

CITY OF PLYMOUTH

Subject: Plymouth City Airport
Committee: Cabinet
Date: 23 August 2011
Cabinet Members: Councillor Fry
CMT Member: Director for Development and Regeneration
Author: David Draffan Assistant Director, Economic Development
Contact: Tel: 01752 304250
e-mail: david.draffan@plymouth.gov.uk
Ref: Plymouth City Airport
Key Decision: Yes
Part: Part I

Executive Summary:

Plymouth City Airport (PCA) is owned by Sutton Harbour Holdings Limited (SHH) and is held on two related leases from the City Council (PCC) for 150 years from April 2004.

Under the terms of the lease PCA are entitled to close the airport in the event that it is not viable for its Principle Purpose. The Principle Purpose is defined as a public airport providing passenger air services on a regular and commercial basis to members of the public.

PCA Limited served a Non-Viability Notice on the Council on 24 December 2010 which gives 12 months' notice of closure of the airport. PCC needs to respond to the Notice as soon as practicable but in any event no later than the expiry of the Notice which will be on 23 December 2011.

In the event of disagreement about the viability of the Airport the matter is referred to a legally binding arbitration. It is therefore important that PCC's response to the notice is objective and supported by expert & specialist evidence.

In order to inform its decision on how to respond to the Notice, PCC has therefore commissioned three pieces of work:

1. With Plymouth Chamber of Commerce, an economic study of PCA and options for its future, carried out by Berkeley Hanover Consulting Limited.
2. Due diligence on company accounts of Plymouth City Airport Limited, carried out by auditors Grant Thornton UK LLP.
3. Soft market testing of potential scheduled air services using smaller aircraft (20-seat aircraft rather than the 50-seat aircraft in the ASW fleet) and alternative airport operators, carried out by Oriens Advisers Limited.

This report considers the expert evidence and sets out the PCC's response to the notice of non viability as required by the lease agreement between PCA and PCC.

This item did not appear on the Forward Plan but was dealt with under the procedure for urgent key decisions.

Delivering Growth:

Good connectivity to and from the City is recognised as important in the Local Transport Plan as well as in the Economic Strategy and Core Strategy. The City needs to ensure that it works to ensure it is well connected to support our growth priority. However our findings from the Berkeley Hanover report show that the Airport in its current format provides limited material economic benefit to the economy. Businesses have already adapted to the loss of a London connection and there is no evidence of the Airport having had any impact on inward investment. The Berkeley Hanover study also states that alternative uses of the site would enhance the mid to long term growth rates of economic development in the corridor. It also states that the City would be well advised to focus on improving its connections in particular regarding rail.

Implications for Medium Term Financial Plan and Resource Implications: Including finance, human, IT and land

The future control of the airport site will remain with PCA Limited/SHH, which may also seek to generate income from any sub-lettings that continue. In the event of future redevelopment, related costs will be met by SHH and repayable from any realised future capital receipts.

In the event of receipts being generated from future development activity; the capital receipt (after deduction of reasonable costs and fees relating to obtaining planning permission and disposing of the site and repayment of previous grant funding of approximately £3.7m plus capped indexation) is to be divided in accordance with the lease agreement.

It can be anticipated that a considerable amount of officer time will continue to be required to manage the Council's interests in this property.

Other Implications: e.g. Community Safety, Health & Safety, Risk Management and Equality, Diversity and Community Cohesion:

PCA Limited/SHH will continue to manage the site.

Recommendations & Reasons for recommended action:

1. The Council accept the Notice of Non-Viability dated 24 December 2010 that PCA Limited/Sutton Harbour Holdings Limited wish to close Plymouth City Airport for its principal use of providing public commercial air services.

Reason – It is necessary that the Council respond to the Notice within 12 months and it is evident from the 3 studies undertaken that there is no commercial solution for scheduled air services or airport operations and, therefore, no legal grounds to challenge non viability.

2. The Council enter into discussions with PCA Limited/Sutton Harbour Holdings Limited with the aim of securing continued use of the airport for FOST and search and rescue on a temporary basis whilst future options are considered.

Reason – To enable FOST and search & rescue operations to continue to operate from Plymouth Airport on a temporary basis.

- To amend the area covered by the Derriford & Seaton Area Action Plan so as to exclude Plymouth Airport, as identified in the report, and to incorporate this change in a revised Pre-Submission Draft of the AAP for further consultation.

Reason: Given the implications of the study for the future of the airport, it would be inappropriate to continue to include this site within the AAP. The issue is of such strategic significance that it would be more appropriate to consider future options as part of the Core Strategy Review (The Plymouth Plan), which is being initiated during 2011.

- Until such time as the Core Strategy Review (Plymouth Plan) is submitted for public examination, instruct officers to continue to apply the Council's current planning policies and guidance for Plymouth Airport, including:
 - Adopted Core Strategy: Area Vision 9 (2) and Vision Diagram, Strategic Objective 14 (Delivering Sustainable Transport), Policy CS27 (Supporting Strategic Infrastructure Proposals) and Policy CS28 (Local Transport Considerations)
 - Interim Planning Statement 16 (Plymouth Airport)

Reason: To safeguard the site from inappropriate development and from incremental and short term planning applications whilst its future is fully considered.

- Instruct officers to work with partners to develop the case for better and more regular rail connectivity and infrastructure provision; lobbying ministers on these matters and preparing the evidence base to inform the DFT of the requirements to be included in the ITT for the new Great Western franchise.

Reason: Following the appointment of consultants already made by the Council, to undertake an Economic Study into Rail Services for Plymouth the City Council to improve business connectivity and encourage inward investment.

Alternative options considered and reasons for recommended action:

The study carried out by Berkeley Hanover Consulting considered 5 options for the airport and their report is attached. It concluded that the PCA provides limited material economic value and that there is no justification on economic grounds for making any further public investment in it.

The soft market testing undertaken by Oriens Advisors, which is commercial in confidence, concluded after contacting appropriate airlines (with aircraft capable of using the relatively short runway at PCA) that there were no airlines that would operate services to Plymouth without public subsidy. Neither is there any alternative airport operator that would run PCA without public subsidy.

It being evident that there is no commercial solution for either scheduled air services or airport operations, it was concluded that PCA is non-viable for its principal use. Therefore the Notice of Non-Viability could not credibly be challenged, and should be accepted.

Background papers:

Economic Study undertaken by Berkeley Hanover Consulting Limited - July 2011 (attached)

Sign off:

Fin	KFDevF11 120026 12/8/11	Leg	LT/12582	HR	N/A	Corp Prop	N/A	IT	N / A	Strat Proc	N/A
Originating SMT Member: David Draffan											