

**Cheltenham Borough Council**  
**Economy and Business Improvement Overview and scrutiny**  
**committee – 20th September 2010**

**Cabinet - 21<sup>st</sup> September 2010**

**Gloucestershire Airport Runway Safety Project – project**  
**update**

**Report of the Chairman of the Joint Airport Scrutiny**  
**Working Group (JASWG)**

<b>Accountable member</b>	<b>Councillor Steve Jordan</b>
<b>Accountable officer</b>	<b>Chief Finance Officer</b>
<b>Accountable scrutiny committee</b>	<b>Economy and Improvement Overview and Scrutiny Committee</b>
<b>Ward(s) affected</b>	<b>None directly</b>
<b>Key Decision</b>	<b>Yes</b>
<b>Executive summary</b>	<p>Gloucester City Council (Gloucester City) and Cheltenham Borough Council (Cheltenham) each own a 50% shareholding in Gloucestershire Airport Ltd (GAL). Gloucestershire Airport is operated by GAL. GAL has for a number of years been progressing a Runway Safety Project (RSP) to enable it to comply with the requirements of the Civil Aviation Authority (CAA) so that it may improve airport safety and secure its status as a Code 2 airport. The works when completed will remove existing physical obstacles from the runway approach areas and as a consequence increase the usable length of the existing runways. Works are also proposed to introduce an Instrument Landing System (ILS) which has the potential to make the airport more accessible particularly to the commercial business flight market.</p> <p>The project requires capital investment. In December 2009, the council approved the business plan and agreed to jointly (with Gloucester City council) facilitate borrowing of £1.2m each from the Public Works Loans Board (PWLB) to fund the RSP. The borrowing costs are to be paid for by the airport company and, therefore, there is no cost to the council tax payers of either Cheltenham or Gloucester. In arriving at this decision, the respective councils agreed to enter into a development and funding agreement with GAL, the detail of which was delegated to the Heads of Property and Section 151 Officers to determine.</p>

<b>Recommendations</b>	<p>Since the approval of the borrowing, the airport's appointed project manager had completed the formal tender process and revisited the project plan resulting in a reduced project implementation period which creates a short term cash flow shortfall. This report proposes a variation to the original funding proposal agreed by both councils.</p> <p><b>JASWG recommends that:</b></p> <p><b>(1) E&amp;BI resolves to recommend to Cabinet that it approve the additional temporary borrowing facility of up to an additional £350K (maximum) to support the implementation of the Runway Safety Project and that the Treasury Management Policy be amended accordingly, and</b></p> <p><b>(2) subject to (1) above, Cabinet resolves to recommend to Council that it approve the additional temporary borrowing facility of up to an additional £350K (maximum) to support the implementation of the Runway Safety Project and that the Treasury Management Policy be amended accordingly.</b></p>
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<b>Financial implications</b>	<p>As outlined in the report at section 3.</p> <p><b>Contact officer: Mark Sheldon, mark.sheldon@cheltenham.gov.uk, 01242 264123</b></p>
<b>Legal implications</b>	<p>The council has power under section 25 of the Airports Act 1986 to make loans to the airport as an associated company for the provision of working capital or improvement of assets for the airports business. Any such loan must be made on terms, both as to rates of interest and otherwise, no more favourable than the terms on which the council would itself be able to borrow at the time when the loan is made.</p> <p>It is not considered, for the reasons outlined in the JASWG report dated 19<sup>th</sup> October 2009, that the provision of the loan would breach any prohibition on state aid.</p> <p>The mechanism for the additional funding will be covered in a legal agreement.</p> <p>A decision of full council is required to amend the Treasury Management Policy</p> <p><b>Contact officer: Donna McFarlane, Donna.Mcfarlane@tewkesbury.gov.uk, 01242 775116</b></p>
<b>HR implications (including learning and organisational development)</b>	<p>None arising from this report</p> <p><b>Contact officer: Julie McCarthy, Julie.McCarthy@cheltenham.gov.uk, 01242 774355</b></p>

<b>Key risks</b>	Throughout the project officers from both councils have worked with the management of the Airport Company supported by external advisors and have managed to reduce many of the project risks. The residual risks associated with the project are appended to this report at Appendix 1.
<b>Corporate and community plan Implications</b>	This high profile development has the potential to continue to support significant employment opportunities at the Airport, whose long stated commercial objective has been to stimulate the growth of business aviation to the benefit of local employment and the local economy in general.

## Background

- 1.1 GAL issued an updated business plan for the RSP in April 2007 and both Cheltenham Borough Council and Gloucester City Council (equal shareholders) worked together to agree the borrowing facility to enable the RSP to be funded. In 2009, the councils agreed to facilitate £1.2m each of the borrowing required from the PWLB for onward lending to GAL to fund the RSP.
- 1.2 As joint and equal shareholders both Gloucester City and Cheltenham need to now consider the impact of the conclusion of the tendering process and the re-phasing of the project implementation period on the project cash flow.

