



**BUSINESS PLAN 2021/22**

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## **1.0 CONTEXT**

### **1.1 BACKGROUND**

In March 2019, Tees Valley Combined Authority (TVCA) acquired the majority shareholding in Teesside International Airport (TIA), which would have closed had the acquisition not taken place. The acquisition was identified as critical to Tees Valley in securing the future of the airport as an essential component of the region's underpinning economic infrastructure.

TIA is 89% owned by Goosepool Limited and 11% by local authorities (the five Tees Valley authorities and Durham County Council). Goosepool was previously 75% owned by TVCA and 25% owned by Stobart Group (now Esken), under a joint venture entered in 2019 following the acquisition of the airport 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.

### **1.2 Progress to date**

Since acquiring TIA, TVCA has driven forward significant developments at the airport linked to route and commercial development, terminal improvements, business engagement and marketing & communications.

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. 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.

The intention was that those corporate services would transition to internal provision within the 4-year period, with Esken continuing to provide aviation services beyond that date. As part of the arrangement Esken took a 25% interest in Goosepool, the company TVCA established to make the acquisition. 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 across the wider sector ahead of the original schedule. 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 and the decision was taken to part company by mutual agreement, as this coincided with several other projects at TIA and externally for Esken.

Loganair joined the airport, growing their network to include Aberdeen, Belfast, Newquay, Bristol, Jersey and serving London Heathrow up to 3 times daily, with a British Airways codeshare agreement enabling passengers to connect seamlessly to hundreds of BA destinations. Further good news for summer 2022 will see Loganair flying to Dublin and Southampton.

A new five-year deal was struck with the airport's long-standing partner KLM Royal Dutch Airlines, to continue its service to Amsterdam Schiphol. The connection to this worldwide hub, which serves more than 100 destinations across the globe, saw its highest passenger numbers in 14 years in September 2019 (pre the global pandemic).

A seven-year agreement has been signed with Ryanair initially launching summer 2021 flights to Palma de Mallorca and Alicante, to which Faro in Portugal and the Greek Island of Corfu have been

added. A further boost arrived with Ryanair's decision to operate Alicante flights twice weekly in winter, and dialogue continues with the airline to add new routes and increased frequencies on existing routes.

Importantly, other routes secured or expanded include the return of TUI, the UK's largest holiday company, 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. JetsGo Holidays launched flights to Majorca for summer 2021, however the flights failed to operate due to the pandemic. After a successful year in 2019, Balkan Holidays doubled their capacity to Bourgas, Bulgaria for summer 2020, but these flights also failed to operate due to the Government lockdown, as has the summer 2021 programme due to the uncertainties caused for passengers by the Government's travel traffic light system. However, this doubling of capacity to two weekly flights is now on sale for summer 2022.

With 16 new routes launched from TIA since public ownership we have already well exceeded our 10 year plan, but discussions continue with airlines with a view to going much further.

Extensive terminal developments to enhance the customer experience have been delivered, including a major redevelopment of the security area. This includes state-of-the-art body and baggage scanners, so passengers do not need to remove electronic items and liquids from their bags, which makes the passenger security process smoother and quicker. It also aligns TIA's security processes with connecting hub airports including London Heathrow and Schiphol, removing the requirement for onward passengers to go through those onward security processes. This is alongside the renovation of the arrivals hall with new walls, signage, flooring and paint, to make the first impression of the airport for passengers more welcoming and the airport easier to navigate.

Existing businesses located on site at the airport have been secured for the next five years, while new companies have been welcomed. Draken (formerly known as Cobham), which operates and maintains a fleet of specially modified Dassault Falcon 20 aircraft (and whose presence at the airport had been at risk) announced a major new long-term deal with the Ministry of Defence which will keep them stationed at TIA for the foreseeable future, in the face of strong opposition from other operators and locations. It also led to a 25% increase in local jobs over the past 18 months which include many key skilled positions, as the Draken base has secured new long-term contracts and made significant investment in infrastructure and technology.

An extensive renovation of Hangar 1, including electrical upgrades, roof repairs and other essential maintenance, prompted Willis Asset Management Limited to choose TIA as its location for a European aircraft maintenance base. After considering several possible locations across the continent, the global aviation company chose to lease Hangar 1 and Hangar 1A for its operations. Willis will house aircraft and parts at the hangars while carrying out maintenance, storage and disassembly of aircraft. Phase 1 of this development has seen the creation of approximately 20 highly skilled engineering and management roles, with further opportunity for expansion in the future.

Work has now begun on the infrastructure to support the airport's Southside development. The major logistics, manufacturing and commercial business park will cover 3.4 million square feet across 270 acres of the land at the southside of the airport. Once complete, the development has the potential to create 4,400 jobs and deliver extra revenue to reinvest into the airport.

To amplify TIA's key messages, a series of successful engagement events with travel agents, local stakeholders, businesses and Government departments has gone ahead, promoting the advantages of using the airport hub as it expands its domestic and international links. Marketing agreements have

been reached with partner airports and local businesses to promote and amplify TIA's growing flight schedules and ambitious turnaround plan.

In developing the site and its offer, a number of local contractors and service providers have been engaged, ensuring, wherever possible, that any money spent stays in the area and benefits the wider Tees Valley. TIA continues to champion and support local causes, including football sponsorships and annual pilgrimages to Lourdes and has signed up for the Hidden Disabilities Sunflower Scheme to help support those passengers whose disability may not be immediately obvious.

