Cheltenham Borough Council  
Economy & Business Improvement Overview and Scrutiny Committee  
16 January 2008  

Gloucester City Council  
Overview and Scrutiny Management Committee  
21 January 2008  

Gloucestershire Airport Runway Safety Project  
Report of the Joint Airport Scrutiny Working Group  

1. Report objective and recommendation  

1.1 This report follows the receipt of the Gloucestershire Airport Runway Safety Project (RSP) and gives the advice of the Joint Airport Scrutiny Working Group (JASWG) on whether or not Cheltenham Borough Council and Gloucester City Council should agree to support the business case.  

1.2 The JASWG therefore recommends that the business case for the Gloucestershire Airport Runway Safety Project is approved by the Cabinets of both Councils subject to:  

1.2.1 Agreement by both Cabinets to any arrangements required to replace Blenheim House.  

1.2.2 Agreement by both Cabinets to recommend to their respective Councils that Cheltenham Borough Council and Gloucester City Council jointly and equally facilitate the borrowing required from the PWLB for onward lending to Gloucestershire Airport limited.  

1.2.3 A firm commitment from the airport board to prepare a 'green policy' for all activities controlled by Gloucestershire Airport, which is approved by the cabinets of both Councils in early 2008 and reviewed and approved by both Councils on an annual basis. The green policy should include the details identified in para 8.12.  

1.2.4 Agreement by both Cabinets to the specified dividend policy laid out in paragraph 10.17 of this report, subject to the outstanding issues in respect of inflation provisions.  

1.3 Summary of implications  

1.3.1 Financial As outlined in the report.  

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1.3.2 Legal

Decision making

The decision whether or not to support the Business Case rests with the Cabinet of each Council.

The final decision whether or not to facilitate the proposed borrowing by onward lending a loan obtained from PWLB rests with full Council. This is because it will involve changes to the Policy and Budget Framework (Treasury Management Plan and Council borrowing requirement).

The proposed loan

The Councils have power under section 25 Airports Act 1986 to make loans to the Airport as an associated company for the provision of working capital or in connection with the provision or improvement of assets in connection with the Airport 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 making the loan would themselves be able to borrow at the time when the loan is made.

State Aid

The councils will need to be mindful of the ‘state aid’ principles contained in the EC Treaty (Article 87(1)). Further legal advice will be provided on this issue at Committee and in readiness for the report to Cabinet. State aid broadly means financial aid from a public body which favours selected businesses and has the potential to distort competition or give an unfair advantage and affect trade in the European Union. Provision of a loan at less than market rate will, in effect, be a subsidy and may constitute state aid. Essentially the European Commission prohibits state aid, subject to certain exceptions (including the de minimus exemption – 200,000 EUR in 3 fiscal years), or where specific approval is obtained.

Land Transfer

In dealing with any land transfer/land swap arising out of the proposals the councils must follow the usual principles in respect of obtaining best consideration.

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1.3.3 Other

Environmental issues – as outlined in the report

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Economic issues – as outlined in the report

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1.4 Implications on corporate and community plan priorities

1.4.1 Environmental and economic implications as highlighted in the report.

1.5 Statement on Risk

1.5.1 The risks identified for this project are identified in Appendix A at the end of this report.

2. Introduction

The Gloucestershire Airport issued an updated business case for the RSP in April 2007. As joint and equal shareholders both Gloucester City Council and Cheltenham Borough Council need to indicate their support for the proposals before they can proceed.

3. Background

3.1 Gloucestershire Airport is operated by the Gloucestershire Airport Limited. The company is jointly owned by Gloucester City and Cheltenham Borough Councils, both holding a 50% stake. As a result, capital works need the approval of both shareholders and in practice the decision rests with the cabinet of each council. Each council also nominates 3 members of the Airport Board.

3.2 Gloucestershire Airport is located within the area of Tewkesbury Borough Council which determines any planning applications relating to the airport.