## 2. Project update

- 2.1 Since the councils agreed the borrowing, a number of significant milestones in the project have been delivered including:

### Co-operation Agreement

- 2.2 On 17<sup>th</sup> November 2009, the Cabinet of Cheltenham Borough Council approved the recommendation to enter into a 'Co-operation Agreement', delegating authority to the S151 Officer in consultation with the Head of Legal Services, as to the terms of such agreement, and to consult with the relevant cabinet members. This set out the basis for working with Gloucester City Council in supporting the airport. This has been completed and signed off.

### Funding and Development Agreement

- 2.3 On 17<sup>th</sup> November 2009, the Cabinet of Cheltenham Borough Council approved the recommendation to enter into a 'Development and Funding Agreement' with Gloucestershire Airport Limited delegating authority to the Heads of Property and S151 Officers, in consultation with the Head of Legal Services as to finalising the terms of such agreement and to consult with the relevant cabinet members. This has been completed and signed off. The council's Treasury Management Policy was revised and approved by the council in June 2010 to reflect the funding mechanism for the original £1.2m borrowing facility.

## **Land transactions**

- 2.4** On 17<sup>th</sup> November 2009, the Cabinet of Cheltenham Borough Council approved the recommendation to enter into the following land transactions, delegating authority to the Head of Property in consultation with the Head of Legal Services to negotiate the terms of the transactions involving:
- (i) purchase of land at Blenheim House and sale to the owners of replacement land for the construction of a new house and kennels; and
  - (ii) purchase of land for the construction of a new access road to the airport.

Following the tender completion an alternative solution has been agreed with the owners of Blenheim house which allows them to manage the rebuild of their house and kennels on replacement land, ensuring that costs are contained within the original business plan budget and reducing risk to the project delivery. This proposal requires the councils to consider whether this represents 'best value' and, as such, advice has been sought from GVA Grimley. This has been reflected in a revision to the funding and development agreement.

## **3. Financial implications of the updated Business Case**

- 3.1** The project manager has recommended to the project board that they obtain maximum value and benefit from the procurement and construction process and that the timescales for carrying out the work are shortened from 5 to 3 years. In addition, having completed the tender process, some additional costs have been identified which increase the overall project costs from £3.7m to £3.974m.
- 3.2** The reduction in the project implementation period creates a temporary cash flow shortfall which ranges between circa £16k to £664k over the project implementation period. GAL is not requesting that the councils increase the amount of the PWLB borrowing facility but is requesting an additional temporary borrowing facility to support the delivery of the project.
- 3.3** The current projection of the cash flow shortfall is based on an anticipated implementation phasing of the project which may still change. Therefore, in order to ensure that the project is completed to plan without further costly delays, it is proposed that the additional temporary lending facility allows some 'head room' and, as such, an upper limit of £700,000 is proposed i.e. £350k per council. Gloucester City Council's Cabinet approved the proposal at its meeting on the 01 September 2010.
- 3.4** The costs of this temporary lending will be met by GAL hence there will be no cost to either Cheltenham or Gloucester council tax payers. The interest on both the temporary lending and long term lending is built into the business case.
- 3.5** The shareholder dividends, based on a comparison of the business plan approved in late 2009 and the updated project plan and cost, is attached at Appendix 2. Both the potential increased costs and the project re-phasing impact on returns for shareholders reducing the anticipated dividends for the 10 year period 2009/10 to 2018/19 from a total of £950k to £803k, a reduction of circa £147k. Whilst shareholders dividends are reduced in the early years, they are predicted to return to near to the projected original annual levels by year 10.
- 3.6** Both councils have Treasury Management Policies which allow for temporary lending to GAL, although Cheltenham's policy is limited to £1.2m in order to support the project in advance of drawing down from the PWLB. Hence Cheltenham's policy will need to be changed to reflect the recommendation in the report.

**3.7** The airport's most recent trading position for 2009/10 was a net operating loss of £120,000. This was partly as a result of the airport incurring additional project costs associated with RSP to satisfy the shareholders. In addition, given the scarcity and lead in time for training specialist safety staff, the airport have appointed a safety officer, increased fire cover and developed landside and airside operations teams and recruited traffic controller staff to post RSP levels ahead of completion of the project which have impacted on the profitability of the business. Also, the net income from fuel sales has reduced as a result of fluctuating fuel prices. The baseline position for the business plan projections has been adjusted to reflect this position but future projections do not assume any further increases in staffing levels but do reflect a recovery in net fuel income (already recovering in the first quarter of 2010/11). As such, the revised business plan still demonstrates that the financial projections allow for the repayment of loans and, ultimately, the recovery of annual dividends to shareholders in line with the original business case.

## **4. S151 opinion**

**4.1** Overall, a further review by both Section 151 officers of the updated costed business plan concluded that the overall business case is still robust and affordable.

