

<b>Report to:</b>	<b>EXECUTIVE</b>
<b>Relevant Officer:</b>	Alan Cavill , Director of Communications and Regeneration
<b>Relevant Cabinet Member</b>	Councillor Mark Smith, Cabinet Member for Regeneration, Enterprise and Economic Development
<b>Date of Meeting:</b>	5 November 2018

## **BLACKPOOL AIRPORT STRATEGY**

### **1.0 Purpose of the report:**

1.1 Following the purchase of Blackpool Airport in September 2017, leading airport and aviation consultants York Aviation were commissioned by Blackpool Council in its role as shareholder in March 2018, to undertake a review of the airport, assess its market potential and to advise upon actions and the investment required to enable the airport to be able to deliver to its potential and support the delivery of Blackpool Airport Enterprise Zone.

This report sets out the findings from York Aviation’s comprehensive report and in turn makes a number of recommendations to take forward via the airport operational companies for the management and operation of Blackpool Airport.

By its very nature the York Aviation report contains a number of matters of commercial sensitivity including in respect of third parties, the details of which are therefore not included within the extensive executive summary at Appendix 6a to this report.

The report also comments on a range of potential expenditure that could be made over future years by way of investment in airport infrastructure, subject to detailed appraisal of the business case. However, in the initial years, essential capital expenditure relating to progression of the Enterprise Zone is included within the Phase One expenditure of £28.8m (plus the costs of Prudential Borrowing at the pooled rate) of the Blackpool Airport Enterprise Zone delivery plan approved by the Executive on 18 June 2018.

Squires Gate Airport Operations Limited (SGAOL) is the Blackpool Council wholly-owned company which is responsible for the operation of the Airport and who will be responsible for preparing and implementing the Business Plan for the Airport.

## **2.0 Recommendation(s):**

- 2.1 To note the York Aviation Report as set out in the executive summary (Appendix 6a) including:
- i. That future sustainable operation should focus upon the provision of services to support the offshore energy sector and in supporting corporate and executive aviation, aviation training and general aviation activity, with a limited potential for future operation of regional public service obligation (PSO) passenger services.
  - ii. That it is essential that the existing offshore support contracts are retained to enable the airport to continue at its present level of profitable operation and afford time for additional revenue earning activity to be secured.
  - iii. That continued modest capital and revenue investment will be required, particularly in air navigation aids, air traffic control and replacement aircraft hangars, to maintain the present level of profitable operation.
  - iv. That very significant investment in the realms of £10s of millions would be required in new operational facilities, particularly aprons, taxiways and aircraft hangarage facilities to allow the release the frontage sites for development as part of the Enterprise Zone proposals.
  - v. That there are currently very limited market prospects for a return of extensive scheduled and inclusive tour passenger services from Blackpool Airport other than at a level which would result in the airport operating at a significant financial loss.
  - vi. To note that any funding for initial activity to support the relocation of aviation facilities and strategic purchase of property required to implement the indicative York Aviation airport master-plan, will be met from the approved Enterprise Zone budget for the next three years in accordance with the approved Enterprise Zone Delivery Plan.
- 2.2 That the revised masterplan drawing at Appendix 6c replaces the original (masterplan drawing) as approved in February 2018.
- 2.3 To request Squires Gate Airport Operations Limited to develop a Business Plan for the short, medium and long term based on York Aviation's recommendations including the key findings above.
- 2.4 To authorise the Council's Chief Executive to agree terms for the retention of York Aviation to advise and support the Council and Squires Gate Airport Operations Limited in relation to the Operational Management Contract and timely migration of the Air Navigation Service Provider and Aerodrome licences to Squires Gate Airport Operations Limited.