### **1.3 COVID-19**

During the first four months of the pandemic, UK airports lost just under £2billion, the equivalent of over £15 million each day. They collectively lost circa £4billion to the end of 2020 and this will potentially be even greater at year-end 2021. The implementation of the 14-day quarantine period for international arrivals for summer 2020 and 10-day quarantine period for summer 2021, plus the unpredictability of destinations being put on and off the travel corridor list, and expensive pre and post trip Covid testing, has meant that consumers have had very low confidence in terms willingness to book international trips. Domestic travel was also significantly affected due to lockdown restrictions and Government advice against all non-essential travel. During the 4 months after lockdown, passenger numbers fell by up to 99% nationally. Following the lifting of Government restrictions, domestic business travel has been very slow to return. TIA is however confident that while business travel is slow, it will return gradually over the planned period.

Covid-19 has had a devastating impact on the aviation industry, with the International Air Transport Association (IATA) expecting that as a result of the pandemic up to 25 million people (linked either directly or indirectly to the aviation industry) are at risk of losing their jobs, with a contraction of about 30 per cent likely in the short term.

In relation to TIA, the decision was taken to close the terminal building to passengers and non-essential staff from 24<sup>th</sup> March 2020, following strengthened Government advice to avoid all non-essential travel to slow the spread of coronavirus. Both KLM & Eastern Airways suspended all their scheduled services, and the airport's senior management team took the decision to close the Jet Centre during this period (with a caveat to assist if any medical flights were required to operate).

A long-term, strategic decision was made to not close the airport completely, to ensure the continued support of key businesses on site, ensuring their operation in the short-term and protecting them from further disruption due to the pandemic. While remaining closed to passenger traffic following the suspension of KLM and Eastern Airways flights, the airport did remain operational throughout for (a) Cobham Aviation, who are contracted to carry out MOD defence training for national security, (b) IAS medical, who support the NHS in carrying medical transplant teams along with repatriation of the seriously ill, and (c) the Local Airspace Radar Service (LARS), which allows aircraft to pass through TIA's airspace. The safety of our staff was paramount when making the decision to remain operational, and robust covid control measures were put in place to ensure this.

The airport took advantage of the Government's furlough scheme, with 28 staff placed on furlough and 61 staff remaining operational, to allow the airport to continue to function and carry out essential tasks. The Tees Valley Mayor made a commitment to protect the jobs and well-being of all staff at the airport, and as a result there have been no job losses, whilst the airport has continued to pay those staff on furlough the extra 20% on top of the 80% provided by the scheme, to ensure staff receive 100% of their wages.

TIA began a phased reopening of the airport to passengers in June 2020, introducing enhanced safety and security measures, with all airport staff undergoing the requisite training. However, the pandemic is an ongoing situation, and continues to be a threat to aviation and the airport will keep its plans under review going forward. The success of the UK vaccination programme has enabled most restrictions to be lifted and in summer 2021, people have been able to travel abroad albeit having to adhere to the Government’s travel rules under the traffic light system, and also the applicable rules of their destination countries.

## 2.0 GROWTH PLAN

### 2.1 MISSION, VISION AND VALUES

It is important to place TIA’s aviation growth plan within the context of the COVID-19 pandemic and its impact on the aviation/travel industry, whilst still adhering to TIA’s mission, vision, and values.

Aviation will take time to recover - however, the airport is strongly positioned to capitalise on new opportunities in the aviation market, as confidence grows amongst the travelling public alongside the relaxation of the Government’s travel rules. Airlines have closed bases at competitor airports and have actively sought negotiations with TIA for future flight programmes. Although the pandemic has clearly adversely affected the short-term plans for TIA, equally it has provided opportunities that may not have otherwise materialised at this relatively early stage of the plan, providing genuine optimism for the airport’s medium and long-term future. The last two years have shown that had TIA not been acquired and the 10 year plan not been put into place the airport would now be closed.

#### Mission

The TIA mission is to add connectivity, economic impetus, job opportunities, and travel opportunity to the region, in a sustainable manner.

#### Vision

TIA will grow over the coming years to become a mid-sized regional airport, known for a high-quality customer experience, providing domestic and international scheduled and charter services to its local and regional markets, as well as private jet and general aviation facilities to wider audiences.

#### Values

TIA operates based on values aligned with its stakeholders: customers, employees, shareholders, and communities.

	Customers	Employees	Shareholders	Communities
Great SERVICE	√			√
A FAIR deal	√	√	√	√
SUSTAINABLE operations		√		√
Creating OPPORTUNITY	√	√	√	√
FORWARD looking	√	√	√	√
Always INNOVATIVE	√	√		√

## 2.2 AVIATION GROWTH PLAN

### Market Analysis

The North of England delivers approximately 44 million annual passengers and is served by seven airports, ranging from Manchester (MAN), with almost 29.4M\* passengers and with a diverse range

of short/mid haul services and long-haul routes including the Middle East and the USA, to TIA with 148K\* passengers and Humberside (HUY) with 202K\* passengers, with limited short-haul services between them. The primary airport within the North East of England is Newcastle (NCL) with 5.2M passengers, which has a route network covering many European cities and an extensive range of summer and winter holiday destinations, domestic connectivity and daily long-haul services to Dubai plus charter flights to the Caribbean and Florida. TIA has daily flights to Amsterdam and London Heathrow, enabling onward worldwide connectivity, along with a growing network of domestic routes, the primary one being Aberdeen plus a growing range of leisure charter flights in the summer.

