Tees Valley Combined Authority Cabinet
Agenda

Date: Thursday 24th January 2019, at 10.00am
Venue: The Jurys Inn, Fry Street, Middlesbrough, TS1 1JH

Membership:
Mayor Ben Houchen (Tees Valley Mayor)
Mayor David Budd (Mayor of Middlesbrough)
Councillor Stephen Harker (Leader of Darlington Borough Council)
Councillor Christopher Akers Belcher (Leader of Hartlepool Borough Council)
Councillor Sue Jeffrey (Leader of Redcar and Cleveland Borough Council)
Councillor Bob Cook (Leader of Stockton-On-Tees Borough Council)
Paul Booth (Chair of Tees Valley Local Enterprise Partnership)

Associate Membership:
Darren Hankey (Member of Tees Valley Local Enterprise Partnership)
Professor Paul Croney (Member of Tees Valley Local Enterprise Partnership)
Jerry Hopkinson (Member of Tees Valley Local Enterprise Partnership)
Angela Howey (Member of Tees Valley Local Enterprise Partnership)
Mike Matthews (Member of Tees Valley Local Enterprise Partnership)
Mark South (Member of Tees Valley Local Enterprise Partnership)
Nigel Perry (Member of Tees Valley Local Enterprise Partnership)
David Soley (Member of Tees Valley Local Enterprise Partnership)
Albert Pattison (Member of Tees Valley Local Enterprise Partnership)
Graham Robb (Member of Tees Valley Local Enterprise Partnership)
Siobhan McArdle (Member of Tees Valley Local Enterprise Partnership)
Annabel Turpin (Member of Tees Valley Local Enterprise Partnership)
Vikki Jackson-Smith (Member of Tees Valley Local Enterprise Partnership)
Brenda McLeish (Member of Tees Valley Local Enterprise Partnership)

Agenda

1. Apologies for Absence

2. Declarations of Interest

Attached

3. Tees Valley Investment Plan 2019-2029

Attached:
Covering Report

Appendix 1 – Investment Plan 2019 - 2029
Appendix 2 – Durham Tees Valley Airport
Appendix 3 – Acquisition of Land at South Tees Development Corporation Site

4. Any Other Business

5. Date and Time of Next Meeting:

31st January 2019, at 10am

Members of the Public - Rights to Attend Meeting

With the exception of any item identified above as containing exempt or confidential information under the Local Government Act 1972 Section 100A(4), members of the public are entitled to attend this meeting and/or have access to the agenda papers.

Due to volume and size, some supporting appendices referred to within the documents published under Agenda Item 3 are available upon request (we reserve the right to redact any commercially sensitive or personal information from the documents).

Persons wishing to obtain any further information on this meeting or for details of access to the meeting for disabled people, please contact: Sarah Brackenborough, 01642 524423 or sarah.brackenborough@teesvalley-ca.gov.uk

Tees Valley Combined Authority Declaration of Interests Procedures

1. The purpose of this note is to provide advice and guidance to all members (the Mayor, elected and co-opted members, substitute members and associate members) of the Combined Authority Cabinet, Sub-Committees and Local Enterprise Partnership Board, on the procedure for declaring interests. The procedure is set out in full in the Combined Authority's Constitution under the "Code of Conduct for Members" (Appendix 8).

Personal Interests

2. The Code of Conduct sets out in full, the principles on the general conduct of members in their capacity at the Combined Authority. As a general principle, members should act impartially and should not use their position at the Combined Authority to further their personal or private interests.

3. There are two types of personal interests covered by the constitution:

   a. "disclosable pecuniary interests". In general, a disclosable pecuniary interest will involve any financial interests, such as paid employment or membership of a body, interests in contracts, or ownership of land or shares. Members have a pecuniary interest in a matter where there is a reasonable likelihood or expectation that the business to be considered will affect your well-being or financial position, or the well-being or financial position of the following persons:
      i. a member of your family;
      ii. any person with whom you have a close association;
      iii. in relation to a) and b) above, their employer, any firm in which they are a partner, or a company of which they are a director;
      iv. any person or body in whom persons described in a) and b) above have a beneficial interest in a class of securities exceeding the nominal value of £25,000; or
      v. any body as described in paragraph 3 b) i) and ii) below.

   b. Any other personal interests. You have a personal interest in any business of the Combined Authority where it relates to or is likely to affect:
      i. any body of which you are a member (or in a position of general control or management) and to which you are appointed or nominated by the Combined Authority;
      ii. any body which:
         - exercises functions of a public nature;
         - is directed to charitable purposes;
         - one of whose principle purposes includes influencing public opinion or policy (including any political party or trade union) of which you are a member (or in a position of general control or management).