3.3 The airport operates under the licensing regime of the Civil Aviation Authority (CAA). The safety restrictions are complex, but put simply the airport cannot make use of the current runway length due to the obstructions at either end. As a result, the pay load of planes allowed to take off and land varies with minor changes in wind and weather. Even so, the airport operates with a number of exemptions to the normal safety standards the CAA expects for this type of airport. If the CAA were to withdraw these exemptions it would further restrict usage.

3.4 In 2005 the Airport issued a 5 year business plan which included proposals for safety improvements to the runway. These were discussed by a joint working group of both councils. Identical resolutions, generally supporting the proposals, were subsequently approved by the Cabinets of both councils. However, there were a number of issues to be resolved before final approval could be given.

4. Current Process

4.1 In April 2007 the board of the airport company issued an updated business case for the Runway Safety Project.

4.2 Following receipt of this report, the Economy and Business Improvement Overview and Scrutiny Committee of Cheltenham Borough Council set up an airport working group of 3 members, on the same terms as before, to review the proposals. It was also agreed to invite the Council Leader, as cabinet member responsible, to join the working group as an observer.
4.3 Further to the elections in Gloucester in May 2007 the Overview and Scrutiny Management Committee of Gloucester City Council set up an external scrutiny task and finish group of 3 members to review the proposals for Gloucestershire Airport. It was also agreed to invite the Council Leader, as cabinet member responsible, to join the working group as an observer. These members then joined with Cheltenham to form the joint airport working group.

4.4 Officers of both councils used delegated authority to employ Mott MacDonald to carry out a technical review of the airport proposals, as they had previously done in 2005.

4.5 A list of questions was then compiled and forwarded to the airport board. The list was compiled using input from members and officers of both councils; issues raised by Mott MacDonald; and questions raised by members of the public.

4.6 On 24th October 2007 the JASWG met with the airport board to discuss the answers provided to the questions raised. There was a detailed discussion on a number of issues and further questions resulted. These and subsequent queries raised have been answered by exchange of emails. The questions raised with the airport board and the answers received are attached as Appendix B.

4.7 The JASWG met again on 22nd November and all members agreed that in principle the RSP should be supported by both councils. There was then discussion of all the outstanding issues needed to agree a potential resolution to cabinet. At this meeting a new issue became clear. This was that Gloucester City Council own the land surrounding Blenheim House, including a small section of the current runway area. In addition, Donaldsons have been commissioned by the City to report on options for future use of this land and are expected to report to Cabinet in March 2008.

4.8 If there is to be a land swap as part of the RSP, it is important that all parties and in particular both councils can demonstrate value for money.

4.9 When the JASWG met 5th December the joint resolution was agreed, although it was accepted that the issues around the land swap would take some time to conclude.

4.10 The Cheltenham Economy & Business Improvement Overview and Scrutiny Committee has received a number of public questions relating to the airport. The issues have been considered by the working group and the original questions and answers are attached as Appendix C.

5. Scope of Report

5.1 The JASWG has concentrated on getting answers to the issues which will help the cabinet decide whether to support the revised business plan.

5.2 It has not looked in any detail at the wider issue of whether the councils should look to sell part or all of its share in the airport or whether some other use should be made of the site of the airport.

5.3 While in Cheltenham the working group was set up by the Economy and Business Improvement Overview and Scrutiny Committee, the JASWG has not restricted itself to the economic aspects of the proposal. In addition to the technical input from Mott MacDonald, there has been officer support on Environmental, Economic and Financial issues. Councillor Fletcher as a member of the working group is also on the Environment Overview and Scrutiny Committee.
6. Proposals

6.1 The option put forward by the Airport Board is targeted at the main runway and is broadly as follows:-

Western End
- Culvert Norman’s Brook
- Demolish Blenheim House and reconstruct nearby in safer location
- Install Instrument Landing System on runway 27

Eastern End
- Demolish Bank View Farm
- Relocate airport entrance
- Install traffic control on Bamfurlong Lane

7. Mott MacDonald

7.1 Mott MacDonald were employed jointly by the two councils because of their expertise on airport issues and in particular because they had undertaken similar work in 2005.

7.2 Their brief was to re-visit the latest plan and to specifically answer the questions set out below:

1) Do nothing option scenario: Is the airport realistic in its assumptions about the reduction in business and income following actions which may or may not be taken by the Civil Aviation Authority relating to the effective runway length?