### Northern England Airports 2019 (CAA Data 2019)

Manchester	29.37M
Newcastle	5.20M
Liverpool	5.04M
Leeds Bradford	3.99M
Doncaster Sheffield	1.41M
Humberside	0.20M
Teesside International	0.15M

\*CAA data 2019 which is the most recent data available due to the pandemic in 2020.

The CAA Survey Data shows that 465,000 passengers travelled from the North East (NE) to Manchester (2019 data) and 165,000 flew from Leeds Bradford (2017 data), while a further 386,000 flew from London airports (2019 data). This equates to just over 1M passengers spilling from the NE to other airports across the UK. Spilled demand is usually led by a mix of supply factors such as route mix, service frequency and pricing. Newcastle Airport's passenger base is largely defined by the NE (88% of total passengers) while over 240K passengers travel from Scotland and 365K passengers come from the North West and the Yorkshire and Humber region.

TIA is conveniently located to serve the catchments south of Newcastle such as Middlesbrough, Darlington and Stockton, and can also attract passengers from North Yorkshire. Newcastle Airport has the largest overlap with TIA's immediate catchment area and accounts for over 50% of demand from within TIA's immediate catchment (less than 30-mins drive time). *Source: Telefonica; Teneo research and analysis.*



Source: Telefonica; Teneo research and analysis; Google Maps

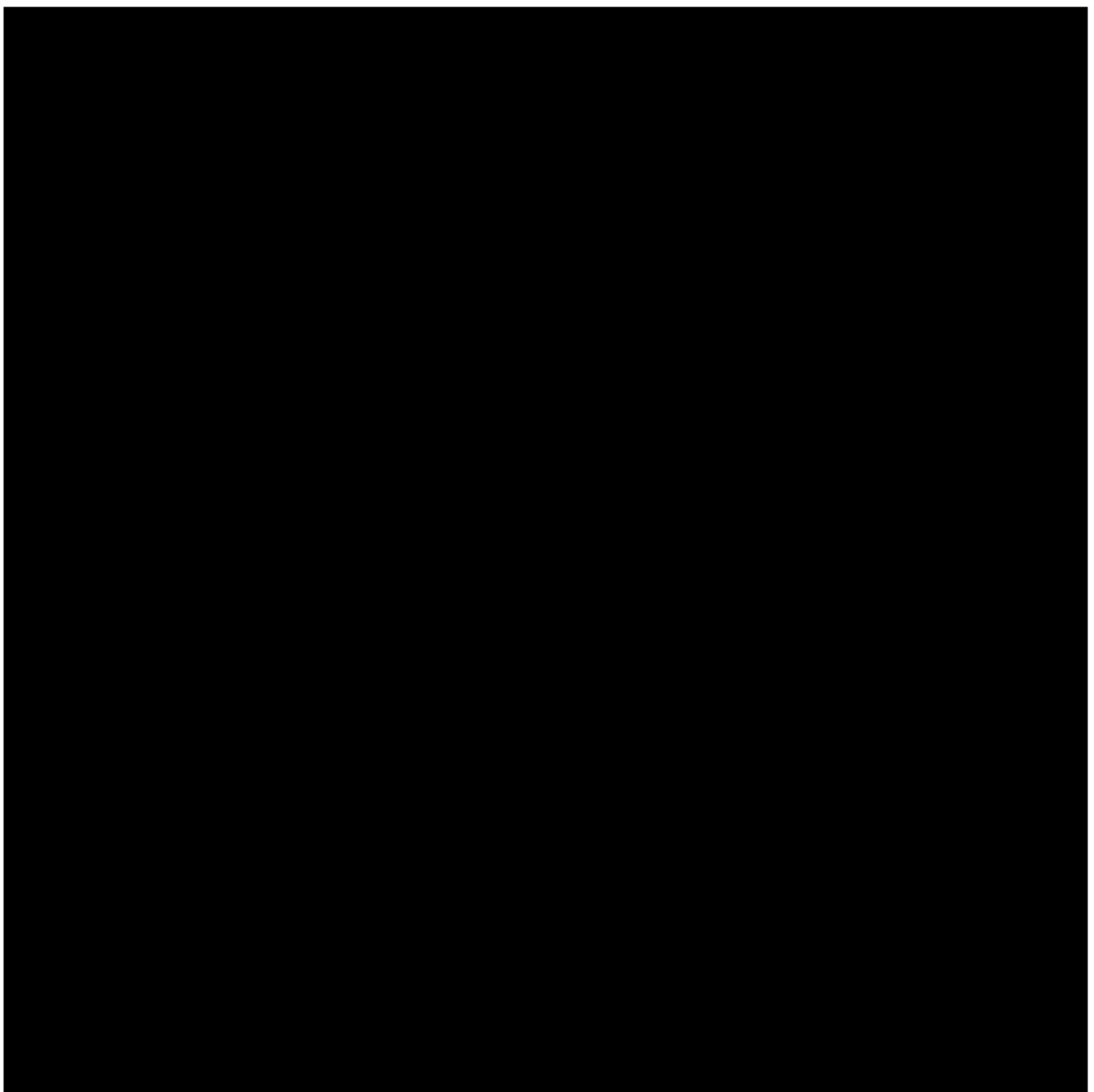
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A proportion of growth at TIA will be driven by capturing market share from competing airports within the region and new airlines/routes creating demand as has been seen across Europe at regional airports with airlines such as Ryanair and Wizzair.

