



STANDING COMMITTEE ON SOCIAL AFFAIRS

Review of the Fiji Airports Annual Report 2020



PARLIAMENT OF THE REPUBLIC OF FIJI
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COMMITTEE MEMBERSHIP



Chairperson

Hon. Alitia Bainivalu MP

Government Member



Deputy Chairperson

Hon. Ratu Rakuita Vakalalabure MP

Government Member



Member

Hon. Sashi Kiran MP

Government Member



Member

Hon. Viam Pillay MP

Opposition Member



Member

Hon. Parveen Kumar Bala MP

Opposition Member

CHAIRPERSON'S FOREWORD

I am pleased to present the report of the Standing Committee on Social Affairs on the annual review of the Fiji Airports for 2020.

This review was undertaken in accordance with Standing Order 109(2)(b) which mandates the Committee to look into issues related to health, education, social services, labour, culture and media.

The Standing Committee on Social Affairs of the last term of Parliament was referred the Fiji Airports 2020 Annual Report. The same report had been reintroduced in this new term of Parliament and have been referred to the current Standing Committee on Social Affairs. As per the normal process for report scrutiny, the current Committee was mandated by Parliament to review the Annual Report and report back on its findings.

The Committee took note of and deliberated on the previous Committee's succinct work done on the mentioned report. This Report will reiterate the work done by the previous Committee in reviewing and highlighting the contents of the Fiji Airports and make recommendations on the anomalies noted in the report. It will also highlight the discussions held by the Committee with Fiji Airports in relation to the issues noted from its report.

Fiji Airports recorded a net operating profit before tax of \$1,562,095 for 2020. Fiji Airports declared a total of \$175 million in dividends over the last six years from 2014 to 2019. Despite this unprecedented dividend pay-out, the total shareholder's equity stood at \$448,615,954.

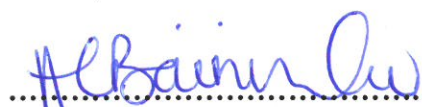
The operation of Fiji Airports was severely affected by the prolonged COVID-19 global economic crisis which negatively affected its revenue. However, it remains steadfast to resolve to emerge stronger as an organisation having as a necessity gained insights, developed strategies, and prudently restructured its business model for the future.

At this juncture I would like to acknowledge the Members of the Standing Committee on Social Affairs in the last term of Parliament for their efforts and input, which has greatly assisted our Committee in the completion of this report.

I would also like to thank the Honourable Members of the current Standing Committee on Social Affairs, the secretariat staff and all other support staff for their valuable input and support.

I also extend my gratitude to the Chief Executive Officer of Fiji Airports, Mr Rowan Chalmers and his staff for their timely assistance in this review process.

On behalf of the Standing Committee on Social Affairs, I commend this Report to Parliament and request all members of this august Parliament to take note of the Report.


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Hon. Alitia Bainivalu
Chairperson

RECOMMENDATION:

The Standing Committee on Social Affairs has conducted the annual review of Fiji Airports for 2020 and recommends that Parliament take note of its report.

1.0 INTRODUCTION

The 2020 Annual Report of Fiji Airports was tabled in Parliament in August 2022 sitting and referred to the Standing Committee on Social Affairs in the last term of Parliament. The same report was reinstated in this new term of Parliament in February 2023 and referred to the current Standing Committee on Social Affairs for its scrutiny and report back on its findings.

Standing Orders 109(2)(b) allows Standing Committee on Social Affairs to examine matters related to health, education, social services, labour, culture and media.

Furthermore, Standing Orders 110(1)(c) authorises the Standing Committee to “*scrutinise the government departments with responsibility within the Committee's subject area, including by investigating, inquiring into, and making recommendations relating to any aspect of such a department's administration, legislation or proposed legislative program, budget, rationalisation, restructuring, functioning, organisation, structure and policy formulation.*”

1.1 Committee Procedure

To reiterate as major work of the report scrutiny was undertaken by the members of the Committee in the last term of Parliament. The Committee met to deliberate on and formulate questions pertaining to the 2020 Annual Report of Fiji Airports. Following this, the Committee held an audience with the Executive Management of Fiji Airports for their response to the Committee's questions and clarification of issues. Upon receipt of all relevant information on the Committee's queries, we compiled our findings on the Annual Report where the current Committee further deliberated upon and subsequently endorsed it in March, 2023.