2) Are the capital costs for the various aspects of the project realistic in terms of costs and timescales?

3) Are the income projections robust and deliverable?

4) Has the company taken account of additional revenue expenditure likely to be incurred as a result of the additional income in the report?

5) Provide an assessment of the rate of investment return from both the company and shareholder perspective.

7.3 Their key conclusions were as follows.

7.3.1 If the proposed RSP obstacle clearance works are not undertaken, there is an additional risk that the declared runway distances will be further shortened and to a much greater extent.

7.3.2 They broadly accept the projected income and dividends as a reasonable return on investment.

7.3.3 Mott MacDonald state that the estimated capital expenditure plan appears reasonable with two exceptions:-

(a) Unless the Airport can show otherwise, the estimated cost of the highway traffic control lights, including power, controls and signage should be increased by £100,000; and
(b) The overall contingency should also be at least doubled to 10% at this stage of the projects’ development.

7.3.4 Mott MacDonald felt that there may be an option to reduce the costs by moving the runway west and thus avoiding the requirements for some of the works at the eastern end of the runway.

7.4 The Cheltenham airport working group met with the report authors and discussed the issues in detail. As a result, Mott MacDonald discussed their suggestion of moving the runway west, in more detail with the Airport Board. As a result, Mott MacDonald accept that this solution is unlikely to satisfy the CAA.

7.5 A meeting of the Gloucester Task and Finish Group was first convened in September 2007. This examined the Mott Mac Donald report. The Task and Finish Group’s comments were then shared with Cheltenham Borough Council’s Overview and Scrutiny Committee.

8. Environmental Issues

8.1 In considering environmental impact, the Cheltenham airport working group focussed on the issue of carbon emissions because of the strong emphasis on the need to tackle climate change driving Cheltenham Borough council’s corporate agenda via the Sustainable Community Strategy 2008-11 Our Future, Our Choice and the council’s business plan Our Plans for 2007/8. The working group has also been mindful of the commitment in Cheltenham’s Climate Change Strategy (2005) to ensure that:

‘Cheltenham Borough Council, through its representation on Gloucestershire Airport Board and Working Group, will ensure that climate change issues are recognised and monitored in future plans for Gloucestershire Airport’

8.2 In its business case for the project, the Airport Board stated its strong commitment to sustainable development and environmental management and to playing its part in meeting internationally agreed targets for greenhouse gas emissions. The working group requested more information about the existing carbon footprint of airport activities and how the RSP would increase or decrease emissions and suggested that predicted increase in the volumes of fuel used is indicative of the scale of increase in carbon emissions.

8.3 In responding to this, the Airport Board stressed that it considers it very difficult to document accurately the carbon footprint of aviation activities and that there is not a clear correlation between fuel consumption and CO₂ emissions from the airport, as the runway improvements will enable aircraft to carry increased fuel loads, reducing the requirements for refuelling elsewhere and improving efficiency.

8.4 In order to gain a clearer understanding of the potential impact on carbon emissions, the working group has been keen to establish how many additional flights could be facilitated by the safety project. The Airport Board has clarified that, after the project has been implemented, unscheduled flights are forecast to increase by 3% to 89,851 flights per annum from a 2006 baseline. Scheduled flights are not included in the business case, but the Airport Board have subsequently clarified there is capacity for a possible three further scheduled services as a consequence of the safety project, which would generate 12 flights a day, or an additional 3,120- 4,356 flights per annum (dependent on whether weekend flying is included). This would increase the total number of potential flights from the airport by 8%. Although extremely difficult to quantify the CO₂ emissions that would arise from these additional flights, it is clear that such an increase is clearly contrary to the Government’s 60% reduction target by 2050 and Cheltenham Borough Council’s carbon neutral aspirations.
8.5 The Airport Board was asked to consider how national proposals to tax aviation fuel or include aviation in carbon emissions would impact on the assumptions in the business plan. The Board clarified that they believed that the impact of eco-taxes would be more on operators and ticket sales rather than on the airport itself.

