

Elements of Appendix 1 are not for publication by virtue of paragraphs 3 of schedule 12A of the Local Government Act 1972

AGENDA ITEM 8

**REPORT TO THE TEES VALLEY
COMBINED AUTHORITY CABINET**

24 SEPTEMBER 2021

REPORT OF THE GROUP CHIEF EXECUTIVE

TEESSIDE INTERNATIONAL AIRPORT – BUSINESS PLAN UPDATE (2021-2029)

SUMMARY

The airport's current business plan and annual budget came to Cabinet at its meeting in November 2020. This report covers the recent change in the ownership arrangements of the airport, sets out briefly the progress made under the current Business Plan by the airport over the period since the previous report (including through the period of the Covid 19 global pandemic), and presents the updated TIA Business Plan (2021-2029). The updated Business Plan is set out at **Appendix 1** to this report (commercially sensitive information has been redacted).

RECOMMENDATIONS

It is recommended that the Combined Authority Cabinet:

- i. notes the updated position on airport ownership;
- ii. notes the progress made by the airport during the period since the previous Cabinet report; and
- iii. notes the updated TIA Business Plan (2021-2029).

BACKGROUND

1. TIA is 89% owned by Goosepool Limited and 11% by local authorities (the five Tees Valley authorities and Durham County Council).
2. Goosepool was previously 75% owned by TVCA and 25% owned by Esken (formerly Stobart), under a joint venture entered into in 2019 following the acquisition of the airport by TVCA from Peel Holdings. In July 2021 the 25% owned by Esken was transferred to the newly established Teesside Airport Foundation, following completion of their support to help build a self-sustaining management team within the airport itself and assisting with airline growth. Consequently Esken is no longer involved with the ownership or operation of the airport.
3. A key priority in the period after the acquisition of the airport was to agree a business plan and annual budget, which was updated and reported to Cabinet in October 2019.

The current business plan was reported to Cabinet at its meeting in November 2020 and given the unprecedented input Covid 19 has had an update has been made to this, with details below.

DETAIL

Esken (Stobart)

4. Over the last year the airport's management team undertook a review of all major contracts to ensure they are fit for purpose for the future, which resulted in a number of changes to contracts.
5. At the time the airport was acquired, Stobart Group (now Esken) signed an initial 4-year agreement with TIA to provide corporate support (back office) services in place of the previous airport owner (Peel Group), and to deliver aviation support. The intention was that those corporate services would transition to internal provision within the 4-year period, with Stobart continuing to provide aviation services beyond that date. As part of the arrangement Stobart took a 25% interest in Goosepool, the company TVCA established to make the acquisition. The acquisition itself was funded by shareholder loans from TVCA.
6. Stobart/Esken provided crucial support and assisted with many transitional management services. Their aviation experience and support resulted in the airport being able to build its own strong relationships with airlines and across the wider sector ahead of the original schedule.
7. In the last two years following the acquisition, the back office services have been brought in-house and the airport management team has been developed, including with the appointment of Phil Forster as Managing Director - Phil has significant experience at Leeds/Bradford and Newcastle Airports, including strong relationships and experience of negotiating with airlines.
8. As the sector emerged from the Covid-19 pandemic and TIA moved into the next phase of development, it was considered the right time to review the operating arrangements. The review concluded that the Esken agreement outputs had been delivered. The decision was taken to part company with Stobart Group/Esken, by mutual agreement, as this coincided with several other projects at TIA and externally for Stobart Group/Esken.
9. As part of the agreement with Esken, the 25% stake in TIA previously held by Esken has been transferred, at no cost, to the recently established Teesside Airport Foundation which is a new independent charitable trust. The Foundation will focus on education, employment, welfare and regeneration across the region, and its establishment also introduces the requirement to have a public referendum on any future proposed sale or closure of the airport.
10. TVCA support to TIAL is unaffected and will continue in the same way, with the airport being run by an experienced in-house team (reporting to the airport's Board of Directors) and oversight from the Group Directors at TVCA and the Mayor.

The impact of the Covid 19 pandemic

11. TIA, like every other airport in the UK, has been significantly impacted by the global pandemic, given the extended periods of time without passengers and flights. In recognition of this impact, the Investment Plan 2019-29 Refresh report that was approved by Cabinet in July 2021 included an additional allocation to TIA of £10m over 2 years, to enable the airport to stay on track for its recovery plan notwithstanding the ongoing global pandemic. This compares with local authority support to other UK airports as set out in the table below:

Airport	Financial support	Supporting authority
Luton Airport	£139m	Luton Council
Manchester	£250m	The 10 Greater Manchester councils (Bolton, Bury, Manchester, Oldham, Rochdale, Salford, Stockport, Tameside, Trafford and Wigan)
Birmingham airport	£33m	Birmingham City Council, Coventry City Council, Walsall Council, and Solihull Council
Liverpool John Lennon Airport	£34m	Loan from the Liverpool City Region Combined Authority
Newcastle Airport	Suspended repayment of £68m loan from 2012/13	Northumberland, County Durham, Sunderland, South Tyneside, North Tyneside, Newcastle and Gateshead Councils

The outturn for the financial year 2020/21 (subject to final audit sign-off) is a loss of £13.8m and an EBITDA loss of £9.3m. This is largely attributable to the global pandemic. The loss is greater than the forecast loss in the original Business Plan due to Covid-19, but it is in line with other airports and operators within the aviation sector, this result is not an outlier in the market. There are several examples where aviation linked companies have had to seek substantial financial support.

