

# Cheltenham Borough Council

Cabinet – 17 March 2015

## Gloucestershire Airport Business Plan 2015-18

<b>Accountable member</b>	<b>Councillor Steve Jordan, Leader of the Council</b>
<b>Accountable officer</b>	<b>Pat Pratley, Deputy Chief Executive</b>
<b>Ward(s) affected</b>	<b>All indirectly</b>
<b>Key Decision</b>	<b>Yes</b>
<b>Executive summary</b>	<p>In April 2014, Cheltenham Borough Council and Gloucester City Council, as joint shareholders commissioned York Aviation Ltd (YAL) to undertake an independent review of the governance arrangements of Gloucestershire Airport Ltd (GAL).</p> <p>One of the principle recommendations was that the shareholders agree a strategic long term vision for the airport supported by a GAL Board approved business plan. This report sets out the key elements of the airport's business plan for the period 2015-18 for endorsement by the shareholders. A publicly available executive summary is attached at Appendix A.</p> <p>In their 2014 report, YAL also proposed improvements to the airport Shareholders Agreement and Articles of Association as well as recommendations to improve shareholder governance. These recommendations are being progressed in parallel and an update on progress is provided within the report.</p> <p>Since the last report the Joint Airport Working Group has been replaced by a Shareholder Forum with joint representation from members and officers. One of the forum's main purposes is to guide and approve/endorse the strategy and business plan for the airport.</p> <p>The next shareholder forum will take place on 20 March 2015 where the Leader, as the shareholder for CBC, will report the outcome of this Cabinet decision.</p>
<b>Recommendations</b>	<b>That Cabinet approves the Gloucestershire Airport Business Plan 2015-2018.</b>
<b>Financial implications</b>	<p>The 2015-18 Business Plan does not request any financial funding, borrowing or guarantee from the Council in its capacity as shareholder. Any such requests would be subject to separate formal council approval.</p> <p><b>Contact officer: Nina Philippidis; <a href="mailto:nina.philippidis@cheltenham.gcsx.gov.uk">nina.philippidis@cheltenham.gcsx.gov.uk</a>, 01242 264121</b></p>

<b>Legal implications</b>	<p>The input of Pinsent Masons Solicitors is being provided to both shareholder councils with regard to revision of the legal governance documents (shareholders agreement and company articles). The changes to the shareholders agreement and articles will require appropriate shareholder decisions. At CBC, the shareholder responsibility sits with the Leader (with key decisions currently being reserved to Cabinet).</p> <p><b>Contact officer: Peter Lewis; peter.lewis@tewkesbury.gov.uk; 01684 272012</b></p>
<b>HR implications (including learning and organisational development)</b>	<p>None arising from this report</p> <p><b>Contact officer: Richard Hall; richard.hall@cheltenham.gov.uk; 01242 774972</b></p>
<b>Key risks</b>	<ol style="list-style-type: none"> <li>1. If the airport shareholders and the Board do not agree a strategic vision and a business plan for the airport then it will not be possible to maximise the commercial potential of the airport for the benefit of the local economy and shareholder dividends.</li> <li>2. If the key actions and performance measures within the business plan are not agreed then it will not be possible for the shareholders to hold the airport board to account for delivery of the business plan.</li> </ol>
<b>Corporate and community plan Implications</b>	<p>Shareholder and airport board alignment on strategic vision and business plan will bring about a stronger and more commercially focused company and therefore support the Council's objective of strengthening our economy.</p>
<b>Environmental and climate change implications</b>	<p>The airport has a Green Policy, approved by Cabinet in April 2009, which is subject to regular review. This policy covers the environmental impact of issues such as air and ground operations, operational controls (eg aircraft movements), noise, green travel, waste, water quality and landscape and ecology. This is a key document from an environmental perspective and it is therefore suggested that it should sit alongside the business plan to ensure that growth is planned and delivered in a way which addresses the environmental and climate change implications thereof. It is also suggested that review of the Green Policy forms part of the annual report on airport company performance.</p>
<b>Property/Asset Implications</b>	<p>To realise the proposed capital receipt from the aerospace related development will require the existing lease to be varied, as there is a covenant prohibiting GAL taking premiums. Relaxation of this covenant should be considered but only if the premium is reinvested in the airport to support income growth particularly the provision of additional hangar space.</p> <p>Other identified operational infrastructure spend should help protect existing income as well as assisting future income growth.</p> <p><b>Contact officer: David Roberts@david.roberts@cheltenham.gov.uk; 01242 264151</b></p>

