward that treats all parties equitably, and meets all parties' expectations. It will be important to approach this with a combined response, if possible.
- 11 A further consequence of the Covid-19 outbreak and the consequent huge reduction in air traffic is the very recent decision by Airways to cease the provision of airfield flight information services at the Kāpiti Coast Airport. Airways has advised that there are no safety or commercial reasons for providing this service.
- 12 The removal of the airfield flight information service will mean that Air Chathams no longer has to pay Airways fees for using Kāpiti Airport, something which has been a significant cost pressure for them. Importantly this reduced cost could help to mitigate some of the initial losses that Air Chathams might experience if it restarts its Auckland-Kāpiti service with a limited flight schedule.

ISSUES AND OPTIONS

- 13 Air Chathams provides a critical connection for our people, and it is a vital component of the District's provincial economy. That is why the Council went to significant lengths to support the establishment of Air Chathams in the first instance, in June 2018.
- 14 A viable air service is a critical factor in ensuring the viability of the Airport. Some analysis undertaken in 2018 identified significant (\$4.2m a year) economic benefits to the district arising from the Airport. This analysis estimated that:
- *the annual net benefit to Kāpiti residents from having access to the airport for travel is \$3.4m.*
 - *the recreational value to Kāpiti residents of the airport is \$0.4m p.a.*

- *wages captured by residents that would be lost to other regions/districts if the airport did not exist total to approximately \$0.2m per year.*
- *the value of non-resident travellers to the district adds approximately an additional \$0.2m per year.*

15 While the number of direct jobs created in the District is minor, the secondary effects through supporting travel and enabling local business to interact into Auckland are recognised through this analysis.

Issues

16 Air Chathams are looking to resume a limited flight service from 25th May and it will be difficult for them to enter the market without financial support.

17 Kāpiti Coast District Council, Whakatane District Council and Whanganui District Council are working together to try to secure appropriate support for Air Chathams, to assist them in restoring their flight operations. While the Council's focus is of course Kāpiti, it is working with the other councils with a view to a common arrangement, and thereafter to share this with the Chatham Islands, noting it is very unlikely that they could be asked to participate in a financial sense.

18 [REDACTED]

19 The difference was that this was a start-up in only one route at a time, and it was able to be supported by underlying revenues from existing routes.

20 For Air Chathams to restore flights now, out of all three provincial airports and the Chathams Islands at the same time, in a fragile economy, has the potential for it to incur significant losses. [REDACTED]

21 As consumer confidence improves, it is anticipated that passenger volumes will return to pre-COVID levels. As numbers rise, flight numbers can be increased, and this will lead to the return to a viable route. [REDACTED]

22 A simplified representation, showing loadings improving at 10% per month, is:



23 [REDACTED]

24 Air Chathams is seeking the Council's support in order to restart operations into Kāpiti.

Options

25 Realistically, there are only two options – to do nothing, or to provide an appropriate level of financial support to Air Chathams to enable it to operate sustainably.

26 A do nothing option is not supported, as this would mean the demise of the Kāpiti route. Air Chathams have been clear that they are unwilling to take this risk and expense on without Council's support.

27 Officers have considered what financial support the Council could provide Air Chathams. It would be disadvantageous for the Council to provide an underwrite or loss-sharing arrangement, principally because it would have to be directly rates-funded. This would severely limit the scale of any funding support that this or other councils could provide to Air Chathams.

28 Therefore officers propose supporting Air Chathams through a loan. This would leverage the strength of the Council's balance sheet which is a better proposition than contributing to Air Chathams operating costs through the use of rates funding.

The proposal

29 The proposal that has been prepared for Air Chathams is an unsecured, interest-free loan of \$1M with a five-year non-repayment period. The term of the loan should give Air Chathams enough time to get through the 'rebound' – to re-establish their service through the inevitable recession, at the same time as the New Zealand economy as a whole starts the process of rebuilding. This should also allow enough time to elapse before making decisions about any future treatment of this funding.

30 [REDACTED]

31 The loan will help Air Chathams overcome any cash flow concerns. It would comprise an upfront payment of \$500k, with the Council able to consider a second tranche of a further \$500k, depending on the circumstances over the rest of 2020.

32 Conditions to be satisfied before considering a second tranche would include government support, and an assessment of the state of the economy at that time.

33 The Council would evaluate Air Chatham's ability to pay at the end of the five years. There will be three options available at that time:

33.1 Repayment over a subsequent period of up to five years;

33.2 Convert the loan to shares;

33.3 Write off the loan over a subsequent period of up to five years.

34 It would be possible to agree a combination of the above three options, depending on the state of the economy, and of the Air Chathams financial performance.

