Appendix 6a

York Aviation

BLACKPOOL COUNCIL

BLACKPOOL AIRPORT STRATEGY AND BUSINESS PLAN

SUMMARY REPORT

September 2018

York Aviation

Originated by: Richard Connelly

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BLACKPOOL COUNCIL

BLACKPOOL AIRPORT STRATEGY AND BUSINESS PLAN

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EXECUTIVE SUMMARY

Background

1. Blackpool Council (BC) re-acquired Blackpool Airport, through acquisition of Squires Gate Airport Operations Ltd (SGAOL), Blackpool Airport Property Ltd (BAPL) and the holding company Regional and City Airports (Blackpool) Ltd from Balfour Beatty in September 2017. The acquisition was primarily in order to secure the Airport's long term future as part of the Blackpool Airport Enterprise Zone (EZ). The Master Plan for the EZ[1] identifies, in broad terms, the facilities that would need to be relocated to facilitate development of the non-aviation component of the EZ and the zone safeguarded for the airport uses. Nonetheless, the EZ Master Plan makes clear the specific need for a more detailed Master Plan and Business Plan for the Airport area to enable BC to secure the growth and expansion of the Airport now that it is under its direct ownership and control[2].

2. Accordingly York Aviation LLP (YAL) was appointed in late February 2018 to undertake an independent review with the aim of developing a strategy for delivering a sustainable long-term future for Blackpool Airport within the context of the EZ. We were asked to report on the following matters:

   - Review the findings and outline proposals included within the Blackpool Airport EZ Master Plan in so far as they relate to Airport operations and future potential infrastructure;

   - Examine the market potential of aviation-related development opportunities;

   - Review the existing operating model and recommend any improvements to the current management approach, including future custodians for Aerodrome operational licenses and employment of key personnel to minimise the Council's exposure to risk and create an incentivised culture for the operator to maximise growth, drive income and provide an economically stable future;

   - A high-level overview of requirements for renewal and upgrading of operational infrastructure, including control tower, navigation aids, hangar accommodation, apron and aircraft stands, terminal and security facilities, taxiways and the needs costs and benefits of maintaining a paved cross-wind runway;

   - Provide a high level estimate of capital and annual revenue expenditure likely to be needed to support implementation of all recommendations;

[1] Mott MacDonald, Blackpool Airport Enterprise Zone Master Plan, Draft for Consultation, November 2017
[2] Ibid, Section 9.

- Provide recommendations to resolve immediate issues with availability of hangar space for aircraft maintenance and storage and, thereafter, provision to meet anticipated medium and long term requirements;

- Propose a forward strategy, setting out recommendations for investment and an indicative implementation timetable.

3. In essence, this study has been required to:

   - establish the market for the Airport;

   - identify the infrastructure requirements to support the identified market and enable growth opportunities to be brought forward as they arise;

   - set out how best to deliver the strategy, including ongoing management of the Airport, to minimise risks to the Council and to facilitate growth.

4. Our work has comprised the development of a strategic Business Plan and land use Master Plan for the Airport operational area within the EZ. We recognise that a phased approach to delivering this Master Plan will be required, in large part driven by the broader requirement to develop the EZ. This report sets out the strategic potential for the Airport and what would be required to optimise the potential over the medium to long term. We do not seek to determine the optimum sequence for development as this will, in large part, be driven by the requirement, including timescales, for the implementation of the EZ and the specific needs of users as they come forward.

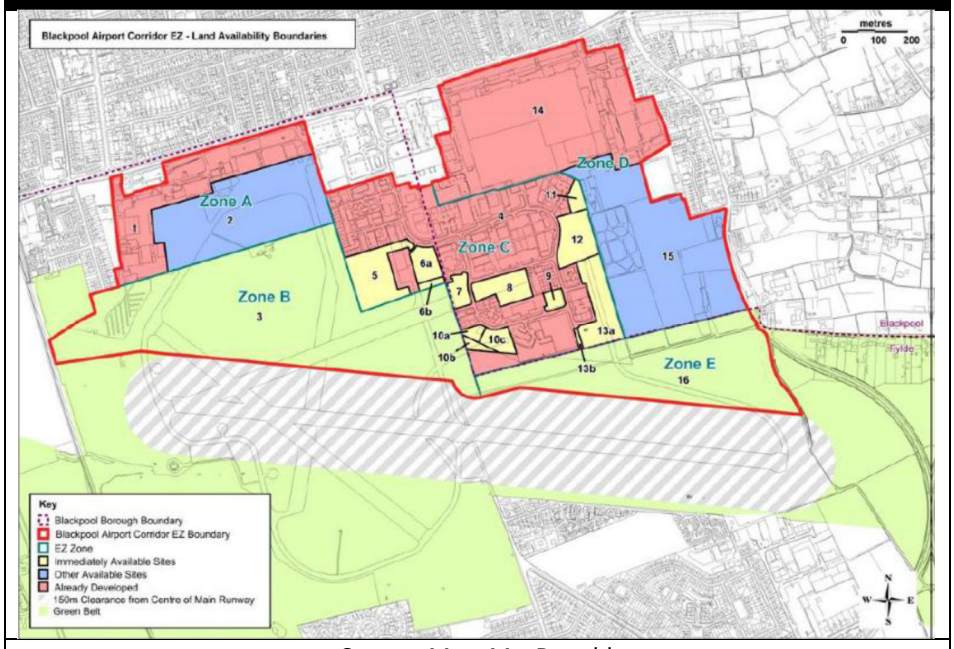
Contextual Review

5. At the outset, we set out a number of key contextual aspects which have framed our work. These comprise both the relationship to delivering the EZ Master Plan and a number of shorter term issues which have the potential to impact on delivery of any growth plan. Our work has focused on identifying the strategic options for the medium to long term rather than short term operational issues. However, we have necessarily had to take these shorter term issues into account as the delivery of the long term strategy will be affected, to some degree, by the outcome of these shorter term considerations.

EZ

6. The Enterprise Zone, designated in 2016, comprises the entire site of Blackpool Airport to the north of the runway strip[3], which is within Fylde District, along with neighbouring brownfield land within Blackpool. Much of the Airport site, south of the developed strip along Squires Gate Lane that is already designated as an employment site, is contained within the Fylde Green Belt. The EZ area can be seen in **Figure 1**.

Figure 1: Blackpool Airport Enterprise Zone



Source: Mott MacDonald

7. The Master Plan for the EZ sets out the framework within which development of the EZ area will be carried out. Otherwise, proposals for development within the Green Belt area, including areas to the south of the Airport runway, would be required to demonstrate that there are special circumstances which justify an exception to strict policies restricting development within the Green Belt.

8. Within the current Airport area, the EZ Master Plan proposes the following zonings:

- ✈ <u>Zone A</u> – EZ development zone in accordance with defined sector targets and/or for the purpose of enabling development to support the continued operation of the Airport.