## 1 Background

- 1.1 In 2014 CBC and Gloucester City Council, as joint shareholders of the airport, commissioned York Aviation Ltd (YAL) to undertake an independent review of governance arrangements for Gloucestershire Airport. Members may recall that the review followed on from a previous report commissioned by Gloucester City Council which allowed them to determine a settled policy on the airport's long-term future.
- 1.2 The key recommendations flowing from the 2014 YAL governance report were:
  - 1.2.1 The requirement for a clear strategy agreed by the Shareholders
  - 1.2.2 An appropriate forum for co-ordinating shareholder views
  - 1.2.3 A business plan and budget set by the Board and approved by the shareholders
  - 1.2.4 Clarity on strategic targets for the company, roles and responsibilities of the Board and performance monitoring for management
  - 1.2.5 Clarity on delegation of authority to act within the limits of the business plan and budget.
- 1.3 At its July 2014 meeting Cabinet supported the YAL governance report recommendations and, in order to commence delivery of them, initiated the following actions:
  - The establishment of the shareholder forum,
  - Expanding the capability of the board and management; and
  - To initiate the process of strategy formulation to improve business performance and the development of the airport business plan.
- 1.4 This report deals primarily with the latter point above but will also provide an update on the work being undertaken with regard to reviewing governance arrangements.

## 2 Gloucestershire Airport Strategic Vision

- 2.1 The strategy formulation work has culminated in the shareholders confirming their objectives for the airport company as being to:

*“Manage the operation and development of the Airport in a manner aimed at delivering environmentally sustainable and profitable growth, supporting the sub-regional economy and delivering financial returns to the shareholders”.*

- 2.2 Delivering the strategic vision in the short to medium term will require the airport to do a number of things in parallel;
  - Continue to control its operating costs and strengthen the capacity and capability within the team to provide a stronger commercial focus together with a strengthened board;
  - Attract more based aircraft to deliver revenue growth, this will need to be supported by the provision of additional hangarage;
  - Invest in improvements in landing aids (GPS), pilot controlled lighting and, in the medium term, resurfacing of the runway;
  - Seek to establish a fixed based operator to attract additional business<sup>1</sup>

- Seek to build on the existing scheduled service offer, for example, by seeking an additional route to a UK destination;
- Fully realising where possible the potential of the property assets, subject to planning processes.

### 3. Gloucestershire Airport Business Plan 2015-18

- 3.1 The executive summary is attached at Appendix A.
- 3.2 Overall the business plan aims to present a challenging target but not an unrealistic one. There are a number of new business opportunities which have arisen following the shareholders public endorsement for the airport's future. However the aviation sector is a fast moving business and so some of the current opportunities may not come to fruition and others may present themselves over the coming 12 months and beyond.
- 3.3 In such a fast moving sector communication and positive dialogue between the airport board and the shareholders is going to be absolutely crucial. The recently established shareholder forum will play a key role in holding the airport board to account for the airport's financial performance, delivery against the action plan and key performance indicators as well as providing an arena where business development opportunities can be discussed. It should also be noted that any new opportunities with substantial financial implications will be brought forward with a detailed business case for both board and shareholder approval prior to any commitment being made.
- 3.4 Turning therefore to the business case in a little more detail, this section of the report will provide an overview of the:
- Three year budgeted profit and loss
  - Growth opportunities
  - Capital expenditure
  - Shareholder return