**4.2** External advice from GVA Grimley has concluded that the project delivery plan is deliverable; the conditions necessary to be in place prior to lending to GAL will be in place and that the 'best value' criteria has been met for Blenheim House.

## **5. Reasons for recommendations**

**5.1** The proposal allows for a simple, cost effective mechanism for the RSP project to be completed avoiding further costly delays whilst ensuring that the control over the assets remains firmly with the shareholders and GAL.

## **6. Alternative options considered**

**6.1** A bank overdraft facility is also being considered but this would add further delay and potential cost to the project. The airport may still pursue this option to support the business moving forward.

## **7. Consultation and feedback**

**7.1** This report follows consultation with the JASWG and the request for additional temporary lending has been considered by the Treasury Management Panel. Minutes of these meetings will be circulated to members.

## **8. Performance management – monitoring and review**

**8.1** The RSP will be managed by a project manager employed by the airport company. In accordance with the funding and development agreement, monthly schedules of works will be sent to the councils and signed off by the Quantity Surveyor and GVA Grimley who are providing assurance to the Section 151 Officers that the amount of money to be drawn down is correct.

**8.2** On completion of the RSP, the Bridging the Gap Programme will monitor the achievement of the delivery of additional dividend returns to the councils which have been built into the Medium Term Financial Strategies of both authorities.

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<b>Appendices</b>	<ol style="list-style-type: none"> <li>1. Risk Assessment</li> <li>2. Airport RSP financial projections - comparison of shareholder returns April 2007 v final business plan 2010.</li> </ol>
<b>Background information</b>	<p>The following document is exempt information (Paragraph 3, Part 1, Schedule 12A of Local Government Act 1972) but is available to Members upon request to the Democratic Services Unit.</p> <ol style="list-style-type: none"> <li>1. Updated business plan dated 25 August 2010</li> </ol>

The risk				Original risk score (impact x likelihood)			Managing risk				
Risk ref.	Risk description	Risk Owner	Date raised	I	L	Score	Control	Action	Deadline	Responsible officer	Transferred to risk register
1.	Unable to secure vacant possession of Blenheim House if there are problems finalising the contract on “best value terms” with the owners, resulting in unexpected costs or delays to the project starting in line with the re-phased project implementation plan.	GAL	July 10	4	2	8	Reduce	GAL is seeking a legally binding commitment with the owners of Blenheim House based on a land exchange of equal value plus the budgeted cost of the rebuild. This will transfer the financial risk of rebuilding the kennels to the owners and ensure possession of the land required for the RSP.	Oct 10	Managing Director. GAL	N/A
2.	Unable to obtain planning conditions for Blenheim House and Bank View farms, which meet project requirements and exclude generic conditions related to airport activity which are out of the control of the property owners.	GAL	May2010	4	1	4	Reduce	Planning consent is granted to a site, regardless of ownership. Revised plans will be submitted for Blenheim House by the owners, to take account of an electricity supply cable once more detailed inspections have been undertaken. Delegated Powers can be applied.	Oct 2010	Managing Director. GAL/ Project Manager	N/A

3.	Development and Funding Agreement drafted in advance of the decision to pursue land exchange with the owners of Blenheim House. Further delays and/or additional legal costs.	GAL/ CBC/ GCC	August 2010	3	2	6	Reduce	Minor variations can be added to the original agreement, which has already been signed and sealed by the two councils. No delays or significant costs are expected to execute the agreement.	Sept 2010	Geldards/ CBC/GCC	N/A
4.	Development & Funding Agreement conditions cannot be met to allow S151 officers to authorise onward lending of the PWLB loan to GAL to deliver the re-phased project implementation plan.	GAL/ CBC/ GCC	May 2010	4	1	4	Accept	The agreement includes a 2 year period from the date it is signed for all conditions to be met. External assurance is pending that the conditions are likely to be met (ref. para 4.1). Geldards to co-ordinate unconditionality.	Oct 2010	GAL/ Geldards	N/A
5.	Unable to obtain sufficient and reliable assurance on project progress and continued viability (within the terms of the business case V3.1) before the funds are onward lent to GAL.	CBC/ GAL	April 2010	3	2	6	Reduce	Independent assurance from external advisers on the robustness of the re-phased project plan and the conditions which must be met to proceed (ref. para 4.1). S151 officers have assurance on the continued affordability of the project from their scrutiny of updated business plan projections and forecast net profits. Independent assurance will continue once the project starts.	w/b 31 Aug 2010	GVA Grimley/  151 Officers	N/A



6.	Increased flight activity could breach environmental impact conditions within the GAL Green Policy.	GAL	April 2010	3	2	6	Manage	A recent review of management information shows flight numbers are well within the agreed thresholds and the business case can be delivered within the green policy guidelines.	Ongoing	Managing Director GAL	N/A
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