35 As with the government's support for Air New Zealand, the Council would have the option to convert the loan to shares at this time, if Air Chathams is viable but not making sufficient surpluses to enable loan repayment. These shares would be non-voting shares that pay a dividend; it is not proposed that the Council take on a governance role with Air Chathams.

36 The Council must consider the risks that the money might not be able to be repaid, and that the loan might need to be written off. The government is focused on restoring the provincial economies across all of the country. That is why the Council has approached them for financial support, and asked them to underwrite 80% of the proposed \$1m loan.

- 37 This means that the Council would forward the loan funding to Air Chathams, and would be responsible for the debt servicing costs through rates. But in the event of Air Chathams defaulting, a government underwrite of 80% would mean that the Council only suffered a \$200k loss, as opposed to \$1m.
- 38 At the time of writing, while the government has engaged with the Council, it has yet to take a position on whether or not to agree to an underwrite. If no government underwrite is forthcoming, the Council would only consider loan funding of \$500k to Air Chathams rather than the maximum \$1m.
- 39 The other councils are preparing similar proposals to take to Air Chathams, and are also seeking the support of central government.
- 40 It is our understanding that Whanganui may be willing to enter a transaction of up to \$500k on the same terms; and Whakatane would likely have a lower maximum of perhaps \$300k. In total then, the combined loans could be in the order of \$1.8m, and the maximum government exposure would be 80% of this - \$1.44m.
- 41 The Council is confident that a default situation is not likely; however all parties would benefit from the strength of government backing, as has been put in place with small business loans. In these unusual times we cannot make assumptions that would have been reasonable pre-COVID.
- 42 This is about the economic recovery of the provinces. The Council is taking ownership of its situation, and leveraging its strengths – but it really needs government backing.

CONSIDERATIONS

Policy considerations

- 43 In 2018, the Council's Treasury Management Policy was amended to allow the Council to advance loans to any external organisation, not just community organisations, should the need arise.
- 44 All new loan advances are by Council resolution only.

Legal considerations

- 45 Buddle Findlay is drafting a Heads of Agreement document to capture the combined proposal of the three councils.
- 46 If the Council agrees to offer its support to Air Chathams, officers will work with its legal advisors to develop legally binding loan documentation to ensure that Council's position is appropriately recognised and protected.

Financial considerations

- 47 The interest cost of supporting a \$500k loan is estimated at \$4,700 per annum. This can be managed within existing Council budgets. The legal and professional costs will be shared between the participating councils, and can be managed within existing budgets.
- 48 In addition, officers have commissioned Grant Samuel, an independent corporate finance advisor to undertake due diligence on Air Chatham's financial position, on the Council's behalf.
- 49 At the time of writing, this work has not been completed. It is therefore recommended that support is made conditional on the results of this financial due diligence being acceptable to the Council.

Tāngata whenua considerations

- 50 This matter has not been discussed with Tāngata whenua.

Strategic considerations

- 51 This matter contributes to the Council's ten-year outcome of receiving a positive response to our distinct district identity.

SIGNIFICANCE AND ENGAGEMENT**Significance policy**

- 52 This matter has a low level of significance under Council policy.

Consultation already undertaken

- 53 Consultation has taken place, and is on-going, with government ministers, state owned enterprises as well as senior officials from Whanganui and Whakatane District Councils.

Engagement planning

- 54 Officers will conclude negotiations with Air Chathams after this report is considered by the Council, if the recommendations are approved.
- 55 On-going engagement with other interested parties, including Kāpiti Airport, government ministers, members of Parliament and key local business interests will continue. The nature and timing of this engagement will reflect and protect the commercial sensitivity surrounding this matter.

Publicity

- 56 There is significant public interest in the re-establishment of the Air Chathams service. The Council has a draft communications plan in place and will work closely with Air Chathams and other interested parties on any announcement. The Mayor and the Chief Executive will be the Council's spokespeople.

RECOMMENDATIONS

- 57 That the Council approves the support of Air Chathams by providing it with a five-year, interest-free loan of up to \$1 million, subject to:
- 57.1 Officers being satisfied by the financial due diligence work that has been commissioned by the Council.
 - 57.2 A first tranche of \$500k being paid upon that condition being satisfied.
 - 57.3 Any proposal for the second tranche to be paid will be reported to the Council.
 - 57.4 Any second tranche will be subject to a government underwrite being in place.
- 58 That the Council delegates the Chief Executive to undertake all such steps as are considered necessary to execute the loan agreement, including but not limited to:
- 58.1 Continuing discussions with government to obtain a loan underwrite.