8.6 The Airport Board has committed to developing a ‘green policy’ by early 2008 and continuing to play its part in minimising greenhouse gas emissions through the use of energy saving measures in the buildings and services within its control and improvements to technical and aircraft operational procedures, such as the Instrument Landing System. The Board has offered to provide a written undertaking to reduce its carbon footprint wherever practicable and committed to working with tenants, operators and business users to follow suit.

8.7 In their business case update the Airport Board stated that a detailed study of local air pollution concentrations has concluded that the project will not compromise local air quality standards. The airport board have subsequently confirmed that this study included the annual movement forecasts for all types of aircraft, including those used for scheduled flights which could be accommodated as a consequence of the RSP. It is worth noting, however, that the Gloucestershire Air Quality Report 2004 flagged up that ‘any growth at the airport has the potential to impact upon efforts to improve upon, or maintain, good air quality’ and further monitoring work may be needed via the Green Policy to ensure local air quality does not deteriorate.

8.8 The Airport Board has stated its commitment to working with operators to reduce noise pollution, aiming to improve operational procedures and to monitor noise and flight paths. Detailed noise modelling has been carried out to assess the impacts on the local community. This has indicated that noise levels will remain broadly as the present day, if not slightly decreased with the introduction of the ILS which will enable quieter and more fuel-efficient landings which would reduce air, as well as noise, pollution.

8.9 The landscape and visual impact of the runway safety project were considered in the business case update and detailed ecological and wildlife constraints surveys were undertaken. The Airport Board has stated that the preferred options for development have been chosen to avoid detrimental and adverse effects and that an effective landscaping scheme would be developed in accordance with EA requirements.

8.10 The business case update and working group have not considered traffic impact as the runway safety project, as originally proposed, was not based on a premise of significant growth and was therefore considered unlikely to result in significantly increased traffic levels. The airport board have subsequently confirmed that the airport’s existing infrastructure is sufficient to comfortably accommodate modest growth. Mention is made in the business case update of future development opportunities beyond Year 5 of the business plan, which could include direct access to the A40/M5 junction and generating additional income from increased car parking, but these long term possibilities have not been examined by the working group.

8.11 A detailed analysis of the air quality, landscape and ecology, noise and traffic issues has been provided for Tewkesbury Borough Council’s consideration of the Airport Board’s planning applications using the airport board’s forecasts of future flights.

8.12 The recommendation therefore includes a requirement for the airport board to prepare a ‘green policy’ for all activities controlled by Gloucestershire Airport, which is approved by the cabinets of both stakeholder councils in early 2008 and reviewed with them on an annual basis. The Green Policy should include an annual target for reducing carbon emissions from ground operations; establishing the carbon footprint of all existing and proposed flying activities (including any new scheduled
services); identifying steps being taken already to reduce climate change impact and ensuring that climate change issues are addressed in future plans for the airport; developing a green travel plan for employee travel and using the green policy to work closely with tenants, operators and business users to reduce their carbon footprint. If further scheduled services are introduced, the annual review of the Green Policy should also include an assessment of the impact of these additional flights on local air quality, noise levels and traffic congestion.

9. Economic Issues

9.1 In relation to the airport business plan there is a clear economic advantage of carrying out the RSP rather than the “do nothing” scenario.

9.2 The Mott MacDonald report clearly states that if the CAA review their position and the runway declared distances are reduced, this will lead to a loss of jet and regional aircraft movements resulting in a subsequent loss of landing fee income and fuel-related income.

9.3 The current 997m landing distance on the primary Runway 27 is already inadequate for a number of potential operations. If the proposed RSP works are undertaken, the landing distance will be increased to 1,159m, which will permit more higher-value operations.

9.4 Demand for business aircraft activity is increasing, however Mott MacDonald have concluded that a reduction in landing length would result in a reduction of approximately 1,350 movements annually.

9.5 It is conceivable that the reduction in declared distance will deter some operators from operating into the Airport and that a number of operators and their support services would be forced to relocate or potentially reduce the scale of their commercial operations.