[3] The safeguarded strip of land either side of the runway to enable safe operation of aircraft. The runway is a Code 4 instrument runway requiring a 150m strip either side of the runway to be kept clear and with transitional surfaces limiting the heights of buildings either side of the runway.

- Zone B – Airport operational zone, including relocated facilities essential to the operation of the Airport.
- Zone E – sports and recreational activities.

A key consideration is that facilitating the development, in particular, of Zone A of the EZ will require a number of existing airport facilities to be relocated into Zone B and, possibly part of Zone C (currently outside of the Airport). These zones can be seen in **Figure 2**, the original EZ master Plan, and **Figure 3**, the more recently revised version based on airport layouts developed as part of this study.

Figure 2: Blackpool Airport Enterprise Zone Master Plan

Source: Mott MacDonald

Figure 3: Blackpool Airport Updated Enterprise Zone Master Plan

Source: IBI Group

Lessons from Other Airport EZs

9. We considered if there were lessons to be learnt from the implementation of other EZs associated with airports. None of these required the relocation of core airport facilities. Overall, we do not believe that there is compelling evidence that there are synergies between the various airport-related enterprise zones nor significant direct competition between EZs for the location of specific aviation related opportunities. By and large, the uses attracted appear to be location specific rather than fully mobile investments. Other than at Manchester, it would appear that the rate of take-up of sites has been relatively slow across the EZs, notwithstanding the financial incentives but this may, in part, relate to residual planning issues.

Contractual Legacy from Balfour Beatty

10. When the Airport re-opened in late 2014, the company was split by Balfour Beatty into Squires Gate Airport Operations Ltd (SGAOL) and Blackpool Airport Properties Ltd (BAPL), with the latter owning all of the estate. Both companies operated under a holding company, named Regional and City Airports (Blackpool) Ltd. An operating contract was put in place with Regional and City Airports Management Ltd (RCAM), which has formerly been owned by Balfour Beatty but had, itself, been sold in 2013. This management contract was due to expire at the end of June 2018 but has now been extended to allow time for the optimum future management arrangements to be put in place.

11. The management contract expressly provides for both the CAA Aerodrome Licence[4] and Air Navigation Service Provider (ANSP) Certificate to be held by the Operator, i.e. RCAM, and for all staff to be employed by SGAOL except for the Accountable Airport Manager and SATCO[5], who are to be provided from the Operator's personnel. The split in employment of staff is unusual as are the absence of provisions in the original management contract to transfer key staff and licences at the end of the contract period, albeit this has been rectified in the agreed contract extension. We consider it essential that a new contractual arrangement can be put in place with clear accountabilities, responsibilities and liabilities. This would probably require a formal tender process if a new contract is to be let.

Operational Land and the EZ

12. It will be important for the future that there is a clear definition between airport operational land and non-operational development land. We recognise that the land considered operational will vary over time as existing airport facilities are relocated closer to the runway and land released for other uses. Whatever the future operating arrangements, there need to be clear protocols covering the transfer of land from the airport operation area to the non-operational part of the EZ.

Short Term Issues

13. Whilst BAPL is the freehold owner of this land, there are outstanding tenancy related issues covering a number of properties within the Airport operational zone. It will be important to the realisation of the release of land for the broader EZ development that these issues are resolved otherwise the rational reconfiguration of the airfield could be impeded.

14. A key issue is the number of hangars on very long term leases, which is significant compared to other airports with a high level of general and business aviation activity. Moreover, rental levels paid by occupants is low and this will create challenges to viably replacing these older hangars by relocated new build hangars to facilitate the development of the EZ given the cost of hangar construction.

[4] The Airport should have transitioned to an EASA (European Aviation Safety Agency) Certificate in 2016 but this was not completed. The transition would be required if commercial services were to be re-introduced.
[5] Senior Air Traffic Control Officer

Spirit Energy Contract

15. Currently, the offshore helicopter activities at Blackpool are operated by Babcock under contract to Spirit Energy (Spirit). Spirit are now in the process of letting a single contract for all of their UK offshore operations and the outcome will not be known until later this year. The Babcock contract has been being extended to November 2019 as an interim measure. These operations are critical to the current financial position of the Airport, without which the Airport would be fundamentally loss making. Although there would be some scope to reduce operating costs if the Spirit operations were to relocate elsewhere, any savings would not be sufficient to prevent the Airport from falling into losses.

16. Whilst Spirit appear to be proceeding on the basis that the operation will remain at Blackpool, this is not an absolute given until the contract is let and there remains some risk that it could be located elsewhere. There are, nonetheless, relatively limited viable alternative options available to the helicopter operator. We understand that Spirit has requested an audit of Airport facilities and the renewal of the contract has to be considered under threat until this is resolved. This would have major implications for the ongoing viability of the Airport.

17. In summary, there are a number of complications regarding the occupancy of land within the overall Blackpool Airport site and in the management arrangements inherited from Balfour Beatty. These need to be resolved as a pre-cursor to enabling the rationalisation of the Airport operation and so that the development of EZ can proceed effectively. Resolving these issues is outside the scope of our assignment, the purpose of which is to set out a medium to long term Strategic Business Plan for exploiting the Airport asset within the context of the Master Plan for the development of the EZ.

Market Potential

18. We considered the market potential for the Airport to identify the facilities that need to be safeguarded for the long term. We have found a largely mixed picture in relation to the scope for growth, with some operators believing that opportunities are restricted by the overall local market, whilst others, particularly those focused on the wider aviation market in the UK, are optimistic about the scope for growth in their businesses or more generally for Blackpool Airport.

Light Aircraft and Need for Hangarage

19. Generally, we see some scope for growth in light aircraft activity, including flying training. We would expect this to be driven principally by attracting more aircraft to be based at the Airport, which would, in turn, require more hangarage. Hence, our Master Plan layout proposals provide space for more hangarage, over and above simply replacing that displaced by the EZ. It would be expected that at least some of this hangarage would be constructed by third parties and not at the expense of the Airport.

Business Aviation and FBO

20. This market sector has not been showing particular growth at Blackpool and the market in the UK as a whole is heavily dominated by London. Business aviation activity is fundamentally driven by the local economy and the presence of local 'high net worth' individuals. Those on site, particularly Hangar 3, see some scope for growth if more and better hangarage was available.

21. Within this sector, the key issue is the lack of a formally designated 'fixed base operator' (FBO) or handling agent for such flights. Hangar 3 fulfils this role and is currently being issued with a formal license which will see an income from this passed to the Airport. RCAM had also suggested it could bring its XLR business aviation handling product to Blackpool. At present, the scale of activity, suggests that having two FBOs is not likely to be commercially viable but the current situation of the Airport earning no revenue, other than landing fees, from such operations is unsatisfactory. We recommend that in future, a competitive process should be put in place for the awarding of the license for FBO activities at the Airport either on a sole or dual operator basis to maximise the commercial benefits to SGAOL.