#### 3.3 Three Year Budgeted Profit and Loss

- 3.3.1 The business plan quantifies the estimated year-end performance for 2014-15 which, despite a slight shortfall in aircraft movements, anticipates a profit of €£104K by the year end. There are two key factors which have resulted in this improved financial performance. Firstly, staff cost savings through the delay in appointing to key management posts and increased profit on fuel sales.
- 3.3.2 With specific regard to the appointment to key posts, bearing in mind the underlying presumption of the business plan is one of commercial growth as will be discussed below, it will be important to move forward quickly with confirming the key roles and responsibilities of the airport management team if the challenging targets within the business plan are to be achieved.
- 3.3.3 The business plan forecasts a significant rise in profit to £503K in 2015-16, for reasons explained below, then reducing back down to £176K in 2017-18.
- 3.3.4 The increase in profit in 2015-16 is due to the accounting treatment of a one-off capital receipt which is planned to be invested in aerospace development. However, in preparing a prudent business case the airport board has also taken account of the following in its long term financial ~~planning:~~

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<sup>1</sup> A **fixed-base operator** (FBO) is a commercial business granted the right by an airport to operate on the airport and provide aeronautical services such as fuelling, hangaring, tie-down and parking, aircraft rental, aircraft maintenance, flight instruction, etc.

- The recent fall in oil prices means that the total income earned falls dramatically from 2014-15 and whilst fuel volumes are expected to increase over the 3 years of the business plan the gross profit margin will see a reduction.
- An increase in staff costs arising from the need to bring in additional capacity to the management team to deliver the growth opportunities within the business plan. The budget also makes an allowance for funding 2 non-executive board members in line with the 2014 governance review.
- Contingency provision in line with business planning practice.

### **3.4 Growth Opportunities**

- 3.4.1 The 3 year business plan is a growth based plan with some immediate short to medium term opportunities which need to be progressed as a matter of priority by the board if the forecasted profits are to be achieved. Initially, growth is predicated on the need to provide more high quality hangarage to support growth in the number of based aircraft and growth in the business overall. The development of additional hangars, in the first instance mainly by other developers, is the principal means to deliver the “step-change” in business performance by increasing income from landing fees, fuel sales as well as rental income.
- 3.4.2 To facilitate this commercial growth opportunity the airport has been successful in securing £550k Growth Deal funding from GFirst, the Local Enterprise Partnership, to fund enabling works. This welcome financial support facilitates an immediate opportunity for hangar development within the airport curtilage, development which is a key priority for delivering profit to the company.
- 3.4.3 There is also an opportunity which has arisen to support an aerospace related development generating a capital receipt which the airport plan to use to fund some replacement hangarage and other facility upgrades. It must be noted however that the generation of this particular capital receipt will require a decision by council officers before any deal can be concluded by the airport.
- 3.4.4 In addition, the growth projections require some improvements in other facilities and infrastructure to support the commercial/business aviation market sector. There is also a potential for growth with regard to targeted commercial air services and possibly a UK schedule service opportunity.

### **3.5 Capital Expenditure**

- 3.5.1 The business plan includes a detailed capital expenditure plan for 2015-2025 totalling £6M.
- 3.5.2 The airport will require capital receipts to facilitate the growth plan. There are 3 short-term opportunities, one of which is discussed above, which will provide significant cash receipts to the business which will allow the infrastructure investment required to drive the growth and improvement in the financial performance. These receipts to a large extent underpin the capital investment in the period of this business plan and as such are crucial to deliver the long term financial returns to the company in order to put it in a position in the future to be able to pay a dividend to the shareholders in the medium to long term.

### **3.5 Shareholder Returns**

- 3.5.1 Members will be aware that, in recent years, it has not been possible for the Airport to declare a dividend because of the pension deficit arising from the Local Government Pension Scheme. It is important to note that the pension deficit is outside the control of the airport company.
- 3.5.2 The business plan indicates, at this point in time, and assuming that the pension deficit does not worsen further, the profit and loss account would be in a position to pay dividends from the end of 2015-16. This is because of the accounting treatment of the capital receipts which offset the accounting treatment of previous negative pension revaluations.