- 2.5 That a further report be prepared setting out options for the future relationship between Squires Gate Airport Operations Limited and BAPL (Blackpool Airport Properties Ltd), the role of BAPL in the delivery of the Blackpool Airport Enterprise Zone and to bring forward the business case to support activity to implement the recommendations for relocation of operational facilities and aircraft hangars to enable release of land for commercial Enterprise Zone development.
- 2.7 To authorise the Chief Executive to continue to explore opportunities for securing external investment in the Airport and Enterprise Zone through joint venture partnerships and leasehold disposal of land for construction of private aviation hangars, maintenance facilities, fixed base operations for corporate aviation and maintenance base operations.
- 2.8 That Squires Gate Airport Operations Limited be recommended to maintain its membership of RABA (Regional and Business Airports association) and that Blackpool Council becomes a member of the LGA supported SASIG lobby group at a cost of £1,800 for two years.
- 2.9 That delegated authority be given to the Head of Legal to enter into any legal documents which require updating or amending or creating with regards to the recommendations contained within the report.
- 3.0 Reasons for recommendation(s):**
- 3.1 The recommendations arising from the York report will ensure that the Council's objectives are met through the airport operating companies, providing clear guidance as to the future market opportunities and priorities for investment, clarify management roles and responsibilities to enable long term sustainable operation and rationalization of facilities to support successful delivery of the Enterprise Zone in accordance with the Enterprise Zone implementation plan approved in July 2018.
- 3.2a Is the recommendation contrary to a plan or strategy adopted or approved by the Council? No
- 3.2b Is the recommendation in accordance with the Council's approved budget? Yes

### 3.3 Alternative Options

Not to approve the recommendations which would mean that the recommendations of the York Aviation review would not be taken on board and the Council would not have defined its preferred future direction for the Airport.

### 4.0 Council priority:

4.1 The relevant Council priority is: “The economy: Maximising growth and opportunity across Blackpool”.

### 5.0 Background information

5.1 Blackpool Council as accountable body for the Enterprise Zone has responsibility for ensuring that the economic potential of Blackpool Airport Enterprise Zone (EZ) is maximised, and is empowered to utilise the time-limited fiscal tools (Retained Business Rate Growth, Business Rate incentives and Enhanced Capital Allowances) granted by central government as part and parcel of Enterprise Zone status to help achieve these objectives. One of the key reasons behind the Government’s decision to award Enterprise Zone status was to assist in securing a long-term sustainable future for Blackpool Airport and a key part of national and regional transportation and economic infrastructure, following its temporary closure in late 2014 by owner Balfour Beatty, which resulted in the permanent loss of large-scale commercial passenger operations. Few suitable private sector purchasers for the airport were identified when they put their investment up for sale in 2016 and when a preferred purchaser failed to progress, the authority stepped in to acquire and offer the best guarantee that the airport would remain operational and contribute to the delivery of the Enterprise Zone.

5.2 York Aviation Consultancy undertook an extensive review of current aviation activity and potential market opportunities. This was undertaken alongside significant stakeholder engagement and analysis of regional competitors, including BAE Warton, to assess the prospects for future profitable airport operation at Squires Gate and in particular examining the cost and return from the reintroduction of large-scale passenger services.

5.3 They concluded that the present viability of the airport is largely dependent upon a single contract operated by Babcock Mission Critical Services Ltd on behalf of Spirit Energy and that the paramount objective for the airport must be to retain that contract in order to provide the financial stability from which to seek new business opportunities. In particular it was recognised that the offshore sector will decline over the next 10-12 years and that there will be a corresponding decline in the share of revenue it generates, which must be replaced