10. Financial Issues

10.1 Project costs
The airport business plan for the RSP project included initial estimated costs of approximately £3.2m, including a 5% contingency, to be financed partly through the use of accumulated reserves and partly through borrowing. This provides funding for the following areas of expenditure:

- Professional consultancy fees
- Purchase, demolition and rebuilding of Blenheim house
- Purchase and demolition of Bank View Farm
- Culverting of the brook
- Purchase of 4 acres of fields
- Removal of poles etc.
- Installation of ILS
- Alterations to access road
- Traffic signals on Bamfurlong lane
- Runway safety repairs
10.2 Mott McDonald reviewed the estimates for the project capital costs and concluded that, in their opinion, they were sufficient to fund the project with the exception of:

- the 5% contingency (£165,000) should be increased to 10%.
- The estimate for the signal work was insufficient. However, the airport has obtained updated quotations for the specific works required which would indicate that, although more than that originally estimated, it was less than suggested by the consultants and would be accommodated within an increase in the contingency sum to 10%.

10.3 Given this feedback the airport have agreed to increase the overall project costs estimates to £3,366,000 to take into account the points raised. Although this was not originally budgeted, the interest rate assumed for PWLB in the financial projections was based upon 6% and, given the current interest rates, the amount projected to fund borrowing should be sufficient to cover the actual borrowing costs and the revised project cost. Overall, the financial projections are sufficiently robust enough to deliver the project, a view confirmed by Mott McDonald.

10.4 The airport company propose to finance the revised cost of the business plan (£3,366,000) partly through the use of accumulated reserves (£1.566m) and partly through borrowing (£1.8m).

10.5 Profit and loss projections
The airport business plan contains financial projections for a period of five years comparing the profit and loss accounts for both the ‘do nothing’ and investment options. A summary of these projections is attached at Appendix D and is based upon the assumption that investment will be funded partly from airport reserves and partly from borrowing from PWLB funding facilitated jointly by both councils. Mott McDonald have examined the estimates and projections of business activity, and concluded that they are robust.

10.6 Return on investment
Mott McDonald’s view of the original business plan was that the airport should not rely on income from scheduled flights as a regular source of income and, as a result, the revised business plan makes no assumption about income from scheduled flights. The airport currently operates a limited number of scheduled flights and has the capacity to increase the number of scheduled flights marginally. If this were to happen, the income projections, profit and return to shareholders is likely to increase further above levels projected in the business plan.

10.7 Both shareholders currently receive an annual divided plus 5% share of the business park rental income. Mott MacDonald’s projections suggest that the proposed investment will result in a positive growth in earnings by the business from the current value of £0.26m to £0.58m (in real terms), more than doubling the real earnings, compared to a decline from £0.26m to 0.20m, a fall of 23% in real terms for the ‘do nothing’ option as illustrated in Appendix D.

10.8 ‘Do nothing’ option
The projections indicate that over a period of time the airport would lose business and revenue. Although the dividends paid to the respective councils are projected to remain at current levels it may be unrealistic to assume that this could be sustained.

10.9 Investment option
The business plan estimates that, after year 5 of the project, once works are completed and new business has reached projected levels both the net profit and return from investment improve. It is envisaged that the levels of income and return to
shareholders at year 5 would be at least maintained and potentially improved further, particularly if scheduled flights were to be maintained or increase.

10.10 Both the Airport board and Mott McDonald were asked to look at the investment proposal from the point of view of both the airport company and the airport shareholders in terms of whether it made ‘good business sense’ to invest. Various accounting ratios were prepared, all of which pointed to improved financial returns.

10.11 Mott McDonald considered and compared the rate of return with and without investment and concluded that it represented a turnaround in business measured by the internal rate of return (IRR) of some 13%. The projected ratios are included in Appendix D.