The previous Committee received written response from Fiji Airports for this annual review. It is available on the Parliament website, at the following link:

<https://www.parliament.gov.fj/Committees/standing-Committee-on-social-affairs/>

2.0 ABOUT FIJI AIRPORTS

Fiji Airports is responsible for the operation of 15 public airports in the Fiji Islands. These include two international airports; Nadi International Airport – Fiji's main international gateway and Nausori Airport – Fiji's domestic hub and 13 outer island airports.

Fiji Airports also provides air traffic management (ATM) in the Nadi Flight Information Region (NFIR). This includes the airspace of Fiji, Tuvalu, New Caledonia, Kiribati and Vanuatu covering an area of six million square kilometres (6,000,000 km²).

Fiji Airports is a fully owned Government Commercial Company (GCC) that was established in April 1999. It came into existence as a result of the re-organisation of the Civil Aviation Authority of Fiji (CAAF) into separate commercial and regulatory authorities under the Public Enterprise Act, 1996.

Fiji Airports establishment was part of an overall Government policy to ensure that government entities were more efficient, productive, and accountable, better organised and more focused on commercial activities and profitability. The outer island airports are operated as part of Fiji Airports social obligation.

Fiji Airports has a dual reporting system where it reports to the minister for Public Enterprise on its commercial performance and to the Minister for Civil Aviation on matters related to policies that govern the aviation industry.

The Public Enterprise Act requires Fiji Airports to carry out the business of:

1. Operating, servicing and providing security to Fiji's international, domestic and outer island airports;
2. Managing air traffic services within the NFIR;
3. Yielding a minimum return of 10 percent (10%) on the shareholders' investment; and
4. Investing in the development of airport and ATM facilities for current and future usages.

Fiji Airports staff continue to work from a \$184 million fixed asset base spread across public airports located over the entire country.

3.0 KEY FINDINGS

- 3.1 The Committee noted the adverse impact of the COVID-19 pandemic on the revenue flow and operations of Fiji Airports. We also heard in detail the diversification plans of Fiji Airports and its associated challenges. We noted how key lessons learnt from the pandemic have been duly incorporated in the planning process of Fiji Airports, to enable better preparedness for future global shocks and uncertainties. Details of these can be found in the written response of the entity.
- 3.2 The Committee draws attention to the following matters raised by the auditor in relation to the 2020 accounts of Fiji Airports. Mentioned also is the entity's response to the Emphasis of Matters highlighted by the auditor.
- Note 2 (a) to the financial statements which states that the Company is complying with the Circular issued on Cabinet Decision No. 357 of 2012 for its accounting treatment of government grants after 1 January 2010, was not in compliance with International Accounting Standards (IAS) 20 *Accounting for Government Grants and Disclosure of Government Assistance*.

Response by Fiji Airports:

This matter has been addressed in the 2021 financial year.

During the year ended 31 December 2012 the Company changed its accounting policy for government grants, including restatement of prior periods, to comply with a circular that was issued by the Ministry of Public Enterprises & Tourism on 14 March 2013. This circular cited Cabinet decision No.357 of 2012 that required all government grants or special funding to state owned enterprises received from 2010 to be treated as a capital contribution.

In March 2016, the Directors were issued a circular from the Ministry of Public Enterprises & Tourism which confirmed that all Government grants received after 9th March 2016 need to be accounted for in accordance with the requirements of IAS 20 Accounting for Government Grants and Disclosure of Government Assistance.

Since the grants that were accounted for capital contribution were all received between 2010 and 2016, the compliance to account these as capital contributions remained which was still not in compliance with IAS 20.

After discussions with Ministry of Economy and Auditor General's Office, it was agreed to account for government grants for all periods (including 2010-2016) in compliance with International Accounting Standard (IAS) 20 Accounting for Government Grants and Disclosure of Government Assistance in the 2021 financial statements.

- Note 2 (e) to the financial statements notes the impact of COVID-19 pandemic on the revenue streams of the Company. As set out in Note 2 (e), to assist aeronautical and commercial customers, a total discount of \$23,377,566 was provided during the pandemic which was recognised through the provision of Expected Credit Loss (ECL). The Company notes, that this directly co-relate with international passenger traffic and will continue until travel restrictions are eased.