Offshore Helicopter Support Activities

22. As set out earlier, the continuation of these activities is critical to the commercial viability of the Airport operation. The contractual position for the next 5-10 years should be known shortly. However, in the medium to long term, it is expected that off-shore activities will decline, with only limited scope to replace the activity with windfarm related activity. It is vital, then, that other sources of profitable activity are pursued.

Commercial Air Services

23. We analysed the market for commercial air services to assess how likely it is that commercial services might be reintroduced and form part of a viable Business Plan for the Airport. We assessed the maximum scale of the potential market as being of a similar scale (c.250,000 passengers a year) as operated prior to the Airport closing in 2014 and when the Airport was not commercially viable. Given some evidence of consolidation of the aviation market back to more major airports, such as Manchester, in recent years, it is far from certain that Blackpool could achieve a market of the scale it previously attracted in the near future but we have used this high estimate to indicate the long term upside potential in order to scale the facilities that might be required and safeguarded within the Master Plan.

24. It is probably more realistic that the niche route to the Isle of Man and related Irish Sea operations with small aircraft (similar to those used previously by Citywing), might be attracted to recommence. Even these services would require additional facilities and increase airport operating costs so any decision to reintroduce such services would likely need to be made as part of a broader strategic objective by the Council to provide local access to commercial services. We go onto consider the potential impact on costs and revenues for the Airport but, prima facie, it is not clear that such operations would be commercially viable for the Airport given the cost of reinstating the infrastructure and operating a dedicated passenger facility. In many cases commercial passenger operations at airports are only profitable from around 2 million passengers per annum.

Other Opportunities

25. We are aware of a number of potential opportunities to attract substantial aircraft maintenance activity to the Airport, related to smaller executive jet type aircraft in the main. The most significant of these is 'Project Midfield'. During our study, we have not been able to firm up the seriousness of these opportunities but, given the potential to generate substantial rental and flying related income for the Airport, we consider it essential to safeguard a site for a MRO hangar within the Master Plan and for realistic opportunities to be pursued.

26. It was suggested by some consultees that more could be done to attract BAE System's corporate and cargo flights from Warton and we are aware that some discussions are ongoing. Of themselves, however, these are unlikely to be 'game changers' for the Airport.

27. Other suggestions included a training academy and activities such as aircraft recycling but the market for these is very competitive across a number of the UK's smaller airports.

Business Plan Scenarios

28. We used this analysis of the market to set out a number of business plan scenarios for the Airport. Given the uncertainty around most of the opportunities, it is not possible to set out a definitive Business Plan for the Airport at this stage. Hence, we have considered a Core Scenario comprising the following components:

- Continuation of the Spirit Contract – which is assumed for the time being to generate similar incomes as previously;
- Incremental growth in Business/General Aviation back to 2013 levels (pre-closure);
- No scheduled passenger services;
- Project Midfield/MRO opportunity delivered, bringing rent and movement/fuel income;
- Increases in hangarage/lease income from replacement hangars and expansion;

- Revenue from a single FBO/business aviation handler;
- Provision of café with airside views.

29. We then tested some key sensitivities in terms of the implications on revenue and cost:
    - Low level commercial services across the Irish Sea (60,000 annual passengers);
    - Move from management contract to in-house management;
    - Loss of the Spirit contract with limited windfarm related activity (as currently[6]);
    - Larger scale commercial services delivering a total of 250,000 passengers (including 60,000 Irish Sea) to replicate previous Jet2 operations; and
    - No Project Midfield/MRO opportunity delivered.

Infrastructure Requirements

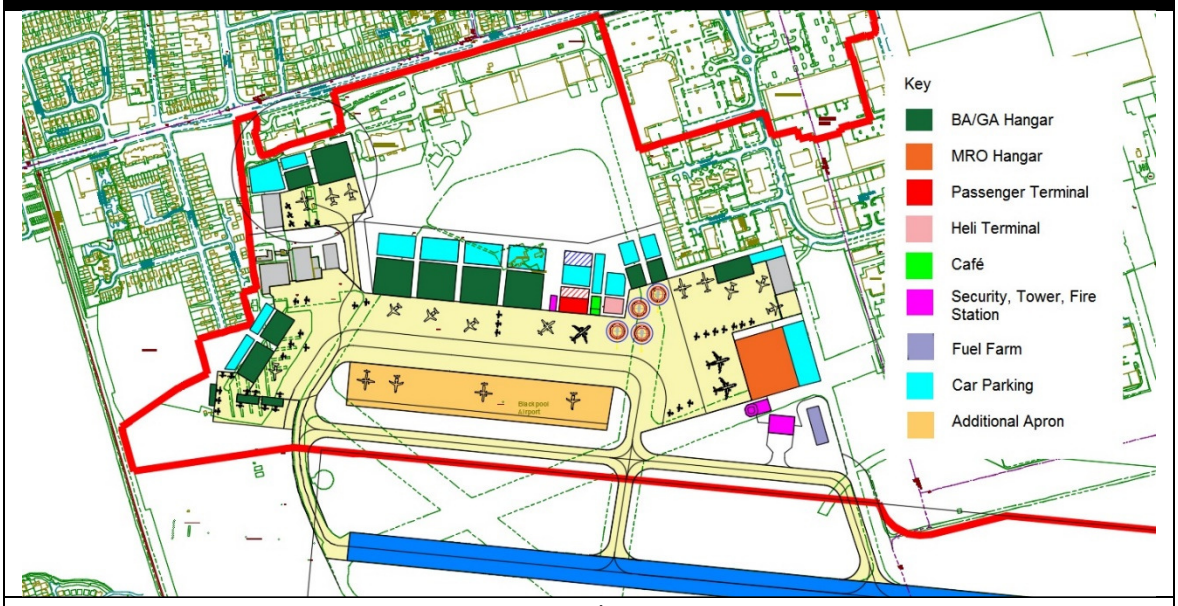
30. Drawing on our analysis of the market, we have set out two potential land use Master Plans for the Airport. The first identifies an Optimum Airport layout, which releases land for EZ development but preserves maximum flexibility to enable the Airport to exploit the full range of potential opportunities over the medium to long term. The second layout, EZ Optimized, releases the maximum amount of land for EZ development whilst still enabling the Airport to be able to exploit most of the identified opportunities.

31. Our proposed layouts are both focused on a key requirement of releasing land for the EZ, and if this was not needed then the best solution would likely be to retain the airport facilities in their current location. However, even retention of the current airport layout would still require expenditure to update the facility, including hangar refurbishments and improvements to the control tower among other aspects.