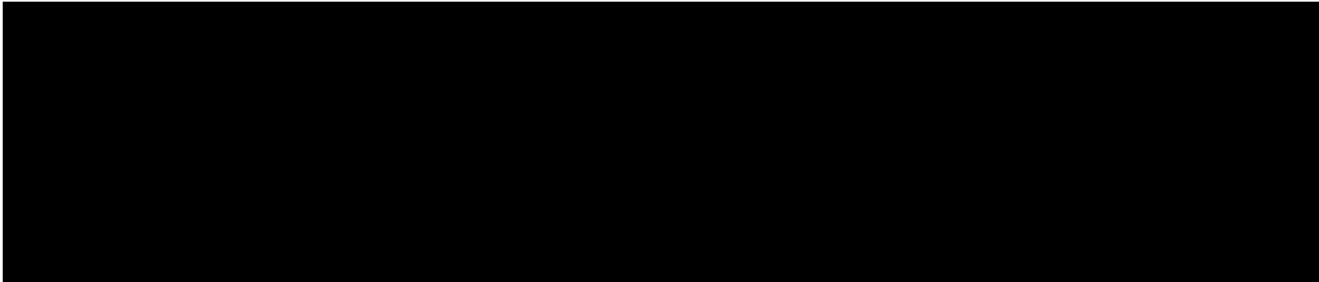
**Market Position: Low Cost, High Quality, Local**

Following its acquisition by TVCA, TIA was essentially a market entrant, with established competitors. It was therefore extremely unlikely it could start from anything other than a low-cost market position, hence the objective to secure a low-cost carrier as early as possible, and this was achieved ahead of schedule in summer 2021 (Ryanair). Part of the airport's service quality aspect should be "local", given ownership and the opportunity to create a material sense of place. TIA's market position, therefore, is low cost, high quality, with "local" as a defining aspect of quality.

**Market Segmentation**





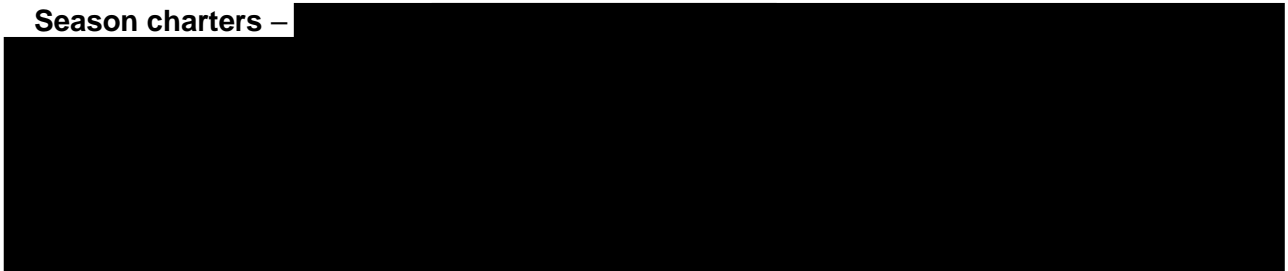


### 2.3 STRATEGY FOR THE AVIATION GROWTH PLAN

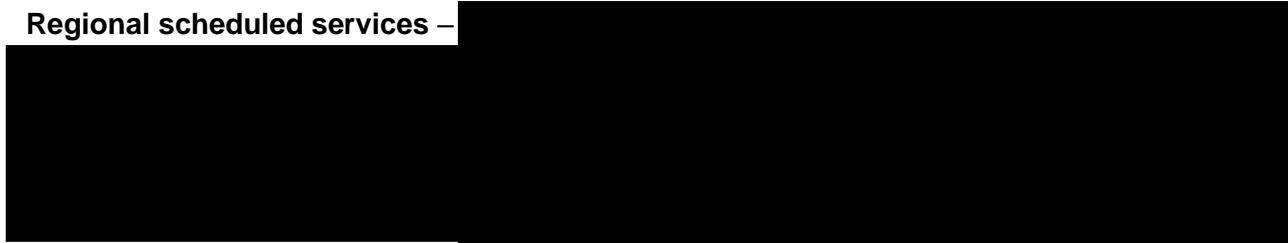
Based on the opportunities expected to open up in the airport market as a result of airlines closing and/or repositioning their previous airport bases as a result of COVID-19, and on TIA's ongoing discussions with airlines, it remains our intention to increase passenger numbers from 141k to more than one million a year by March 2026.

Passenger numbers have been increasing month on month since re-opening after lockdown, driven primarily by the low-cost carrier (LCC) Ryanair and the full regional services of Loganair. As we go into summer 2022 we expect to see further growth in these markets, plus growth from holiday charters.