Response by Fiji Airports:

There were rental discounts granted to FA tenants during the COVID-19 pandemic. Tourism activity was virtually zero and our airport tenants had no business activity.

The levels of discount or rebate was determined on a case-by-case basis and the severity of impact on the business. Rental discounts were given which amounted to \$23.7M for the year 2020.

- Note 17 to the financial statements describe the Company's loans and borrowings which at financial year end had a balance of \$66.3 million with monthly prepayment of \$869,767. The loan is secured by registered first fixed and floating charge over all assets and undertakings, registered first mortgage over Crown Lease No. 3469 and negative pledge by the Company.

Response by Fiji Airports:

Borrowings were \$66.3M at 31 December 2020. Fiji Airports also has total assets of \$568M of which \$62M is cash.

Total liabilities are \$97M and the shareholders equity is \$448.6M. The general rule of thumb for debt to equity is that debt should not be twice the shareholders claim, or 2:1.

Fiji Airports liabilities are only 0.2 which highlights the very strong position of the company to take additional loans when required for future growth.

- Note 28 to the financial statements notes the financing of the loan facility and the Company has taken additional sum of \$40,000,000 for capital works. The loan facility has been financed through the ANZ Bank in partnership with Australian Infrastructure Financing Facility for the Pacific (AIFFP).

Response by Fiji Airports:

This matter is highlighting the refinancing of the loan in the 2021 financial year. The additional \$40M loan was for the Air Traffic Control System Upgrade, Nadi Airport Off -Gate Aprons (new aircraft parking areas), outer island runway and pavement projects and various other smaller projects.

These highlighted projects are under way and Fiji Airports has drawn down \$17.5m from this facility as of September 2022

- The Company has not undertaken a full review on impairment of assets with zero book values totalling \$4,952,310 included in its property, plant and equipment. The review of the depreciation rates and the economic useful lives of the individual classes of plant and equipment in a progressive and structured manner for consideration and review by the Directors of the Company is yet to be performed. As at balance date, the Company continued to use the assets with zero written down value to generate economic activities without taking into account depreciation expenses in the statement of comprehensive income.

Response by Fiji Airports:

Fiji Airports has recently engaged Marsh to undertake a full valuation of all assets for financial and insurance purposes. Part of the exercise also involves verification and tagging of assets. The results of this exercise will be incorporated into the 2022 financial statements.

4.0 COMMITTEE RECOMMENDATIONS

The Committee recommends:

- 4.1 That Fiji Airports embark on and prioritise the commercial development of its real estate portfolio to maximise its non-aeronautical revenue stream.
- 4.2 That as part of its social responsibility, the Government consider providing support to Fiji Airports for the implementation of its Capital Work Program for Outer Island Airports.
- 4.3 That Fiji Airports prepare a contingency plan which will take into account a possible future event or circumstance.
- 4.4 That Fiji Airports engage in a robust marketing strategy to attract new tenants to occupy commercial spaces left vacant by outgoing tenants.
- 4.5 That Fiji Airports continue to assess the financial sustainability of its tenants to determine level of assistance and rental discounts that need to be provided.

5.0 CONCLUSION

The Committee has fulfilled its mandate to review the 2020 Annual Report of Fiji Airports. As part of its review process, the Committee heard evidence from the Executive Management of Fiji Airports and received a written response.

In this review report, the Committee has highlighted various areas that need to be strengthened by Fiji Airports and relevant recommendations have been made for the resolution of issues.

COMMITTEE MEMBERS' SIGNATURE

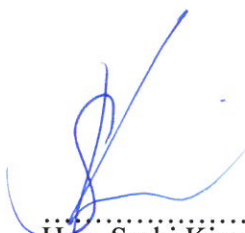
We, the Members of the Standing Committee on Social Affairs, hereby agree with the contents of this report:



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Hon. Alitia Bainivalu
(Chairperson)



.....
Hon. Ratu Rakuira Vakalalabure
(Deputy Chairperson)



.....
Hon. Sashi Kiran
(Member)



.....
Hon. Viam Pillay
(Member)



.....
Hon. Parveen Bala
(Member)

29/03/23

.....
(Date)

APPENDICES

Published written evidence

Written evidence was received from Fiji Airports and can be viewed on the Parliament website at the following link:

<https://www.parliament.gov.fj/Committees/standing-Committee-on-social-affairs/>