32. In our Optimum Airport Master Plan layout, shown in **Figure 3** overleaf, we have identified an appropriate layout, which we believe provides for all realistic growth opportunities at the Airport that could be realised over the medium to long term. This scheme provides the greatest level of flexibility for the future of the Airport under circumstances where the industry could change in ways which cannot yet be anticipated. The number of opportunities which have emerged throughout this study, coupled with the uncertainty over how many many of these will be delivered and over what timescale, highlight the importance of safeguarding sufficient land for flexible development within the Airport Master Plan.

[6] The relocation of the activity back to Walney may make this less likely but effectively this sensitivity test replicates a situation where there is a major decline in off-shore gas related flying down to a minimal de-commissioning type level.

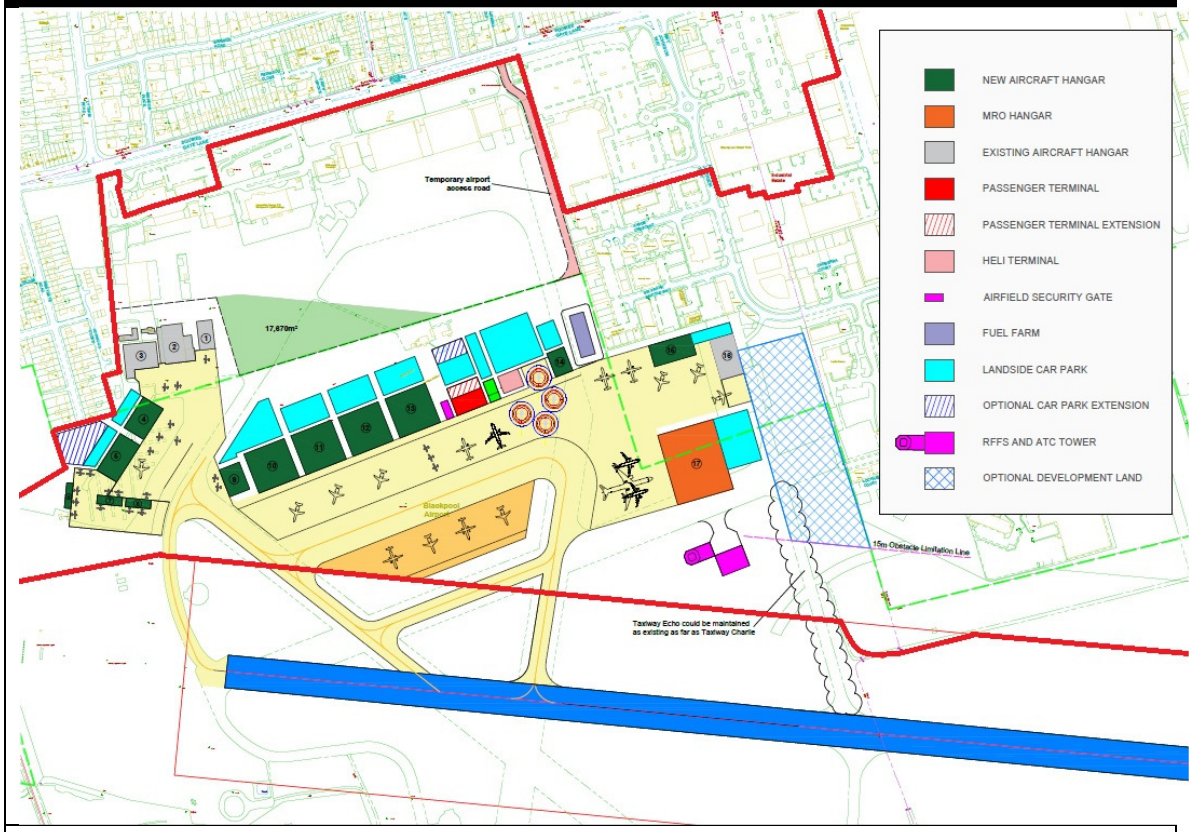
Figure 3: Full Optimum Airport Master Plan Layout



Source: York Aviation

33. Nonetheless, we recognise the importance of maximizing the land available for EZ development as well as minimising the cost of replacement/new infrastructure. Hence, we have developed an alternative EZ Optimised Master Plan layout. This is illustrated in **Figure 4** overleaf. This layout delivers fewer hangars and will provide less room to flexibly develop the Airport site if future operators come forward with differing requirements from those we are aware of at this time.

Figure 4: EZ Optimised Master Plan



Source: York Aviation

34. In setting out these alternative Master Plan layouts, we have considered plans put forward for the development of hangars by other parties. On an individual basis, these developments could be beneficial and lead to additional activity at the Airport. However, as currently proposed, these developments are not consistent with an overall land use plan to optimise the Airport and its relationship to the EZ.

35. We recognise that redevelopment will need to be phased so that facilities are only relocated when they need to be to free up parcels of land for EZ development and/or that new facilities will only be provided when there is a clear requirement and business case. We have identified the minimum build requirements to enable the land adjacent to Squires Gate Lane to be made available at an early stage for EZ development. This triggers a number of consequential relocations to ensure that all users have the required access to the operational airfield.

36. We also considered a number of other potential infrastructure requirements:

- Cross runway and grass runway – although we understand there were concerns with closing the cross runway in the Master Plan Consultation, this may not be commercially viable given the implications of retaining this and based on our discussions with operators we do not consider there is a need to maintain the cross runway nor to provide a grass runway given the likely levels of usage;

- Instrument Landing System – this is currently an essential requirement at the Airport for the Spirit contract and the existing equipment is in need of replacement. In the medium term, the need for an ILS may be replaced by GNSS equipment at a lower cost so we recommend that discussions take place with Spirit before a commitment to a full replacement of the ILS. In the meantime, it is essential that the existing system be maintained in use;

- Radar – having a radar feed would enable the Airport to attract more business so we recommend that the option to obtain a feed from St Annes Radar, or elsewhere, is explored.

Costs and Benefits

37. We considered the costs of implementing the Master Plan layouts and how this might be phased to minimise the initial cost for opening up the EZ. We then considered the financial position of the Airport operation under our Core Business Plan Scenario and a number of variants. In so doing, we did not factor in the capital costs associated with the scenario as it is assumed that, in the first instance, relocation costs of existing airport facilities will be contributed to by the EZ. More specific business cases will need to be drawn up for other investments to secure growth, not all of which will need to be funded directly by the Airport.

Capital Costs

38. Overall, with a small passenger terminal and without the optional additional apron and the new hangar development shown in the north west corner of the Airport, the total capital cost[7] could be of the order of £52-55 million to realise the Optimum Airport Master Plan along with the release of sites for the EZ. It should be noted that this does exclude a number of additional cost items, such as for the ILS, radar or other ongoing maintenance work and day to day maintenance capex.