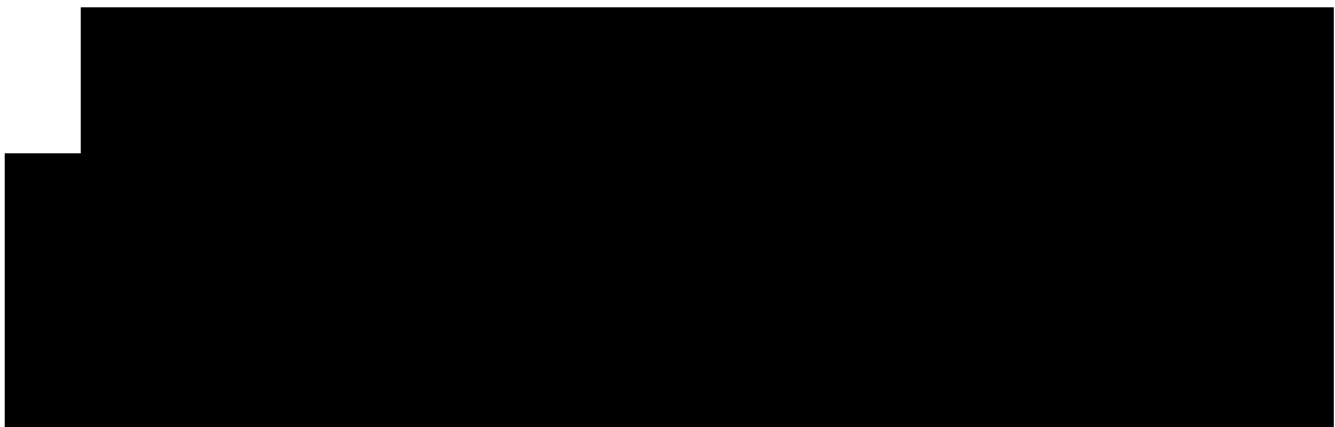
i. **Season charters** –

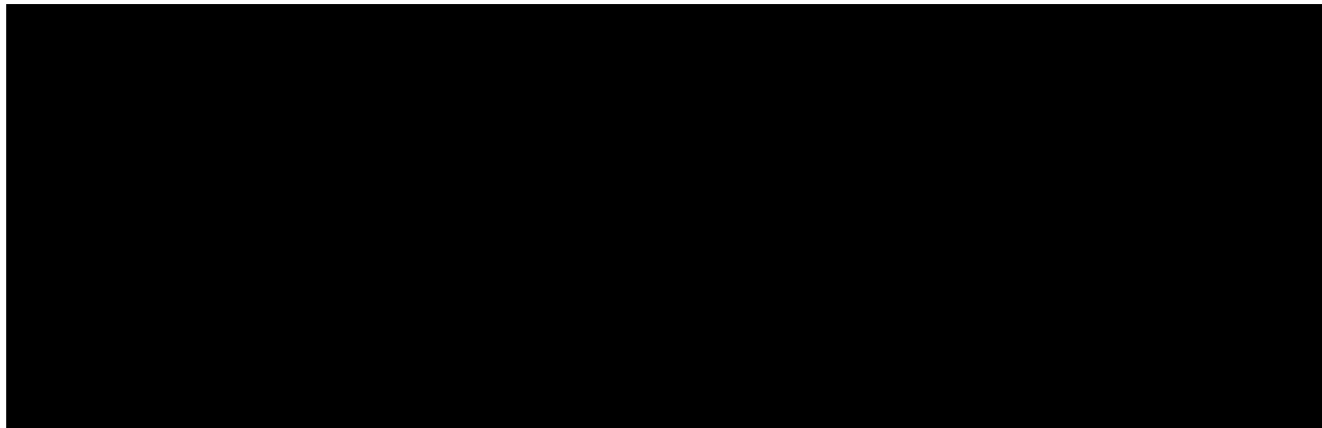


ii. **Regional scheduled services** –

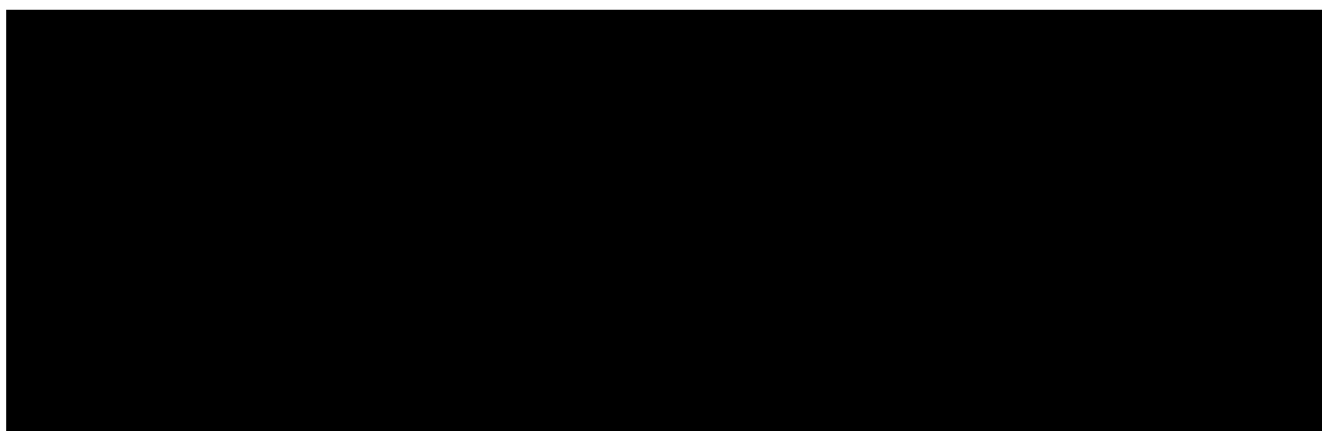


iii. **Low Cost Carrier (LCC)** – TIA successfully attracted a significant LCC (Ryanair) to operate summer leisure flights starting in 2021, with one of the routes scheduled to operate year-round. The seven-year agreement will see the carrier grow the range of routes and capacity over the plan period.





## **Pricing Strategy**



## **Product Strategy**

Product strategy also derives from market position and our plans will entail car parking adjacent to terminal building, no queues, local service delivery wherever possible, an appropriate service environment that is: to be clean and modern, use of technology to add to the human dimension, appropriate retail offers and ease of use at every point in the service chain – in other words, a great customer experience that will encourage passengers to book to travel from the airport again.