Declarations of interest relating to the Councils' commercial role

4. The constituent councils of the Combined Authority are closely integrated with its governance and financial arrangements, and financial relationships between the Combined Authority and Councils do not in themselves create a conflict of interest for Council Leaders who are also Combined Authority Cabinet members. Nor is it a conflict

of interest if the Combined Authority supports activities within a particular council boundary. Nevertheless, there are specific circumstances where the Cabinet is considering entering into direct contractual arrangements with a council, for example in relation to a particular commercial investment project, or in which that council is a co-funder. In these circumstances a non-pecuniary declaration of interest should be made by the Council Leader or their substitute.

Procedures for Declaring Interests

5. In line with the Code of Conduct, members are required to adhere to the following procedures for declaring interests:

Register of Interests

6. Each member is required to complete a register of interests form with their personal interests, within 28 days of their appointment to the Combined Authority. Details of any personal interests registered will be published on the Combined Authority's website, with the full register available at the Combined Authority's offices for public inspection. The form will be updated on an annual basis but it is the responsibility of each member to notify the Monitoring Officer of any changes to the register throughout the year. Notification of a change must be made to the Monitoring Officer within 28 days of becoming aware of that change.

Declaration of Interests at Meetings

7. The Combined Authority will include a standing item at the start of each meeting for declaration of interests. Where members are aware that any of their personal interests are relevant to an item of business being considered at a meeting they are attending, they must declare that interest either during the standing item on the agenda, at the start of the consideration of the item of business, or when the interest becomes apparent, if later.

8. Where members consider that their interest could be considered by the public as so significant that it is likely to prejudice the members' judgement then they may not participate in any discussion and voting on the matter at the meeting, but may attend the meeting to make representations, answer questions or give evidence relating to the business, before it is discussed and voted upon.

9. If the interest is a disclosable pecuniary interest (as summarised in paragraph 3a) then the member must leave the meeting room during discussion and voting on the item of business, but may make representations, give evidence and answer questions before leaving the meeting room. Failure to comply with the requirements in relation to disclosable pecuniary interests is a criminal offence.

Sensitive Information

10. Members can seek the advice of the monitoring officer if they consider that the disclosure of their personal interests contains sensitive information.

AGENDA ITEM 3

REPORT TO THE TEES VALLEY COMBINED AUTHORITY CABINET

24 JANUARY 2019

REPORT OF THE CHIEF EXECUTIVE

TEES VALLEY INVESTMENT PLAN 2019 - 29

SUMMARY

This report attaches the draft Tees Valley Investment Plan **(APPENDIX 1)** covering the ten year period 2019-29. The Investment Plan identifies the funding available over the next ten years and proposes the high level strategic activities that the Combined Authority will consider in detail, including initial commitments for projects and programmes, subject to business cases and due diligence.

In total £588.2m of Combined Authority funding is allocated across the six economic themes identified in the Strategic Economic Plan. It makes provision for the Combined Authority to deliver, commission and support strategic, transformational activity that is required to address our economic challenges and unlock our growth potential. Some projects are fully developed and ready to go, some are still at the concept stage and will require significant work before final approval. Two investments highlighted in the Investment Plan have been through full business case and due diligence and provision is made within the Plan to support them. The first is the purchase of Durham Tees Valley Airport and a detailed report is attached **(APPENDIX 2)**. The second is the purchase of the Tata within the South Tees Development Corporation area **(APPENIDIX 3).**

RECOMMENDATIONS

It is recommended that the Combined Authority Cabinet:

i. Approves the ten year Investment Plan 2019-29 including the detailed approval of the purchase of the airport and the acquisition of the majority of developable land at the South Tees Development Corporation site as detailed in Appendices 2 and 3.

DETAIL

1. The initial Investment Plan was agreed by Cabinet in March 2017. Work on the Plan started back in Spring 2018 and has involved working with partners across Tees Valley to identify the key investments to unlock our economic growth and address the challenges that we face. The attached draft refreshes the plan in light of our current and future funding envelopes and the strategic investments that we will wish to consider in detail over the ten year period 2019-29.