[7] This excludes the cost of buying out the existing hangar owners to facilitate EZ development. Costs were provided by Linesight.

39. Under the EZ Optimised scheme, the £52 million potential cost could be reduced to £47 million with the small terminal and no apron extension, and could be reduced further to £43 million if no passenger terminal were provided at all (i.e. no scheduled passenger services could be handled). This lower figure would be the cost for the minimum level of infrastructure required (over two phases) to support the Core Scenario for potential growth.

40. Some operators have indicated a willingness to fund their own hangar development. We have assumed for the Core Scenario, therefore, that 50% of non-MRO hangarage may be independently funded (excluding associated apron), reducing the redevelopment cost from £43 million to £38 million. The costs could be further reduced, for example if the MRO hangar were independently funded.

41. A very small commercial scheduled passenger operation, with aircraft of no greater than 19 seats similar to the recent Isle of Man services by Citywing, could be operated through a more modest facility than the terminal proposed due to differing security rerquirements, and it might even be possible to reach a commercial agreement to co-locate such services within the Spirit Heli-terminal. The small terminal illustrated could handle aircraft up to around 70-75 seats on a wider range of domestic services but jet operations would require a substantially larger building at an additional cost.

42. A summary of all of the option costs is set out in **Table 1** overleaf.

Table 1: Scenario Development Cost Comparison to Core Scenario Capex

		Airport Optimised		EZ Optimised		Other	
	Description	Cost*	50% Hangar Cost*	Cost*	50% Hangar Cost*	Cost*	50% Hangar Cost*
Small Terminal Only - Core Capex Scenario	As 'Full Development' above, but with only the smaller passenger terminal and car parking	£52-55 million	£47-52 million	£47-52 million	£42-47 million	n/a	n/a
Full Development	All proposed Optimum Master Plan, including large passenger terminal, but excluding the optional development to the north west corner, and excluding the additional optional apron to the south of the main hangar development	+£5 million	+£2 million	+£3 million	+£2 million	n/a	n/a
No Terminal	All proposed Optimum Master Plan, but excluding all passenger terminal options, the optional development to the north west corner, and excluding the additional optional apron to the south of the main hangar development	-£4 million	-£4 million	-£4 million	-£4 million	n/a	n/a
No Terminal, No Midfield	As 'No Terminal' above, but with no MRO hangar provided	+/- £0	+/- £0	£39 million	£35 million	n/a	n/a
Airport Optimum Additional Area	As 'Full Development' above, but with the optional area to the north west added	£58-63 million	£53-58 million	n/a	n/a	n/a	n/a
Minimum Relocation Cost, 50% Hangar Cost	The minimum development of hangarage and facilities required to directly replace existing operational facilities.	n/a	n/a	n/a	n/a	£32 million	£32 million

* Range indicates risk of MRO hangar costs being higher

Source: York Aviation

43. Whilst the estimates presented above represent the cost to accommodate reasonable prospective growth, there would be a minimum level of cost that would need to be incurred just to release the land required for non-aviation related development within the EZ. This is also set out in Table 1. Based on the EZ Optimised scheme, we estimate that this would be around £19 million for Phase 1 (excludes the terminal, associated car parking, MRO hangar and two hangars at 50% build cost) and £13 million for Phase 2 (excludes the additional optional apron area and assumes no development to the north west corner), all assuming that 50% of hangarage was independently funded. Therefore, the total cost to release the EZ land and replace the existing facilities on site would be around £32 million assuming 50% of replacement hangars are built by third parties and excluding the cost of the MRO hangar. Without releasing the land for the EZ, then the capex costs could be significantly less.

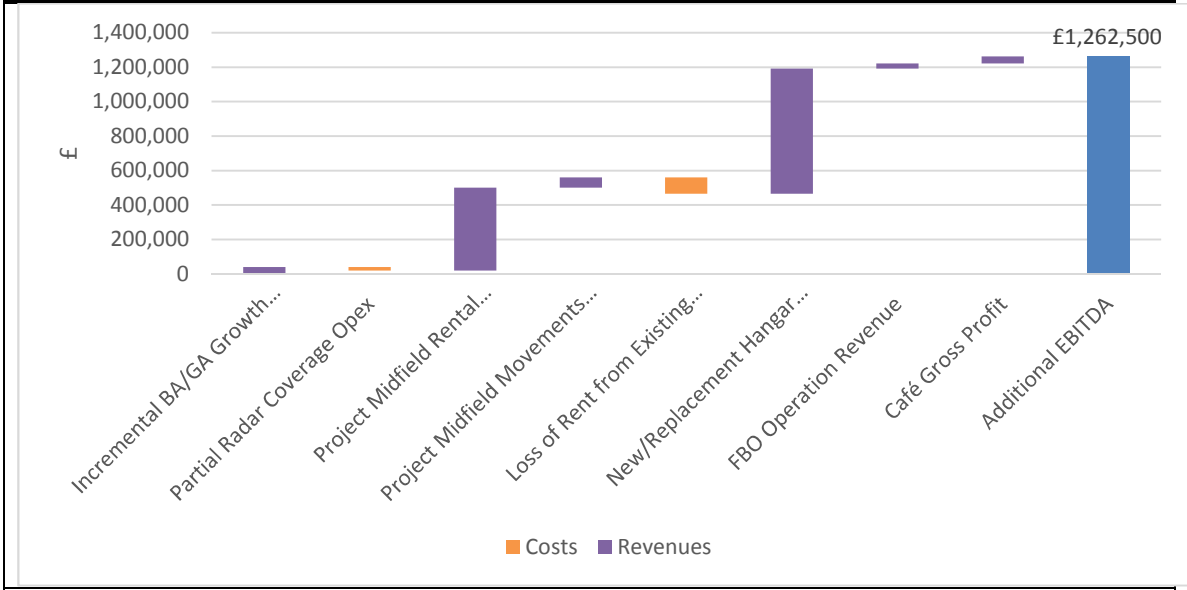
Business Planning Scenarios

44. Whilst, at the outset of the project, we set out to develop a specific Business Plan, with associated revenues and costs alongside the capital cost estimates, we have been unable to do so at the present time due to the high levels of uncertainty around the potential opportunities available to the Airport and the timescales over which they may be delivered.

45. Rather, we have set out to present a broad brush indication of which opportunities would add (or destroy) value to the Airport. We consider each element or opportunity separately as variants to the Core Business Plan Scenario. These are not designed to represent alternatives as different permutations of the opportunities could emerge over time. A more detailed Business Plan would need to be produced once the achievability of the various opportunities is confirmed and each opportunity would need to be subject to its own business case assessment in more detail as further information becomes available. We set out this analysis in order to allow BC to be informed in their strategic thinking in terms of which options to pursue and which not.