3.5.3 The business plan has identified the need for investment to deliver profitable growth. Therefore whilst it is pleasing to note that dividends may be payable in the immediate future the shareholders are choosing at this time to reinvest in their asset. If profits are delivered over and above those required by the business plan to deliver the growth outlined, then the shareholders could be minded to take some financial return at that point. The position currently however is that by foregoing dividends in years 1 and 2 in favour of reinvestment the shareholders are looking to maximise dividends going forward.

## **4 Airport and Shareholder Governance Arrangements**

4.1 The shareholder forum has been established and will meet a minimum of 4 times a year. Its purpose is *“to provide a forum for the shareholding councils to approve and oversee the performance of the airport company and to enable the airport’s management to seek shareholder approval, as required”*.

4.2 Membership of the forum comprises 4 representatives from each of the shareholding councils with the 2 shareholders (CBC and GCC) having voting rights.

4.3 In summary the forum will:

- Approve and review, as and when required, the airport strategy.
- Approve the airport business plan each year and the accompanying budget provided it is within the financial framework of both shareholding councils.
- Approve and oversee the performance of the airport company
- Receive requests from the airport board for funding not within the approved budget
- Review and make recommendations to the airport company on the memorandum, articles of association and shareholders agreement
- Report on airport company performance to each shareholding Council at least annually.

4.4 CBC and GCC officers have been working together to make proposals to modify and update the Shareholders Agreement, in particular the inclusion of a defined scheme of delegation. Once these are accepted by the airport board the articles of association can be updated. The current proposal is to bring a report to Cabinet in April for advisement before the Leader proceeds to make a shareholder decision to approve the revised Shareholder Agreement and Articles.

4.5 Following the governance review, and in order to expand on the capability of the airport board, the 2 shareholding councils will jointly recruit 2 independent non-executive directors with specific skills in financial management and airport/aviation management.

## **5 Alternative options considered**

5.1 This report provides Cabinet with an update on the actions they agreed to initiate following the July 2014 report and the options implemented are in line with the approved recommendations.

## **6 Consultation and feedback**

6.1 The airport management and board have been extensively engaged in the development of their business plan. In formulating the airport vision YAL engaged with the Leaders and senior officers of CBC and GCC. YAL also engaged with airport staff in the development of the vision.

6.2 Officers from legal and finance have been engaged both in the review of the business plan and also the updating of the governance arrangements. Members of Overview and Scrutiny attended a seminar where the airport presented their business plan proposals and took questions on its content.

## 7 Performance management – monitoring and review

- 7.1 The airport business plan contains a detailed action plan for the financial year 2015-16 together with clear and measurable key performance indicators (KPIs). The action plan and KPIs will be monitored through the shareholder forum. In addition the forum terms of reference require it to report on the airport company performance to each of the shareholder councils annually.

<b>Report author</b>	<b>Contact officer: Pat Pratley, Deputy Chief Executive</b> <b>Pat.pratley@cheltenham.gov.uk; 01242 775175</b>
<b>Appendices</b>	<ol style="list-style-type: none"><li>1. Risk Assessment</li><li>2. Gloucestershire Airport Ltd – 3 Year Business Plan 2015-18 Executive summary – Appendix A</li></ol>
<b>Background information</b>	<ol style="list-style-type: none"><li>1. Gloucestershire Airport Ltd – Confidential 3 -Year Business Plan 2015-18 (not for publication by virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972)</li><li>2. YAL Governance Report 2014 (exempt)</li><li>3. CBC Cabinet Report July 2014 – Review of GAL Governance Arrangements (exempt)</li></ol>