- 5.4 Whilst the current Babcock operational contract has been extended by Spirit until November 2019, Spirit have recently retendered the whole of their offshore support contracts, seeking a single operator rather than the present position whereby services are provided under several contracts. The announcement of the award of the new Spirit Contract may not be made until 2019, and therefore there remains a considerable uncertainty as to the nature and level of future offshore support services from Blackpool. Whilst regular dialogue is being maintained with Spirit Energy and specific contract proposals have been offered, this uncertainty over the largest contract and revenue generator has prevented York from completing a more detailed business plan and cash flow. They have instead had to model more generic scenarios with and without the core activity.
- 5.5 York has identified market potential for a handful of holiday routes operating on an annual or seasonal basis which could theoretically sustain passenger levels to justify a service in the face of ever increasing competition from Liverpool, Manchester and Leeds-Bradford airports. However, total anticipated passenger numbers are only in the region of 250,000 which would require very considerable new investment in terminal facilities security and operational equipment and particularly staffing, that would far outweigh the income that could be generated and could see annual seven figures financial losses incurred as a result. It would require approaching 1.5m passengers annually to begin to justify the level of investment needed to support a full-scale return of mainstream passenger services with the airports maximum historic passenger numbers having never risen above 700,000 - this is not an approach which can be recommended at the current time though the approach adopted does not preclude it being revisited in the future should market conditions change considerably.
- 5.6 York has identified the potential for a resumption of the local regional air services to the Isle of Man, Belfast and Dublin, which operated prior to the airports closure and to a lesser extent until the demise of City Wing in 2016. This type of operation could generate a market of 60,000 passengers annually and if operating from basic facilities potentially shared with Offshore helicopter operations and with a Public Service Obligation (PSO – i.e. a Government requirement), removing the burden of Air Passenger Duty, may secure an operator. However, the airport would incur considerably increased costs particularly in respect of staffing which would not be covered by revenue generated and would have the impact of reducing the EBITDA (Earnings before interest, tax, depreciation and amortisation) of the operating company to breakeven at best, before the cost of borrowing for investment in the provision of enabling facilities as illustrated on page 51 para xv of the York Executive Summary (Appendix 6a). The opportunity for reintroduction of such services should continue to be explored, particularly if a Public Service route designation can be secured, but careful consideration would need to be given to perceived wider economic and reputational benefits against the potential negative financial impacts

- 5.7 York identify that the main opportunities for future increases in traffic are to be found in the potential to grow existing areas of core business particularly the general aviation sector, where provision of a café would help in attracting visiting aircraft; and Corporate aviation which has increased to pre-closure levels and has some marginal potential for growth, especially if executive aircraft can be based and operated from the airport. Executive and corporate aircraft usually operate via a handling agent/Fixed Base Operation (FBO) which pays licence fees to the Airport. In recent years Hangar 3 a long-established local business has provided the majority of service in this respect, but has no formal agreement to provide this service and generate income, a situation which is in the process of rectification.
- 5.8 The biggest obstacles to growth in the general aviation and executive sectors have been a lack of confidence within the aviation industry that Blackpool Airport will remain operational, and a lack of aircraft hangars to accommodate new based aircraft. The publicity following the Council's purchase of the airport has begun to correct ill-informed perceptions, whilst the hangar shortage can be addressed by improved provision as part of the Enterprise Zone-sponsored relocation of time expired facilities on the Squires Gate frontage and by making available plots for private sector development of hangars.
- 5.9 The indicative airport layout options proposed by York Aviation illustrate how additional hangar capacity may be provided, within a wider relocation of operational facilities to release land for Enterprise Zone related development.
- 5.10 There is also some scope for increasing aviation training activity, together with some potential for hosting specialist aircraft maintenance activity (MBO), which could attract additional aircraft movements and fuel sales and bring the wider economic benefit of more high skilled jobs. However, the market competition for such activity is intense and in addition to provision of appropriate facilities, extensive marketing and possibly other incentives may be required to win investment in these areas.
- 5.11 York has identified that significant repair and upgrading work is required to much of the existing operational infrastructure to enable this to continue to meet present needs and that considerable additional expenditure on aircraft hangars, aprons, taxiways, a new terminal for offshore helicopter operations and potential regional passenger services would be needed to meet the potential growth in aviation activity and the aspiration to release land for Enterprise Zone commercial development.
- 5.12 York Aviation has prepared a range of indicative airport layouts to show the options for relocation and increase in operational facilities which are illustrated in the Executive Summary. These show minimum options to retain the status quo and a maximum provision to enable optimum growth, whilst releasing land for the Enterprise Zone objectives. A mid-case option has been adopted for inclusion in the

revised version of the adopted February 2018 Enterprise Zone Masterplan. The updated masterplan layout (Appendix 6c) replaces the initial airport layout concepts put forward by Mott MacDonald and particularly addresses areas of concern highlighted during the 2017 Masterplan public consultation such as the location of the proposed new offshore helicopter terminal which has been moved from the western edge of the new facility to the Eastern area to avoid impact on adjacent residential property.