46. We have developed our financial analysis taking the current 2018/19 budget as a baseline, onto which we have layered additional costs and revenues associated with different opportunities. The impact of each of these elements compared to the baseline can be seen in **Figure 5**. This shows that, in total, if all of the Core Business Plan Scenario elements are delivered, this has the potential to significantly increase the baseline EBITDA and add around £1.26 million per year.

Figure 5: Core Scenario Components and Incremental EBITDA Increase



Source: York Aviation

47. Achieving this scenario in full would require capital expenditure of at least £38 million (plus fuel farm and hydrants) and any additional interest payments and depreciation effects are not accounted for in our analysis as presented. Dependent on how the costs of relocating facilities to enable the development of the EZ is to be accounted for, either as a cost to the EZ or as a cost to the Airport, this could impact on the business case for this level of expenditure and each of the individual components contained therein. Until the allocation of cost is determined, it is not possible to assess whether the income earned from each component would justify the level of capital expenditure involved.

48. We estimate that some further improvement to financial performance could be made if SGAOL operated the Airport directly, increasing long term profitability by around £1.35 million over today.

49. We also considered the Airport's vulnerability to the possible loss of the Spirit contract. By comparison with the Core Business Plan Scenario, illustrated in Figure 5, this would have a catastrophic impact on the EBITDA, which would see the Airport become loss making, and drop the EBITDA by nearly £360,000 from current. This clearly has implications for the business case for incurring the cost of relocating the facilities from the EZ if there is such a low income from the rest of the Airport operation.

50. Similarly if no MRO was delivered, this would have a negative impact on profitability compared to the Core Scenario, though would still see a positive EBIDTA change of around £720,000 from current, albeit the capex costs associated with the hangar would be saved. If all other opportunities could be delivered, then this does not push the Airport into a loss-making situation.

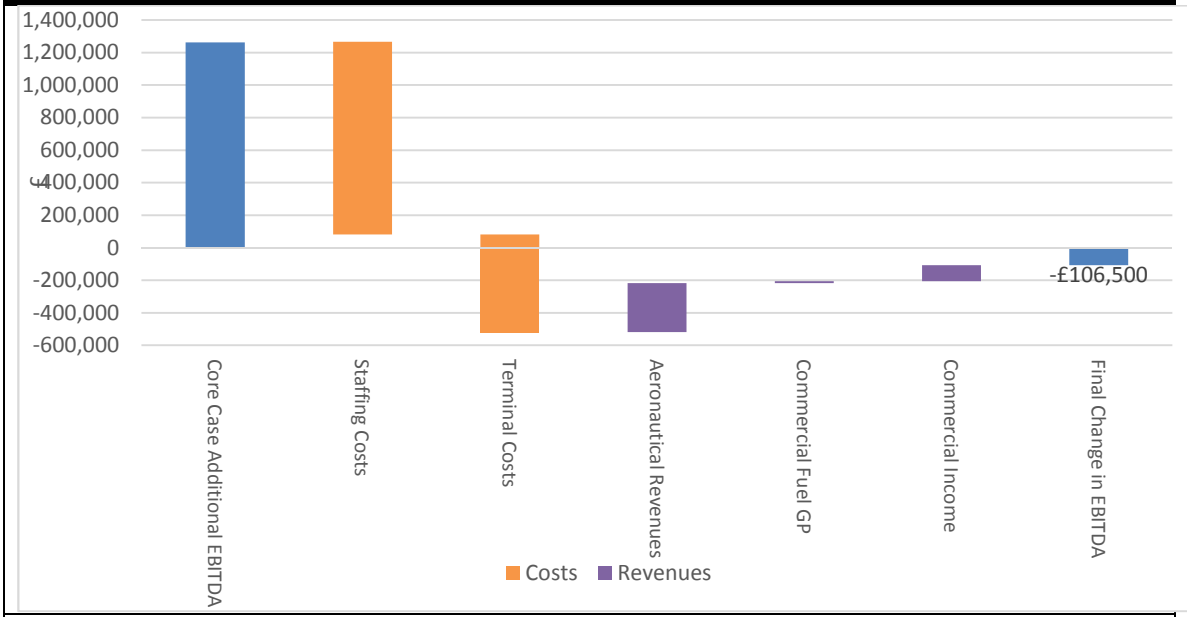
51. If the full Optimum Airport Master Plan layout was adopted and the full extent of hangar development delivered over time, this would further increase profitability by around £70,000 a year but we recognise that the increase in profitability is unlikely to justify the costs (real and EZ opportunity costs) of delivering the full Airport potential.

Commercial Passenger Services

52. We recognise that there may be strategic reasons why the Council may wish to see the reinstatement of scheduled passenger services (employment opportunities, business connectivity, potential for inbound visitors, commitments to improved wellbeing though improved local services etc.). In factoring in some of this activity, we have, in the first instance, allowed for reinstatement of low volume commercial services across the Irish Sea (60,000 annual passengers). Allowing for the likely revenues and the additional staff required to handle such services, this could see the EBITDA of the business fall by just over £100,000 per year, as can be seen in **Figure 6**, which shows the impact from the current EBITDA assuming all other initiatives are delivered. This would still leave the Airport profitable, but on a much reduced scale from both the Core Case and current position. Including the passenger terminal and car park would increase the capital costs in this scenario to around £42 million (excluding fuel system and hydrants). In other words, re-introducing small scale commercial passenger services is value destructive given the increased in costs that would be incurred without a substantial boost to revenue.

53. We also considered the implications of the reintroduction of commercial jet operations on a similar scale to those previously operated by Jet2. This builds on the analysis above and assumes a further 190,000 annual passengers could be carried with a low fares airline and with appropriate assumptions as to the revenue that might be earned based on UK regional airport averages. Allowing for further increases in staffing and other costs, the reintroduction of commercial jet services would result in a loss of around £590,000 per annum even with all other initiatives delivered. This is less than the losses historically incurred whilst operating wide scale passenger flights, but this is the result of the increased Spirit income now factored in as well as the MRO rental income, which would compensate past levels of loss to some extent. Developing a larger commercial passenger terminal would also incur a further £2.3m of capex over and above the cost for a terminal for smaller aircraft operations.

Figure 6: Core Scenario with Low Level Passenger Services



Source: York Aviation

54. **Table 2** provides an overall summary of the scenarios outlined above. Retaining the status-quo would cost around £32 million in replacement facilities to free up the land for the EZ on the basis of the EZ Optimised layout. Beyond this, the Core Growth scenario would see EBITDA increase by over £1.2 million driven largely by the value of hangar rental including the MRO facility. This would also see capital costs increase by up to £6 million.