10.12 **Enterprise Value**

Mott McDonald projected the value of the company based upon existing and future levels following investment. The ‘Enterprise Value’ is a recognised measure of the worth of a company taking a number of factors into account including: return to shareholders (dividend plus rent); borrowing; cash and a projection of profits over a period of 15 years. The calculation, based on these factors is contained in the table below:

<table>
<thead>
<tr>
<th></th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividend plus rent</td>
<td>0.09</td>
<td>0.09</td>
<td>0.09</td>
<td>0.09</td>
</tr>
<tr>
<td>Borrowing</td>
<td>1.94</td>
<td>1.94</td>
<td>1.94</td>
<td>1.94</td>
</tr>
<tr>
<td>Cash in bank</td>
<td>1.68</td>
<td>1.41</td>
<td>1.68</td>
<td>0.64</td>
</tr>
<tr>
<td>15 years x EBITDA</td>
<td>4.46</td>
<td>4.24</td>
<td>4.46</td>
<td>10.94</td>
</tr>
<tr>
<td>Enterprise Value</td>
<td>6.14</td>
<td>5.66</td>
<td>6.14</td>
<td>11.58</td>
</tr>
</tbody>
</table>

*Source: Mott McDonald: Review of business case Update Addendum November 2007 para 4.2.2*

*EBITDA – Earnings before interest, tax, depreciation and amortisation (i.e. revenues less expenses excluding interest, tax, dividend, amortisation.*

10.13 This measure is considered to be a good indicator of how well a company is performing and, as such, demonstrates that the investment makes ‘good business sense’. The value of the company more than doubles following investment. This may be of importance since if, at a future date, the councils were to sell the management of the airport to a completely independent company, the receipt to the existing shareholders is likely to be significantly more than projected in the ‘do nothing’ option.

10.14 **Net Present Value**

Mott McDonald have also undertaken net present value calculations based upon the business plan projections, using a discount rate of 3.5%, based upon a 15 years investment period.

The calculation, based on these factors is contained in the table overleaf:
<table>
<thead>
<tr>
<th></th>
<th>‘Do nothing’</th>
<th>Investment</th>
<th>Net benefit of investment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
</tr>
<tr>
<td>Present Value PV –</td>
<td>28.70</td>
<td>40.10</td>
<td>11.40</td>
</tr>
<tr>
<td>operational revenue</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PV operational costs</td>
<td>26.41</td>
<td>34.24</td>
<td>-7.83</td>
</tr>
<tr>
<td>Net present value (NPV)</td>
<td>2.29</td>
<td>5.87</td>
<td>3.57</td>
</tr>
<tr>
<td>operations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PV capital</td>
<td>0.00</td>
<td>2.67</td>
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</tr>
<tr>
<td>expenditure</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NPV</td>
<td>2.29</td>
<td>3.19</td>
<td>0.90</td>
</tr>
</tbody>
</table>

Source. Mott McDonald: Review of business case Update Addendum November 2007 para 4.1.2

10.15 The above table shows that investment will provide a positive return. Compared to the do nothing scenario, the net present benefit would be delivered after 8 years.

10.16 **Dividend Policy**

The desire for a dividend policy has been mooted by the councils in discussions with the company over a number of years. The joint working party agreed that a clear policy on dividends would provide clarity for both the airport company and the shareholders which would assist in budgeting purposes.

10.17 The policy provides for the distribution of dividends both before and after investment in the airport.

**Dividend policy:**

A dividend of 50% of the net profit after tax, to be shared equally between shareholders, payable annually*. The sum payable to be subject to a minimum payment of £50,000 per annum (£25,000 per shareholder) inflated annually by the retail price index excluding mortgages (RPIX) as at September, annually.

* with effect from the financial year 2007/08.

**Dividend policy following investment:**

A dividend of 50% of the net profit after tax, to be shared equally between shareholders, payable annually, with effect from 5 years after the date of commencement of the project. The sum payable to be subject to a minimum payment of £80,000 per annum (£40,000 per shareholder) inflated annually by the retail price index excluding mortgages (RPIX) as at September, annually.

The shareholders may, by agreement, vary or forgo any dividend payment, in response to a formal request made to them by the airport board of directors.

This policy includes timings which tie in with the budgeting cycles for both the airport and the respective councils and allows all parties more certainty for budgeting purposes.

The airport board, at a meeting on 4 January 2008, agreed in principle to a dividend
policy which is based upon dividing up the future profit of the airport equally between the shareholders and the airport company. The precise mechanism for the inflationary uplift in respect of minimum amounts payable is still under discussion.