- 5.13 York Aviation undertook a wide range of scenario testing, set out in detail in the chart on page xii of the Executive Summary. This testing examined infrastructure costs and profitability, significantly identifying a range of investment between £19m and £63m over a number of years to deliver the differing levels of aviation growth and the resultant potential for very modest EBITDA surplus or significant losses.
- 5.14 In isolation there would be little commercial justification in the EBITDA potential identified by York for investment of circa £50m. However, the wider economic benefits from the Enterprise Zone also have to be considered when taking any investment decisions. The approved Enterprise Zone Delivery Plan estimates that the land released by the relocation of Airport operational facilities, together with the new airport facilities, could generate investment to support:
- **2156** new jobs
  - **£34m** retained business rates growth to support Enterprise Zone infrastructure investment
  - resulting in a cumulative **£374m Net GVA** (which has a net present value of £244m) (see Genecon report extract Appendix 6b)
- 5.15 The Delivery Plan identifies within the allocated £28.8m phase one Enterprise Zone investment, a sum of £3.45m toward the initial cost of relocating and replacing older aircraft hangars and providing new apron, and a new offshore helicopter-terminal which is considered sufficient to meet the likely costs to be incurred on the airport over the next three years. There will be no immediate need to allocate additional funding in respect of airport infrastructure, with the airport operational budget separately allocating capital funds for replacement and upgrades to key navigational equipment.
- 5.16 Individual business case appraisals will be provided to support each individual airport and Enterprise Zone investment decisions.
- 5.17 Further business planning work now needs to be undertaken by Squires Gate Airport Operations Limited and Blackpool Airport Properties Limited to develop the detailed short, medium and long term operational proposals and associated investment requirement, utilising the strategic findings and recommendations of the York report.

- 5.18 The original Enterprise Zone Masterplan provided for the closure of the seldom used cross wind runway. This would reduce operational costs and free up areas of the existing airfield for new development. During the public consultation on the Masterplan representations were made by members of the aviation community to keep this open. York Aviation was asked to re-examine the case for retaining the cross-wind runway and reached the conclusion (paragraph 34 of Appendix 6a) that the cost savings from closure far outweighed the benefits and revenue of keeping this operational. Whilst this may prove a slight disadvantage to small number of less experienced pilots, closure will allow cost savings and enable land at the northern end of the runway to be made available for new hangar and apron development.
- 5.19 The two key operating licences- the ANSP (air navigation service provider) covers air traffic control provision and the Aerodrome licence- covers airport operation regulations, granted by the regulator Civil Aviation Authority (CAA) which permit Blackpool Airport to operate are presently held by the airports contracted operator Regional and City Airports who also employ the two key staff, the Airport Manager and the Senior Air Traffic Controller, all other staff at Blackpool Airport being employees of Squires Gate Airport Operations Limited. York Aviation has identified this is a potential risk as there are ill-defined lines of management responsibility and accountability, with the ability to maintain the operational airport entirely in the hands of a third party contractor. This situation has arisen because of the historic relationship between Regional and City Airports (RCA) – at one stage a Balfour Beatty owned company - and the need to protect the licences at a time when the planned closure and restructuring of the airport by Balfour Beatty took place in 2014.
- 5.20 York Aviation has identified a number of ways in which the operational contract could be updated to be more effective and recommend that to reduce the risk of relying on a third party, the two key Civil Aviation Authority licences are transferred to the control of Blackpool Council along with the TUPE transfer of the two responsible officers.
- 5.21 The operational management contract inherited by the Council in September 2017 contains a number of flaws and lacks any incentivisation for the operator to introduce new profitable business. This contract expired on the 1 July 2018, and following the change of ownership has to be re-tendered.
- 5.22 There was insufficient time to tender between the acquisition of the airport and expiry of the operational management contract, with the risk that the currently contracted operator (Regional and City Airports) could have walked away resulting in an immediate closure. A clause in the contract permitting a three year extension was therefore triggered with a variation to the extended contract negotiated building in the ability for Squires Gate Airport Operations Limited to terminate the agreement at six months' notice and making provision for the transfer of Civil Aviation Authority



licences and responsible officers to Squires Gate Airport Operations Limited on termination. The extended contract also increased the Regional and City Airport's management fee with a guaranteed one year's fee payable in the event of termination in the first year of the contract.