Table 2: Summary of Costs and Returns by Scenario

	Baseline	Core Scenario	Core Scenario - Optimum Layout	In-House Management	Loss of Spirit Contract	Low Level Passengers	Larger Scale Passenger Ops	No Project Midfield
Change to EBITDA	**£0**	**£1,263,000**	**£1,332,000**	**£1,350,000**	**-£359,000**	**-£110,000**	**-£702,000**	**£-722,000**
Cost to Achieve	**£32 million**	**£38-43 million**	**£42-47 million**	**£38-43 million**	**£36-41 million**	**£42-47 million**	**£44-49 million**	**£33-38 million**

Source: York Aviation

55. The potential medium to long term value destructive properties of passenger services is clear and increases significantly if a low fares airline, such as Jet2, were to be attracted back, driven both by the cost of operations, but also by the much lower level of income that carriers such as this would be willing to pay. However, we recognise that there may be broader economic and strategic reasons why re-establishing scheduled services would be attractive (employment opportunities, potential for inbound visitors, commitment to improved wellbeing through improved local services etc.).

56. In many cases, the returns are relatively weak and, on this basis, it would be difficult to justify any reconfiguration of the site on a standalone basis. Clearly, however, the benefits which could be attained from the development of the EZ need to be factored into the justification for redesigning the site as, without this, it would not be possible to realise the benefits of the EZ for wider development.

57. Given the significant uncertainties around growth opportunities, the most appropriate scenario for growth over and above the baseline can only be determined over time. This highlights the desirability, therefore, of safeguarding as much as possible of the site to give the greatest level of development flexibility possible, so long as this is without detriment to the EZ, and allowing businesses cases to be developed to consider specific growth opportunities on a case by case basis. It is for this reason that we have continued to present both the Airport Optimum and EZ Optimised layouts.

Governance Options

Relationship to the EZ

58. Developing out the EZ, in line with the approved plan, will require the relocation of a number of activities closer to the runway, as shown in our Master Plan layouts. Our analysis of the costs and benefits would suggest that the revenue to be earned from the Airport operation is highly unlikely to justify the cost of the relocations on purely airport operational grounds There are two alternative approaches to these relocations:

- retain the full land ownership of BAPL as a single integrated property business[8] with revenues from EZ developments covering the cost of the necessary reconfiguration of the airfield and relocation of businesses (principally those housed in hangars along Squires Gate Lane) and with EZ related revenues providing for an ongoing operating subsidy to the Airport for as long as necessary;

- carve out the land which forms the operational Airport into a separate company, potentially merged into SGAOL, with the relocated buildings effectively 'gifted' to the Airport when the relocation takes place.

[8] This could also incorporate other land within the EZ owned by the Council.

59. We understand that the majority cost of the required relocations is likely to be borne by the proposed EZ development. We estimate that, initially, this will cost £19 million to achieve a minimum opening up of the EZ site and then a further £13 million to release the maximum land for EZ development without jeopardizing the longer term potential of the Airport. We recognise also that each relocation decision will need to be subject to a business case at the time when a specific development is proposed. Consequently, this may require several readjustments of the area devoted to Airport operational uses over time as the operation transitions from the existing to a new configuration.

Options for Operation and Management

60. We considered a number of models for the future operation and management of the Airport, including:

- Direct operation by BC/SGAOL
- Management Contract
- Concession
- Partnership
- Privatisation/sale

61. In reviewing the options for the future operation and management of the Airport, we considered a number of approaches (including meeting with some of the parties) received by BC over the last year from partners wishing to develop/operate the Airport. None of these approaches was mature enough in terms of its Business Plan for us to be able to evaluate properly the risk and reward for BC nor the implications for the future of the Airport operation. Based on what we were told, we do not believe that any of the potential private sector partners have an interest in investing in the Airport as a free-standing operation, without at least some share in the proceeds of the broader development of the EZ. This may well be an acceptable option for BC but consideration of any of these proposals would require substantially more worked up Business Plans to be in place that would be properly scrutinised as part of a formal due diligence process, including a specific demonstration that there was a plan in place to secure the future of the Airport operation.

62. There would, as we have identified, need to be clear safeguards in place to prevent a partner extracting the benefits of EZ related development and leaving the operation of the Airport stranded as loss making. This would appear to us to be a high risk and, as such, we are not persuaded that there is a credible private sector partner for the development and operation of the Airport at the present time. This could, of course, change should any of these proposals be developed further and clearly demonstrate how a viable future for the Airport is to be attained. Any emerging Business Plan would need to be carefully scrutinised if brought forward.

63. In the short to medium term, there are, in essence, only two viable options for the operation and management of the Airport:

- Direct operation by BC; or
- A Management Contract.

64. There is a relatively fine balance between these two options, assuming a full risk and reward approach to a management contract, as both would require BC to put in place resources to act as an informed shareholder to provide appropriate challenge to the Board and Management, which should operate at arms' length from the Council, (in the former option) and/or to the Contractor in the second. Nor do we believe there would be a substantial difference in overall financial liability to BC when all costs and revenues are taken into account, although on paper a direct operation could be delivered at lower cost. There are factors which favour both approaches, set out below.

Direct Operation	Management Contract
Enables BC to directly control the operation of the Airport to deliver broader strategic objectives	Provides access to broader airport management expertise
May better facilitate the transition of facilities across to the EZ	Allows for some of the risk inherent in operating the Airport to be shared
May be delivered for lower operating costs	Possible small reduction in level of management oversight required by BC

65. At the present time, we tend to favour the direct operation and management route. Once the decision on the Spirit Contract is known, a final decision as to whether to tender a management contract or to confirm direct operation could be taken. We estimate that the procurement process would take of the order of 6 months.

Recommendations and Next Steps

66. At the present time, it is not possible to set out a definitive Business Plan for the Airport due to the high levels of uncertainty surrounding the market opportunities, including the risk (however minimal) that the contract for helicopter flying for Spirit Energy will not be renewed.

Core Scenario

67. We have identified a 'Core Scenario' that sets out what we believe are the key components of growth that BC should aspire to for the Airport. This comprises:

    - Continuation of the Spirit Contract – which is assumed for the time being to generate similar incomes as previously;
    - Incremental growth in Business/General Aviation back to 2013 levels;
    - Project Midfield delivered for MRO;
    - Increases in hangarage/lease income from replacement hangars and expansion of hangarage to increase based aircraft, with half of the hangarage funded directly and half by third parties;
    - Revenue from a single FBO/business aviation handler established;
    - Provision of café.

68. We believe that these elements should be attainable but there is currently insufficient clarity as to when each element might be delivered to feed into a Business Plan as such at the present time.

Impact on Profitability

69. We have identified that delivery of these opportunities would increase operational EBITDA by around £1.26 million a year from current. This excludes the impact on depreciation and borrowing of the cost of constructing a terminal and other new facilities necessary to deliver the relocation of existing airfield facilities as an intrinsic part of delivering the aspirations for the EZ as set out in the overall EZ Master Plan.