10.18 Public Works Loans Board (PWLB) borrowing
The councils have investigated the options available for financing the investment proposed in the airport. Upon submission of the original business plan, the airport assumed that it would look to a bank to finance the project. However, although this was possible, the bank would want to use the company assets as security against the bank loan. The councils concluded that this was an unacceptable risk to both councils and that it would be better to use the PWLB facility available to the councils to facilitate the borrowing of funds on behalf of the airport and for on-lending.

10.19 The benefit of this is that the interest rates are cheaper than prevailing bank rates and that the asset remains firmly in the shareholder hands. A decision to use PWLB to finance the development will require a Council decision since it will involve a revision to the Council’s Treasury Management Policy and Annual Investment Strategy. The detail of the borrowing arrangements is delegated to the Section 151 Officers to organise between them.

11. Operational Issues

11.1 Operating Hours

11.1.1 The current operating hours are:

Summer:
Monday to Friday       0830 – 1930
Saturday and Sunday    0900 – 1930

Winter:
Monday to Friday       0830 – 1930
Saturday and Sunday    0900 – 1800

11.1.2 These hours have not changed for over 10 years.

11.1.3 There are no plans to increase opening hours as a result of the project. Any extension of opening hours would require a second Air Traffic Control shift, which is not financially viable.

11.1.4 In the year to 29th September 2007, there were 683 ‘out-of-hours’ flights. Over 30% of these are the emergency services, who can operate at any time without prior notification. Non-emergency flights are dependent on Air Traffic Control availability and are subject a surcharge to cover overtime costs. 92% of the ‘out-of-hours’ flights are within 1 hour of normal operating hours.

11.2 Aircraft Type

The type of aircraft that can operate at any airport is determined by the category of airport license granted (Code 1 for smallest to Code 4 for largest). Gloucestershire Airport is Code 2 and this will not change even when the project is complete. So the types of aircraft allowed to operate will not change. However, the current restrictions on runway use mean some planes operate at less than full payload. So more of the same types could be attracted to the airport after the improvement work is completed.
11.3 Scheduled Flights

11.3.1 Extra scheduled flights are not anticipated in the RSP and the financial projections are not dependent on them.

11.3.2 However more scheduled flights may be possible in the future and the RSP may make them more likely. If this were to happen it could give rise to increased flights and increased traffic around the airport as well as increased income. While it should be made clear the Airport Board have no plans for extra scheduled flights, these would be dependent on future approaches from operators and the JASWG felt is was important to try to understand what may happen.

11.3.3 A major restraint on scheduled flights is the limitation of the current infrastructure such as passenger terminal, transport access, car parking, etc. The Airport Board feel they could cope with up to 3 services similar to the recent Manx service before the airport reached capacity.

12. Conclusions

12.1 At the meeting of the JASWG on 22nd November, the whole group agreed that in principal the RSP should be supported by both councils.

12.2 The unanimous view was that the proposed work was needed to improve safety and ensure that the CAA does not need to take enforcement action. However, it was also accepted that the project, once complete, could lead to an increase in flights.

12.3 The group then reviewed all outstanding issues to see which items should form part of any resolve.

12.4 Civil Aviation Authority (CAA) Approval

The resolve agreed by both councils in 2005 included a clause making the decision subject to CAA approval. Clearly the views of the CAA are very important and they supported the proposed scheme in principal in a letter dated 30/01/2006. This was recently confirmed by the airport in a letter dated 21/11/2007. Each airport is expected to decide what it is required to do following an annual self-review of safety and the RSP is intended to comply with the CAA’s CAP168 safety regulations. This should preserve the Code 2 designation of the airport. The CAA are unlikely to express a further opinion, before taking enforcement action if no safety improvements are made. So there is no point making the approval conditional on CAA agreement and the JASWG were satisfied that this resolve was no longer required.