## **Marketing and Communications Strategy**

The airport's Marketing and Communications strategy addresses the requirement to drive awareness at Business-to-Business and Business-to-Consumer levels, to generate consideration and intent. This requires clear identification of the compelling "reasons to believe" our proposition and careful decisions about the best media through which to communicate those reasons, and the best mix of airport and airline brand. The airport website has been overhauled and has seen a significant increase in web traffic and an increase in bookings through the site with its new partnership with Skyscanner. Active management of the site and social media ensures proactive engagement with audiences to talk up the investments in the terminal and increased services available to and from TIA.

## **People Strategy**

The airport's People Strategy is designed to deliver the airport's service delivery and overall financial objectives. Relevant to this is the structure of the organisation and also the balance of insourced versus outsourced services. The prevailing assumption will be that, given "local" as a key element of

market position, and the need to control all elements of the customer value chain to ensure consistently high-quality service, insourcing will be the preferred model, unless for a specific service outsourcing offers clearly demonstrable financial and wider benefits.

## FINANCIAL PERFORMANCE AGAINST PLAN

The Passenger Growth Targets and EBITDA projections are set out at Appendix 1.

### 3.1 ACTUAL PERFORMANCE TO DATE

The outturn for the financial year 2020/21 is a loss greater than the forecast loss in the original Business Plan. This is due to the global pandemic, 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. For example, Cardiff airport have received additional grant support of £42.6m and Heathrow reported in March 2021 losses of £2bn. EasyJet are reporting their first loss in their 25-year history and as a result are seeking to raise £2bn from shareholders.

The airport was able to take advantage of the Government furlough and AGOSS schemes. Despite this and the temporary closure as a result of the national lockdown, TIA still incurred significant fixed unavoidable overheads due to the nature of the industry.

Prior to the cessation of commercial flights at the end of March due to COVID-19, passenger numbers were highly encouraging and were exceeding expectations at such an early stage of the development of the routes against the 10-year plan.

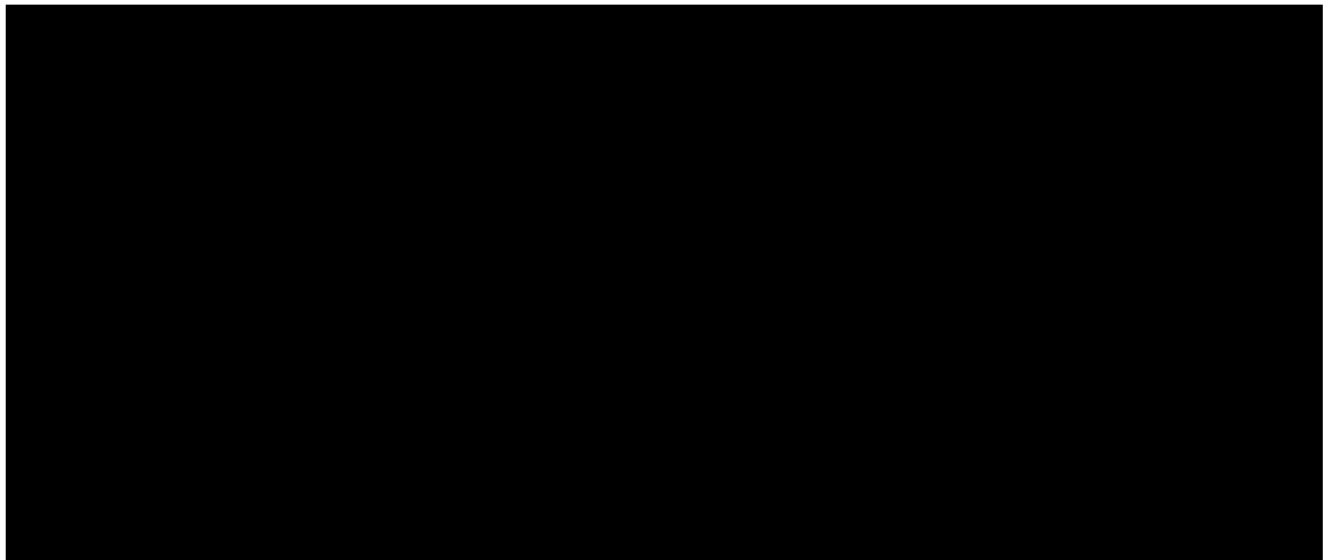
Performance in 2021/22 has clearly still been adversely affected by the pandemic. Changing Government guidelines have resulted in low customer confidence and therefore low passenger numbers have been experienced since flight resumption. This has meant that TIA's core revenue and profitability drivers have remained severely eroded in 2021/22. A COVID support loan of £10m has been approved by TVCA and the detailed financial plan highlights TIA's ability to outperform the original business plan. The table below shows some of the local authority support given to other UK airports for comparison – TIA's local authority support has been relatively modest.

#### Local Authority financial support for regional airports

Airport	Financial support	Supporting authority
Luton Airport	£139m	Luton Council
Manchester Airport	£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

Amidst these short term challenges, there are some good causes for optimism about the fundamental soundness of the airport and some very positive outcomes from the last 4 months.



### 3.2 FORECAST PERFORMANCE FROM 2021/22 ONWARDS


The financial plan remains to achieve growth, and revenue growth is now forecast to outperform the original business plan with revenues now forecast to be £30.5 million by March 2025. The plan forecasts a return to a positive EBITDA position by 2023/24, 2 years ahead of the original business plan. This is driven by a combination of increased revenues derived from both aeronautical and non-aeronautical income streams, new revenue streams and reduced unit costs arising from growth in passenger numbers.