12. In March 2021 TIA was successful in securing Government pandemic grant funding of £0.48m. This was the maximum allowed in respect of the Airport & Ground Operations Support Scheme (AGOSS), which reimbursed the annual business rates paid by the airport in 2020/21. TIA has since put in a further application to the AGOSS Renewal Fund for £0.23m, to reimburse 50% of the business rates liability for 2021/22, and confirmation has been received in September 2021 that this was successful.

TIA progress under the current Business Plan

13. Notwithstanding the Covid19 pandemic, TIA has made significant progress against the targets set out in the current Business Plan. In particular: -
- A significantly increased route mix of scheduled, charter and low-cost operators has seen a total of 15 routes now launched from Teesside since the airport was acquired by TVCA. This has significantly exceeded the 10-year plan which was originally to attract 10 additional route by 2022;
 - Low-cost carrier Ryanair commenced flights for Summer 2021 and, due to the success of those, are now operating year-round;
 - Loganair commenced flights on various new routes, including London Heathrow up to 3 times daily, with a British Airways codeshare agreement enabling passengers to connect seamlessly to hundreds of BA destinations;
 - Passenger satisfaction responses for the last 3 months are very high – 99% of respondents were either “very happy” or “happy” with their airport experience;
 - TUI, the UK’s largest holiday company, is offering flights to Majorca beginning summer 2022, nine years after its last departures from the airport. Based on successful early sales an additional TUI flight to Antalya, Turkey has also been secured for summer 2022;
 - The terminal was extensively redeveloped with the airport using 18 local firms to carry out the works - carrying this out during a period of suppressed passenger traffic has minimised disruption and left the airport in the best possible condition to accommodate post-pandemic growth;
 - State-of-the-art scanners were installed as part of a major renovation of the security area;
 - 37 new jobs were created at the airport; and
 - Willis Asset Management Limited is expanding its operations at the airport as a base for carrying out maintenance, storage and disassembly of aircraft.
14. To set against this, along with every other UK and international airport, TIAL was severely impacted by the global pandemic. Further information about that impact to date is set out in the updated plan. The headline position is an outturn for the year ended 31 March 2021 of a draft loss of £13.8m and an EBITDA loss of £9.3m. This is in line relative to other airports and operators within the aviation sector following the pandemic and therefore this result is not an outlier in the market, as detailed at paragraph 11.

Updated Business Plan (2021-2029)

15. The Business Plan Update will be approved by both the Goosepool and TIA Boards (along with the TIA annual accounts) on 21st September 2021.
16. The Business Plan headlines are that, in common with all airports, TIA’s short term financial performance has inevitably been adversely affected by the pandemic in 2021/22, and the position is behind the original pre-Covid business plan for 2021/22.

However, looking forward, TIA is now forecasting to outperform the original business plan over the 10-year period. The plan forecasts a return to a positive EBITDA position by 2023/24, 2 years ahead of the original business plan, and revenues are now forecast to be £30.5 million by March 2025. As described in Appendix 1 in more detail, the challenges of the pandemic have in fact provided some opportunities which the airport is taking forward which might not otherwise have materialised at this relatively early stage of the 10-year plan, providing genuine grounds for optimism about the future.

FINANCIAL IMPLICATIONS

17. The pandemic inevitably resulted in the additional short-term cash requirement of £10m compared to the original Business Plan approved at the July 2021 TVCA cabinet. If targets are achieved, the updated Business Plan does not require the Combined Authority to review its approved funding allocation to the airport out to 2029.

LEGAL IMPLICATIONS

18. There are no legal implications arising from this report.

RISK ASSESSMENT

19. The key short and medium-term risk to the delivery of the TIA Business Plan is the aftermath and ongoing uncertainty surrounding the COVID-19 pandemic and its effect on the aviation industry generally, and the airport specifically. The airport's senior management team will continue to monitor and manage this risk and develop strategies for the growth and development of the airport. Regular updates will be continue to be provided to the Goosepool Limited and TIA Boards.

EQUALITY & DIVERSITY

20. There are no equality and diversity impacts arising from this report.

LOCAL ENTERPRISE PARTNERSHIP

21. This item has been considered at the LEP meeting in advance of it coming forward to Cabinet.

Name of Contact Officer: Julie Gilhespie

Post Title: Group Chief Executive

Telephone Number: 01642 528834

Email Address: Julie.Gilhespie@teesvalley-ca.gov.uk