70. Should low level commercial services be attracted, then the 'Core Scenario' would continue to be profitable, but EBITDA would be reduced by around £110,000 per year, assuming all other elements are delivered, mainly as a result of increased staff costs and the costs of operating a dedicated terminal. However, should the decision be taken that there are wider social and economic benefits to Blackpool and neighbouring areas from seeking to attract a broader range of commercial air services, including potentially services to London in the longer term, the costs associated with handling such operations would push the Airport into losses, and reduce the current EBITDA by around £720,000 per annum because of the costs associated with handling larger aircraft operations and the relatively low income that would be earned from such flights. This excludes the capital costs of re-providing the facilities necessary for commercial services to be handled.

Capital Costs

71. We have also examined the capital costs of delivering each of these elements within the context of a framework plan to optimise the potential of the Airport within the context of the overall EZ Master Plan. A large part of the capital cost relates to the relocation works necessary to facilitate the delivery of the EZ and to ensure a functional airfield in the new configuration. Assuming the EZ Optimised scheme is pursued, then the costs associated with these relocations amount to some £19 million at a first phase and £13million to complete a second phase of the necessary relocations (approximately £32 million in total to facilitate the EZ Master Plan). Even these costs assume that some of the replacement hangarage will be funded by third parties and does not include any compensation costs associated with the relocations. The timing and business case for these relocation works will need to be worked through as part of the EZ implementation plan as this will drive the timescales to a large extent but this represents the cost to maximise the extent to which the EZ can be opened up for other development opportunities.

72. We would expect that some or all of the relocation works would see upgrading of facilities and, in so doing, help to secure delivery of some of the uplift in revenue expected under the 'Core Scenario'. The additional cost for delivering the entirety of the 'Core Scenario', by comparison to the minimum relocation cost of £32 million, might only amount to £6-11 million dependent on precise build costs for hangarage or £10-15 million with provision for a passenger terminal. Enlarging the passenger terminal to accommodate the operation of larger aircraft would only cost around £2 million.

Implementation Programme

73. The pace of delivery of these opportunities is, in large part, indistinguishable from the overall timescale for implementing the EZ as the proposed new developments need to be delivered in locations that fit within the overall Master Plan, which will drive the need to relocate existing airfield facilities. We have set out a land use framework for delivery of the 'Core Scenario' on a phased basis and identified where there are options to go beyond this core. However, the business case for incurring these costs has to be as much driven by the potential value of any site released for other uses as part of the EZ implementation as by the prospects for increased revenues from the Airport operation.

74. We are, hence, unable to set out a fully worked up phased implementation plan as there is currently a lack of clarity as to when any relocations would need to take place to facilitate the EZ and, indeed, the timing when enhanced facilities would be required to be delivered for the Airport is not clear pending firmer commercial proposals for each of our identified opportunities.

75. What we have set out is a coherent land use framework which would allow for opportunities to be optimally located within the airfield as they come forward, accepting that realising these opportunities may need the early building of new apron, taxiway or other infrastructure.

Governance and Management

76. We have examined the various models available for management and operation of the Airport and have concluded that, currently, the viable options are direct operation or a management contract. Both of these will require strong governance arrangements to be put in place by way of a defined 'shareholder' function to agree and monitor performance against a Business Plan. We believe that the direct operation model would give BC greater control over the operation and management of the Airport and could deliver some cost savings, even allowing for additional commercial expertise to be brought in to cover for that currently provided by RCAM. It may also provide greater flexibility in terms of delivering the changes required to facilitate the EZ more generally. However, this would require SGAOL to become the licence/certificate holder and would result in BC effectively absorbing all risk of non-compliance. If this route is followed, it will be important ensure that SGAOL operates as an arms' length company, separate from the activities of the Council in terms of delivering the EZ (not least to comply with the basic requirements of the Airports Act 1986[9]) and that the role of the Board and shareholder are clearly distinguished.

77. In the alternative, a more effective management contract could be put in place, with elements of risk and reward clearly defined. This would require a formal tendering exercise so as to ensure that 'best value' is obtained. Such an arrangement would allow the Airport to continue to benefit from broader airport operational expertise and synergies across a group of airports. It would still, however, leave the Council with full accountability for any losses and for the capital costs of replacement and enhancement of facilities.

78. We do not believe the any of the private sector partner expressions of interest are mature enough at the current time to provide confidence that partnering with any of the organisations to operate the Airport would be a prudent decision, unless there are overriding reasons connected to the delivery of the EZ or regeneration in Blackpool more generally would suggest otherwise. If any of these opportunities are to be pursued, more formal due diligence will need to be undertaken on the specific operating proposals for the Airport and appropriate safeguards put in place to ensure that the ongoing operation of the Airport is secured for the long term.

[9] Requiring publically owned airports to be operated as arms-length companies.

Next Steps

79. A critical next step is to secure confirmation regarding the ongoing Spirit contract. As we have identified, the implication for the ongoing viability of the Airport from the loss of this contract would be severe and would necessitate a more 'root and branch' review of what it would be sensible to retain. What we have demonstrated is that, over the medium to longer term, as Irish Sea gas related activities decline, realisation of other opportunities, other than commercial passenger services, could compensate for lost gas related helicopter revenues if all of our other identified opportunities in terms of hangar and MRO related activity can be attracted and delivered.

80. Over and above this, is the requirement to resolve the ongoing management and operation of the Airport. We tend to the view that BC operating the Airport directly could have some advantages, both in terms of overall cost and in terms of the ability to control the important property related decisions associated with delivering the EZ overall. However, this is dependent on achieving transfer of the necessary operating licence/certificates and the relevant managers to the employ of SGAOL. This is now allowed for in the extended interim contract with RCAM. In order to put robust long term management in place, we recommend that a decision is taken in November as to the preferred operating model – direct operations or a management contract. That would leave sufficient time to procure a new management contract through a competitive tender process if it is concluded that the direct operating model is not preferred.

81. In terms of the next steps to implement the plan more generally, we would suggest that the following are key requirements:

- resolve the outstanding lease disputes and attain clarity as to the status of all properties that would need to be acquired to facilitate the development of the EZ;
- clarify the land to be defined as operational Airport for the longer term;
- identify the timing when relocation of existing airfield facilities will be required to as to facilitate the establishment of a phased programme of infrastructure development to allow the relocations to take place;
- continue to activity pursue – directly or via RCAM in the short to medium term – all realistic business development opportunities within the Airport;
- continue negotiations with Project Midfield and other MRO providers to secure a facility located at Blackpool; and
- develop detailed development scenarios including order of land release and development phasing to match this.

82. Once greater clarity of timing is attained, our work provides a framework for a Strategic Business Plan for delivery to be put in place.