APPENDICES

Nil

Memorandum of understanding

between

Air Chathams Limited and Kapiti Coast District Council

Dated: 22 June 2018

This Memorandum of Understanding (MOU) sets out the terms of agreement between Air Chathams Limited (ACL) and Kapiti Coast District Council (KCDC) for the support of airline services at Kapiti Coast Airport.

Background

ACL are interested in starting air services between Paraparaumu and Auckland. Both ACL and KCDC would like the air services from Kapiti Coast Airport to be successful.

The Airways landing charges at Kapiti Coast Airport are significantly higher than any other airport in New Zealand and establishing a new route can take some time. For these reasons, KCDC has decided to provide ACL financial support.

Agreement

KCDC agrees to provide the following financial support:

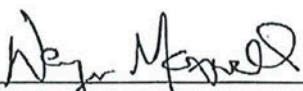
1. \$50,000 plus GST per year for three years to assist with marketing the air service. These costs will be paid directly by KCDC throughout each year. ACL will be consulted on the overall marketing plan for each year.
2. \$190,000 plus GST for one year to reduce the Airways landing charges at Kapiti Coast District Council. This will be paid to ACL in twelve equal payments on a monthly basis, starting on the date the air services start:


If for any reason the air services discontinue, the financial support will be withdrawn.

ACL will provide KCDC monthly passenger numbers.

Review

Nine months after ACL have started air services from Kapiti Coast Airport this memorandum will be reviewed. If KCDC have been unsuccessful in reducing or seeking funding for Airways landing fees, KCDC will consider continuing to support ACL at a similar level. KCDC and ACL will discuss the success of the service and the potential to introduce other routes in the future.

 Date: 22/6/18
Signed on behalf of Kapiti Coast District Council
by:
Wayne Maxwell
Chief Executive Officer

 Date: 22-6-18
Signed on behalf of Air Chathams Limited by:
Craig Emeny
Chief Executive Officer

2021-24 Funding Agreement between Kāpiti Coast District Council and Air Chathams Limited



AGREEMENT DETAILS

This Agreement is dated

The Kāpiti Coast District Council ("Council") grants Air Chathams Limited a total of \$170,000 (excluding GST) ("grant") for the period 1 July 2021 – 30 June 2024 ("period") under the terms and conditions contained in this Grant Agreement.

PURPOSE

This grant is to support the delivery of the following agreed activities ("the agreed activities") by Air Chathams Limited between 1 July 2021 and 30 June 2024:

- Undertake marketing, promotion and communications activities to increase awareness of and encourage usage of the air transportation services provided by Air Chathams Limited in and out of the Kāpiti Coast between the period 1 July 2021 to 30 June 2024.
- A one off grant of \$20,000 to help meet costs incurred as a result of the increased requirements to provide air services during the covid pandemic.

1. PAYMENT

The grant is for multi-year funding and will be paid as follows:

• For the period 1 July 2021 to 30 June 2022	\$70,000
• For the period 1 July 2022 to 30 June 2023	\$50,000
• For the period 1 July 2023 to 30 June 2024	<u>\$50,000</u>
Total	\$170,000

Funding of \$50,000 (excluding GST) per annum can be used to undertake marketing, promotion and communications activities to increase awareness of and encourage usage of the air transportation services provided by Air Chathams Limited in and out of the Kāpiti Coast between the period 1 July 2021 to 30 June 2024 upon receipt of:

- signed grant agreement;
- items specified under 2.1 below "before funds are released";
- a duly authorised and valid tax invoice from Air Chathams Limited;
- proof of bank account authorised to receive funds for Air Chathams Limited.

Funding up to a total of \$20,000 (excluding GST) can be utilised to help meet costs incurred as a result of the increased requirements to provide air services during the covid pandemic over the period of 1 July 2021 – 30 June 2022 upon receipt of:

- signed grant agreement;
- items specified under 2.1 below "before funds are released";
- a duly authorised and valid tax invoice from Air Chathams Limited;
- proof of bank account authorised to receive funds for Air Chathams Limited.

2. TERMS AND CONDITIONS OF FUNDING

The Kāpiti Coast District Council will pay the funds to Air Chathams Limited under the following conditions. Should any of these conditions not be met in a manner that is acceptable to Council, then, if Council considers it appropriate, funding under the grant may be withdrawn or cancelled and any money advanced may be required to be repaid.