- 5.23 York Aviation has identified a number of potential ways in which the management and operation of the airport may be undertaken in future, including a continuation of the present arms-length management by the Council as owner, with an updated contract tendered, or with the option for the Council to operate directly, the latter option being favoured by York as it would make savings on management fees and guarantee clear lines of responsibility.
- 5.24 Much work needs to be undertaken to produce an appropriate form of management agreement against which the benefits or otherwise of the Council adopting a more hands on role in management can be assessed. This requires a level of aviation expertise which is not yet available within the authority and it is considered that York Aviation are best placed to continue in an advisory role to support the drafting of a new operational management guidelines and contracts to enable the operational contract to be tendered at the appropriate time.
- 5.25 In the past year a number of issues relating to the robustness of the navigational equipment have been identified which, together with difficulties in recruiting trained Air Traffic Control personnel are presenting challenges with issues relating to recruitment of air traffic control staff being a national skills shortage issue not one specific just to Blackpool Airport. Squires Gate Airport Operations Limited has instigated upgrades and renewal of all navigation and has recruited new Air Traffic Controllers who are in the process of undergoing the required six month Civil Aviation Authority validation. However, to minimise the risk of future interruption of service it is advised that options are explored to provide back up.
- 5.26 On acquisition of the airport the Council inherited a management structure which included two operating companies Squires Gate Airport Operations Limited (SGAOL) which is responsible for all operational matters and Blackpool Airport Properties Limited (BAPL) which is responsible for property with the airport's extensive c400 acre estate, both operating under a holding company which the Council acquired in September 2017. Work is underway to examine the rationalisation of the corporate structure. Including its reconstitution, and also to consider the role Blackpool Airport Properties Ltd may play in bringing forward land within the airport estate as part of the wider Enterprise Zone development.
- 5.27 The approved Enterprise Zone Delivery Plan envisages the relocation of existing airport infrastructure, principally hangars to open up attractive development land along the Squires Gate Lane frontage, with the appropriate allowance being made to fund this initial activity within the approved phase on Enterprise Zone implementation

budget of £28.8m. Individual business cases will need to be brought forward for approval prior to instigation of specific elements of the project.

- 5.28 York Aviation also reviewed various private sector parties who had engaged with the Council expressing an interest in owning, operating or otherwise investing in the airport, prior to its acquisition. They concluded that none of the proposals were sufficiently developed to warrant detailed dialogue to explore options. However, given the extent of capital investment required to allow the airport to maximise its aviation potential, this avenue should not be closed off. Expressions of interest are being invited from developers and contractors to support the delivery of the wider Enterprise Zone and it may be that previously interested parties and fresh interest comes forward with proposals which may provide a partnership opportunity which can secure greater economic value than could be achieved by the Council remaining in sole ownership and control.
- 5.29 The next few years will be a time of significant change for the aviation industry, not least in respect of the potential Brexit effect and there will be new regulatory arrangements particularly around security, air passenger duty and its impact on regional airports and in relation to the control of airspace. These changes will have a direct impact on the future operation and viability of Blackpool Airport. It is difficult for the airport to engage directly with regulators and policy makers at a national and European level, and this is best achieved via special interest lobby groups. The Airport has links to RABA (Regional And Business Airports Association) via its operator Regional and City Airports and has been approached to join an LGA supported group (SASIG), which acts on behalf local authorities who have airports within or adjacent to their boundaries for a two year fee of £1,800. It is recommended that offer from SASIG taken up and that the Airport also seeks direct membership of RABA, to obtain a better insight and influence in respect of emerging aviation policy.
- 5.30 Does the information submitted include any exempt information? No

**5.31 List of Appendices:**

Appendix 6a: York Aviation Executive Summary

Appendix 6b: Genecon appraisal of economic benefits from release of former airport operational land to the Enterprise Zone

Appendix 6c: Revised Enterprise Zone Masterplan incorporating York airport layout

**6.0 Legal considerations:**

- 6.1 Adoption of the recommendations derived from the York Aviation report, will require new operational contracts to be drawn up. The Legal team has recommended that delegated authority be given to the Head of Legal to enter into any legal documents which require updating or amending or creating with regards to the recommendations

contained within the report.