The risk				Original risk score (impact x likelihood)			Managing risk				
Risk ref.	Risk description	Risk Owner	Date raised	Impact 1-5	Likelihood 1-6	Score	Control	Action	Deadline	Responsible officer	Transferred to risk register
1	In ability to monitor the performance of the airport board and company	Pat Pratley	17.3.15	4	3	12	Reduce	Quarterly shareholder forum will monitor business plan performance and hold airport board to account	Ongoing	Pat Pratley	
2	Shareholder vision for the airport not delivered	Pat Pratley	17.3.15	5	3	15	Reduce	Shareholder approval to the vision and support for the business plan	Ongoing	Pat Pratley	
3	Shareholder dividends unable to be delivered in the medium to long term	Mark Sheldon	17.3.15	3	4	12	Reduce	Shareholder Forum to monitor level of shareholder reserves and to take action as necessary	Ongoing	Mark Sheldon	
4	Non-executive director capacity in the airport board remains with regard to finance and aviation/airport experience	Pat Pratley	17.3.15	3	4	12	Reduce	1.Business plan includes element for non-exec directors 2.Robust selection process with appropriate support	By June 2015	Pat Pratley	
5	Airport capital strategy not clear to support business growth	Mark Sheldon	17.3.15	5	2	10	Reduce	Business plan contains detailed capital expenditure plan which will be reviewed annually by the shareholder forum	Ongoing	Mark Sheldon	
6	Airport needs to look to either the shareholders or commercial borrowing to facilitate short term	Mark Sheldon	17.3.15	4	3	12	Reduce	Short-term capital receipts can fund initial investment to deliver growth in the	Ongoing	Mark Sheldon	



	investment							life of the business plan			
7	Business plan growth not deliverable due to capacity constraints in the airport management team	Pat Pratley	17.3.15	4	3	12	Reduce	Shareholder approval to management team job roles and recruitment to commercial director role	July 2015	Pat Pratley	
<b>Explanatory notes</b> <b>Impact</b> – an assessment of the impact if the risk occurs on a scale of 1-5 (1 being least impact and 5 being major or critical) <b>Likelihood</b> – how likely is it that the risk will occur on a scale of 1-6 (1 being almost impossible, 2 is very low, 3 is low, 4 significant, 5 high and 6 a very high probability) <b>Control</b> - Either: Reduce / Accept / Transfer to 3rd party / Close											

### Guidance

Types of risks could include the following:

- Potential reputation risks from the decision in terms of bad publicity, impact on the community or on partners;
- Financial risks associated with the decision;
- Political risks that the decision might not have cross-party support;
- Environmental risks associated with the decision;
- Potential adverse equality impacts from the decision;
- Capacity risks in terms of the ability of the organisation to ensure the effective delivery of the decision
- Legal risks arising from the decision

Remember to highlight risks which may impact on the strategy and actions which are being followed to deliver the objectives, so that members can identify the need to review objectives, options and decisions on a timely basis should these risks arise.

### Risk ref

If the risk is already recorded, note either the corporate risk register or TEN reference

### Risk Description

Please use “If xx happens then xx will be the consequence” (cause and effect). For example “If the council’s business continuity planning does not deliver effective responses to the predicted flu pandemic then council services will be significantly impacted.”

**Risk owner**

Please identify the lead officer who has identified the risk and will be responsible for it.

**Risk score**

Impact on a scale from 1 to 5 multiplied by likelihood on a scale from 1 to 6. Please see risk [scorecard](#) for more information on how to score a risk

**Control**

Either: Reduce / Accept / Transfer to 3rd party / Close

**Action**

There are usually things the council can do to reduce either the likelihood or impact of the risk. Controls may already be in place, such as budget monitoring or new controls or actions may also be needed.

**Responsible officer**

Please identify the lead officer who will be responsible for the action to control the risk.

For further guidance, please refer to the [risk management policy](#)

**Transferred to risk register**

Please ensure that the risk is transferred to a live risk register. This could be a team, divisional or corporate risk register depending on the nature of the risk and what level of objective it is impacting on