12.5 PWLB Loan

The proposed method of funding the work is unchanged from the previous proposal. It is put forward as the most efficient way of raising the money and reduces the risk of the councils losing control of the airport if there should be any default on the loan. The value of the loan is more than covered by the value of the company.
12.6 Land issues

It is now proposed that a land swap is the best way of resolving the issues with Blenheim House as outlined above. Most of the land on which the airport operates is owned jointly by Cheltenham and Gloucester councils, however a small section of runway along with an adjoining farm of approximately 30 ha is owned solely by GCC. While the section of runway is included in the airport lease, much of the rest of the 30 ha is not. GCC has separately commissioned Donaldsons to report on options for future use of this land and this is expected to be considered by Gloucester City Cabinet in March 2008.

This makes the process of making sure all parties get value for money more complicated. Both councils feel this issue can be resolved and are working together on it, however it may take some months to be concluded.

12.7 Environmental

Tackling climate change and the environmental impact of air travel is felt to be very important by the working group. All aspects of the environmental impact were considered by the group and was agreed that the best way of tackling this issue was by targeting carbon emissions and getting the airport to adopt a ‘green policy’. To be meaningful, this will require an accurate measurement of CO2 emissions. As yet there does not seem to be a satisfactory way of assessing this nationally, let alone locally. The JASWG therefore felt this should form part of a ‘green policy’ to be agreed between the airport and shareholders.

12.8 Scheduled Flights

While the JASWG accepts that an increase in scheduled flights is not part of the business case for the RSP, they could be a consequence. It is therefore important that the desirability and implications of any increase is understood and should be included in the proposed ‘green policy’ for the airport.

12.9 Instrument Landing System

The proposed ILS on runway 27 is integral to the RSP as put forward by the airport board. However it has been suggested the project could go ahead without this element. The JASWG considered this option but relied on the advice of Mott MacDonald that it would improve safety. It would also allow the airport to provide full facilities for pilot training that it can not currently do and which forms a major part of the business plan. It is also true that it could encourage more scheduled flights which will be dealt with in the proposed ‘green policy’.

12.10 Dividend

The working group think that agreeing the dividend policy is important and agreed that it should be 50% of the profit. The exact detail of this will be subject to further discussion between Officers of both Councils and the airport.

12.11 Planning

While this report does not cover any issues relating to the planning permission required for the project, it is clear that if any of the 4 applications submitted to Tewkesbury Borough is turned down then the project cannot proceed. So while there is no need for a resolution about this the impact should be clearly understood and is reflected in the risk assessment.

12.12 Board Structure
One issue raised during the review was the structure of the board. It has been the custom of both councils to appoint 3 councillors each to the board of the airport company. While this was not looked at in any detail, it is questionable whether this is the best way of providing the skills required. This may be worth reviewing in future.

12.13 Future Plans

The airport identified a number of projects which may be considered for approval beyond year 5 of the RSP. These were:-

- ILS on runway 9
- A40/M5 junction
- Runway resurfacing
- Car parking

Mott MacDonald were asked to comment on the proposals outlined. Their view is that, apart from the eventual need to resurface the runway, none of these projects is necessary for the ongoing operation of the airport. So the JASWG has not considered them in detail and makes no recommendation about them.

The JASWG did confirm with the airport board at its meeting on 24/10/2007 that the cost of future runway resurfacing would be funded. There is an annual maintenance budget and a further one off budget in the 5 year plan for repairs. The airport director confirmed that the runway is in a good state of repair and that future income would fund full resurfacing when required.

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<th>Background Papers</th>
<th>Business Case update of the Gloucestershire Airport Runway Safety Project (dated April 2007)</th>
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<td>Mott MacDonald review of the Business Case for Gloucestershire Airport Runway Safety Project (dated July 2007) and addendum (dated November 2007)</td>
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<td>Note: all of these documents have been redacted for release in to the public domain. The redacted information comprises commercially sensitive information in respect of the Airport Company and is exempt from publication as a committee paper under paragraph 3 Schedule 12A Local Government Act 1972 and exempt from disclosure under Regulation 12 (5) (e) Environmental Information Regulations 2004 (corresponding Freedom of Information Act provision: Section 43(2))</td>
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Accountability
Cllr Duncan Smith, Council Leader

Scrutiny Function
Economic and Business Improvement Overview and Scrutiny Committee