However, although the pandemic has inevitably resulted in additional short-term cash requirements in 2021/22 compared to the original Business Plan, based on the assumption that overall passenger numbers return to pre COVID-19 levels during 2022/23 and the 8-year financial plan in appendix one, it is not anticipated that additional funding will be required to support the airport's return to self-sustainability. Specific causes for optimism include the following:

- KLM signing a new 5-year deal with TIA in June 2020;

- Securing a 7-year agreement with a low cost carrier (Ryanair) in advance of the original business plan, followed by the successful commencement of those services in June 2021;



- Contract signed in November 2020 with a second domestic airline, Loganair, and the successful commencement of those services in April 2021 which included a codeshare agreement with British Airways;
- Seasonal routes secured or expanded with TUI, JetsGo and Balkan Holidays;
- Draken Aviation Services signing a new 5-year deal with TIA in September 2020;
- Willis International selecting the airport as a European base (as set out above);
- Increased property revenues through attracting new tenants 
- The airport is working on its strategy for significantly increasing the volume of freight going through the airport, and consequently freight income, including the planned delivery of a Regulated Agent facility on the airport site; and
- Subject to the final sign-off by the Government of the Teesside Freeport, three areas of the airport have been included within the designated Teesside Freeport area - the whole of the airport's Southside site and two sites on the Northside will be designated as customs zones, which will bring longer term trade and tariff benefits to tenants, and it is hoped will encourage companies to invest in new business premises and create new jobs at the airport. The development of the wider Freeport in Tees Valley will also see a growth in the demand for both passenger and freight logistics, with TIA ideally positioned to facilitate this movement. It should also be noted that this Business Plan update does not incorporate any future revenue streams from the Southside Business Park development, which is strongly expected to deliver significant and reliable levels of support for TIA when it comes on stream.

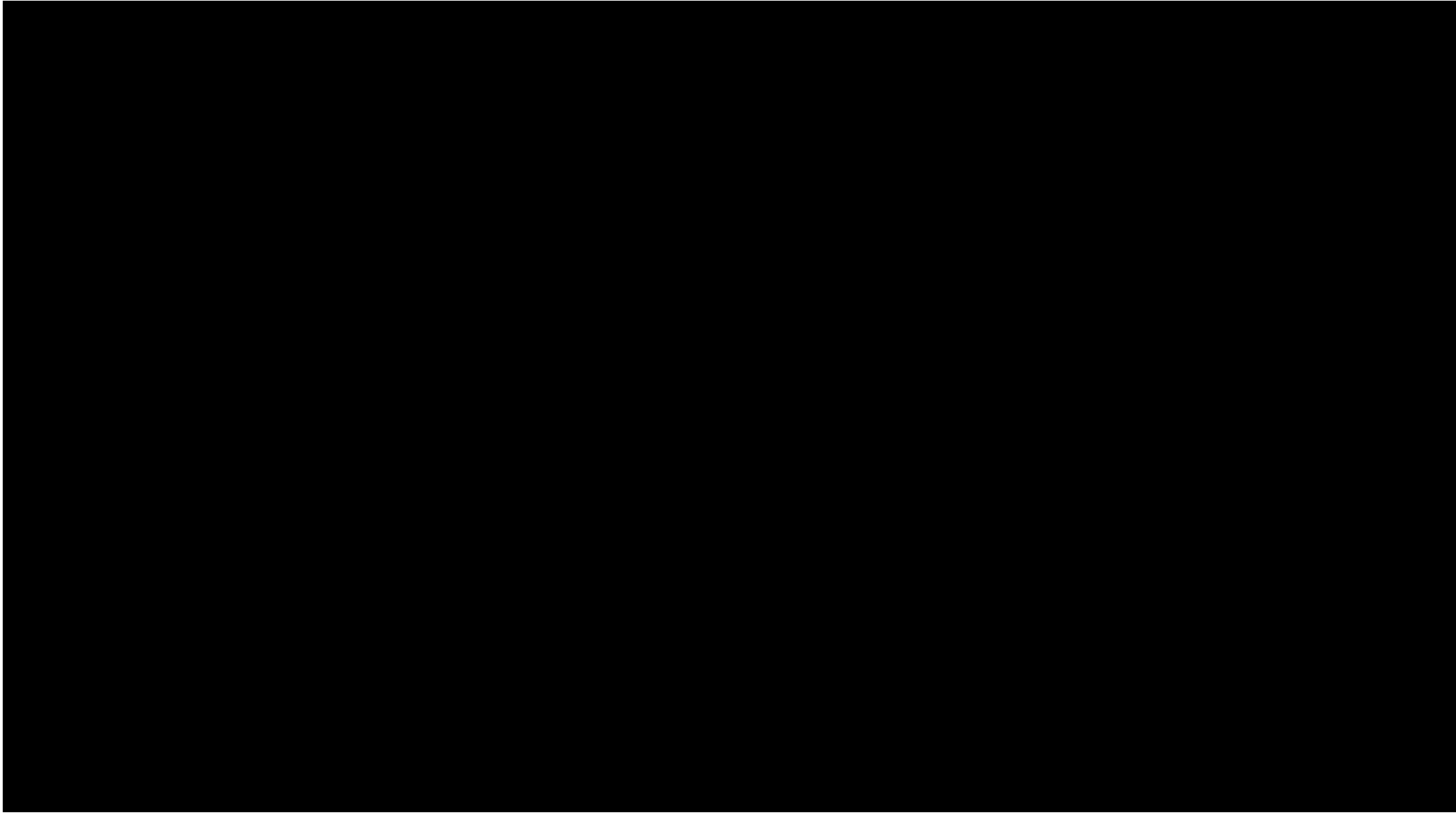
#### **4.0 FINANCING THE BUSINESS PLAN**

The Business Plan aims to achieve an EBITDA surplus by 2024. This is 2 years ahead of the original business plan and is as a result of TIA exploring new revenue streams. This highlights the positive results that are expected from the investment made. Until this point, and to ensure the continued operation of TIA as a going concern, it is intended that financial support will be provided by TVCA.