## **7.0 Human resources considerations:**

7.1 The operational staff at Blackpool Airport are employed by the Council's wholly owned subsidiary, Squires Gate Airport Operations Limited, with support in respect of Enterprise Zone issues provided by the Council's Growth and Prosperity team. If the transfer of the airport operational licenses to the Council is undertaken, the two key Regional and City Airports employed staff – the Senior Air Traffic Control Officer and the Aerodrome manager, would need to TUPE transfer into Squires Gate Airport Operations Limited.

## **8.0 Equalities considerations:**

8.1 None.

## **9.0 Financial considerations:**

9.1 A total of £3.45m has been identified within the initial first 3 year phase of the Enterprise Zone delivery plan to support airport development.

9.2 Any additional budget required for future works will be subject to a separate business case.

9.3 The costs contained within the initial York report have not been subject to due diligence as the costs are only indicative at this stage.

9.4 The finance and tax implications of the proposed works may be subject to external financial advice being obtained.

## **10.0 Risk management considerations:**

10.1 The retention of the Spirit Energy Contract represents the greatest current threat to the future sustainable operation of the airport – regular engagement with Spirit seeks to mitigate ongoing concerns they have in respect of the robustness of air navigation and air traffic control.

11.2 The Civil Aviation Authority would have to be satisfied as to the operational capabilities of any successor body before sanctioning any transfer of operational licenses –this process may take in excess of six months and could potentially necessitate additional as yet unquantified investment in equipment staff and the design and approval of operational procedures

11.3 The range of operational scenarios tested by York will inevitably differ from the actuality encountered with costs and revenue estimates having been undertaken at a

high level only- further detailed work will be required to develop confidence in figures for expenditure and income

11.4 The aviation industry is very competitive and volatile-and significant often abortive effort will be required to attract new investment to Blackpool.

**11.0 Ethical considerations:**

11.1 None.

**12.0 Internal/external consultation undertaken:**

12.1 None.

**13.0 Background papers:**

13.1 Blackpool Airport Enterprise Zone Masterplan (February 2018/ revised September 2018 )

Strategic Acquisition at Blackpool Airport Enterprise Zone (November 2017)  
PH58/2017

Acquisition of Property at Blackpool Airport (August 2017) PH50/2017

Acquisition of Property at Blackpool Airport – Northern Zone (August 2017)  
PH49/2017

Blackpool Airport Enterprise Zone Memorandum of Understanding (November 2016)

Blackpool Airport Enterprise Zone Delivery plan

**14.0 Key decision information:**

14.1 Is this a key decision? Yes

14.2 If so, Forward Plan reference number: 7/2018

14.3 If a key decision, is the decision required in less than five days? No

14.4 If **yes**, please describe the reason for urgency:

**15.0 Call-in information:**

15.1 Are there any grounds for urgency, which would cause this decision to be exempt from the call-in process?

No

15.2 If **yes**, please give reason:

**TO BE COMPLETED BY THE HEAD OF DEMOCRATIC GOVERNANCE**

**16.0 Scrutiny Committee Chairman (where appropriate):**

Date informed: 26 October 2018 Date approved:

**17.0 Declarations of interest (if applicable):**

17.1

**18.0 Executive decision:**

18.1

**19.0 Date of Decision:**

19.1

**20.0 Reason(s) for decision:**

20.1

**21.0 Date Decision published:**

21.1

**22.0 Executive Members in attendance:**

22.1

**23.0 Call-in:**

23.1

**24.0 Notes:**

24.1