2.1 Before funds are released in each term:

- Air Chathams Limited will provide a brief promotional plan for the agreed activities, including confirmation about how the agreed activities will be undertaken and how Council and other partners will work with Air Chathams Limited. The Kāpiti Coast District Council retains the right to use promotional material and images from the agreed activities.

2.2 Post-Project Reporting and Activities:

- On completion of each funding period, Air Chathams Limited is to submit a report to the Kāpiti Coast District Council within two months of the funding period being completed. The report should include (but is not limited to):
 - Confirmation that activities were completed in accordance with the promotional plan provided to Council.
 - Confirm how Council funds were utilised for the projects
 - Feedback on how the projects went (including any issues and learnings)
 - Any media coverage.
- Air Chathams Limited is to provide a selection of high-resolution digital imagery (photos and videos) from the projects for Kāpiti Coast District Council to use for reporting and promotion. Air Chathams Limited will have obtained full permissions from both the photographers and those who feature in the imagery, and Kāpiti Coast District Council will receive permission in writing to use these images in perpetuity and at no charge.

2.3 Further Terms and Conditions:

- Air Chathams Limited agrees to acknowledge the support of the Kāpiti Coast District Council and include the Council logos in all marketing and promotional activity for the agreed activities where agreed by both parties.
- Air Chathams Limited will use only the Council logos provided by Council and do so only in accordance with brand guidelines provided by Council.
- Kāpiti Coast District Council may appoint a photographer to take photos, videos and drone footage (where applicable) at the activities. These images are for promotional purposes and all usage rights will be owned by Kāpiti Coast District Council. This will be at Council's discretion, in discussion with Air Chathams Limited.
- Air Chathams Limited will provide progress updates to Kāpiti Coast District Council on the planning and activities for the activities on a schedule approved by Kāpiti Coast District Council, including but not limited to upcoming activity and milestones.
- Air Chathams Limited will comply with all relevant provisions of the Privacy Act 2020, as applicable, in relation to personal information collected during the services, projects or activities agreed, especially provisions relating to collection, use and storage.
- In the event that Air Chathams Limited becomes insolvent, is wound up or decides or agrees to cease their services or activities, or cease progress of the agreed activities, Air Chathams Limited will return all expended and unexpended grant funds to the Kāpiti Coast District Council within 20 business days of written notice and/or Council will no longer be required to pay any unpaid grant funds. If Air Chathams Limited does not wish to return any expended or unexpended funds, it will need to provide to Kāpiti Coast District Council evidence of how any funds have or will be been used. It will be at the sole discretion of Council to assess the evidence provided by Air Chathams Limited to determine whether Air Chathams Limited is liable to Council for expended or unexpended funds relating to the

agreed projects. The obligation to return fees that have all ready been expended will only apply to funds expended during the current funding period. Funding period is defined as the applicable financial year from 1 July to 30 June.

- This grant is a contribution towards the agreed projects for the specified period. Kāpiti Coast District Council cannot guarantee that there will be any further funds available during or after this period and Air Chathams Limited should not expect or rely on continued funding.
- This document records the entire agreement between the parties and any variation to this grant must be in writing.
- The Council reserves the right to immediately terminate this grant agreement with written notice if Air Chathams Limited does not comply with the terms and conditions contained herein.

KEY CONTACTS

Key contact for Kāpiti Coast District Council is:

Name:

Title:

Email:

Phone:


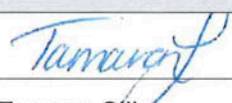
Key contact for Air Chathams Limited is:

Name: Duane Emeny

Title: Chief Operating Officer

Email: duane.emeny@airchathams.co.nz

Phone: [REDACTED]

SIGNATURE(S)	
Signed as a financial disbursement:	
SIGNED for and on behalf of KĀPITI COAST DISTRICT COUNCIL by:	
Signature of authorised signatory:	
Full name of authorised signatory: Natasha Tod	
Position of authorised signatory: Group Manager, Strategy, Growth and Recovery	
Date: 26 April 2022	
Witness:	
Signature of witness:	
Full name of witness: Tamara Silk	
Occupation of witness: Executive Secretary	
Address of witness: 175 Rimu Road, Paraparaumu	
Date: 26 April 2022	

SIGNED for and on behalf of AIR CHATHAMS LIMITED by:	
Signature of authorised signatory:	
Full name of authorised signatory: Duane Craig Emeny	
Position of authorised signatory: Chief Operating Officer	
Date: 26th April 2022	
Witness:	
Signature of witness:	
Full name of witness: Alan Martin	
Occupation of witness: Commerical Pilot	
Address of witness: 18 Kohu Road, Titirangi, Auckland	
Date: 26th April 2022	