There is no expectation of any increase in funding requirement over and above amounts already committed by TVCA over the turnaround period up to 2029.

#### **5.0 OUTPUT TARGETS (KPIs)**





## **6.0 GOVERNANCE AND DELIVERY**

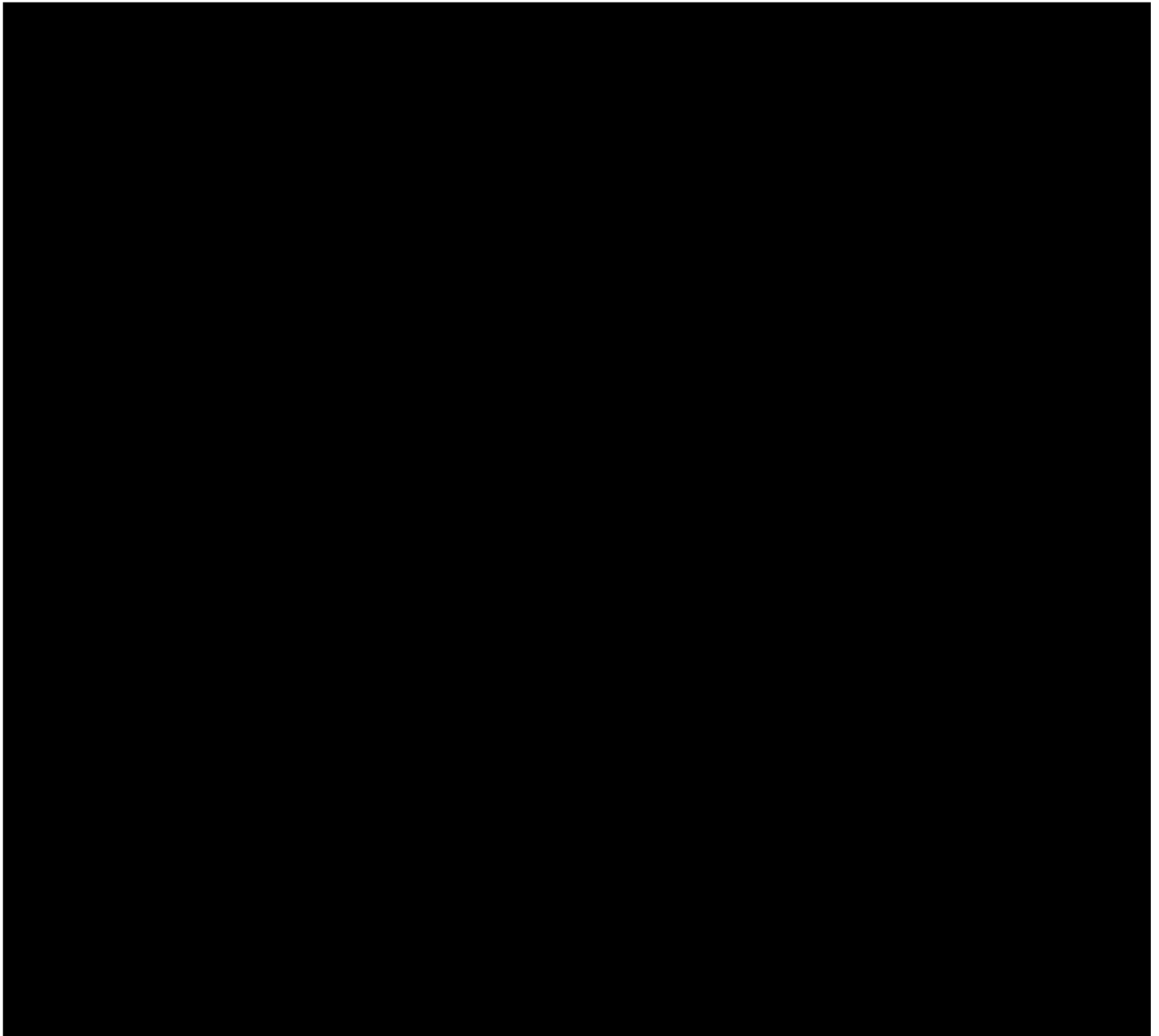
Delivery against the plan will be monitored on a regular basis, with a quarterly report to both the Goosepool and TIA Board of Directors. The business plan and budget will be reviewed on an annual basis. The business plan will also be presented to the Combined Authority Cabinet.

The airport's management organisational structure has been modified to prepare for the programmed growth over the coming years and will be further reviewed going forward.

## **7.0 RISK MANAGEMENT**

In delivering the business plan it is expected that TIA adopt a robust risk management framework. This should include the regular identification and assessment of the risks that TIA faces and the mitigating actions being taken to minimise the likelihood of the risk materialising or impact should it materialise.

## **8.0 SUMMARY OF ACTIONS**



**APPENDIX 1**

**SUMMARY OF THE PASSENGER GROWTH TARGETS AND EBITDA FOR THE 10 YEAR PLAN PERIOD APRIL 2019 TO MARCH 2029**