2. With the creation of the Combined Authority in 2016 and the Mayoral election in May 2017, the Devolution Deal with Government in 2015 provides for the transfer of significant powers for employment and skills, transport, and investment together with the first Mayoral Development Corporation outside London. Through the deal the Combined Authority has the power to create an Investment Fund, bringing together funding for devolved powers to be used to deliver a 30 year programme of transformational investment in the region. This includes the control of a new £15m a year funding allocation over 30 years. The initial Tees Valley Combined Authority Investment Plan was agreed in March 2017 and set out the investment priorities for the period to 2021. The Combined Authority has been developing its detailed strategies for key areas of activity including Education, Employment and Skills with the publication of Inspiring our Futures, our Strategic Transport Plan, which will shortly to go out for consultation as will our strategy to deliver our cultural ambitions. The productivity challenges and opportunities will be further detailed in our emerging Local Industrial Strategy to be published by the end of summer 2019. However, with much of this long-term thinking already in place, together with the significant uncertainties for the economy over the next few years, both nationally and locally, it is now critical to make use of the devolution powers for long term investment planning. Therefore, this Investment Plan sets out our investment strategy for the period 2019 – 2029.

3. The Investment Plan will be reviewed annually to take account of changing economic circumstances, what is working well and what is not, and new funding and investment opportunities. We have significant funds to invest over this period. For the purpose of a 10 year planning horizon, reviewed annually, we have a greater level of certainty over some funds than others. **The ten year planning figure used in this Investment Plan is £588.2m**. The general approach taken in preparing the financial basis for the Plan has been prudently balanced with our ambition to commit funding to deliver transformational activity. Table 1 below sets out the allocations of funding across the Strategic Economic Plan six growth generating themes.

Table 1: Tees Valley Investment Plan resources and allocation 2019-29

Theme	**TVCA Available Funds in 2017 Investment Plan (exc ESIF) £**	**New funding received since the 2017 Investment Plan £**	**Available TVCA Funds during 2017-21 Investment Plan £**	**Uncommitted TVCA Funds from 2017-21 Investment Plan at Jan 2019 to carry forward to 2019 – 29 Investment Plan £**	**2019-29 Investment Plan Allocations £**
Transport	23,000,000	9,934,298	32,934,298	7,257,762[1]	**256,700,000**
Education, Employment & Skills	19,000,000	6,106,593	25,106,593	531,986[2]	**55,000,000**
Business Growth (including enabling infrastructure)	44,000,000	-1,007,015[3]	42,992,985	22,173,985	**146,500,000**
Culture & Tourism	10,000,000	1,566,669	11,566,669	5,432,299	**60,000,000**
Research, Development & Innovation	12,000,000	986,093	12,986,093	5,717,089	**20,000,000**
Place					**50,000,000**
Total Direct Investment	**108,000,000**	**17,586,638**	**125,586,638**	**41,113,121**	**588,200,000**

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[1] Does not include LTP or concessionary fares of £988.45m which are pass-ported to the five Local Authorities

[2] Does not include Adult Education Budget of £290m which can only be spent on 19+ education

[3] Due to reduced EZ income

4. The Investment Plan sets out, at a high level, the transformational investments that Tees Valley Combined Authority will commit resources to, subject to the detailed consideration and appraisal of project business cases. It also identifies a range of projects, some of which are still project ideas at this stage and might not be feasible, others are further advanced. It is not intended to be an exhaustive list of activity as new opportunities will arise during the period but it identifies the key activity that we know now could be transformational and will need investment during the plan period to unlock the opportunities they could bring. Our initial capital priorities for TVCA funding are identified in the plan in ***bold, italics*** in Appendix 2 of the Plan. The plan also identifies notional programme allocations against each of the thematic areas.

5. Appendix 2 details the opportunity to purchase Durham Tees Valley Airport to secure the future of the airport for the residents and businesses of Tees Valley. Provision is made within the Investment Plan to support this.

6. Appendix 3 details the proposal to acquire the majority of the developable land at the South Tees Development Corporation site and set up a wholly owned Special Purpose Vehicle to own the land on its behalf.

FINANCIAL IMPLICATIONS

7. The Investment Plan sets out the high level activities that the Combined Authority will consider over the ten year period 2019-29 within an initial funding envelope of £588.2m. Each project or programme will come forward as a detailed business case for due diligence and final approval by Cabinet. The purchase of the airport will require a Combined Authority contribution of up to £74.6m and funding of £56.5m will be required for the South Tees Development Corporation.

LEGAL IMPLICATIONS

8. Legal issues in relation to the individual investment proposals are detailed in the attached appendices.

RISK ASSESSMENT

9. The risks associated with the ten year Investment Plan are that the Combined Authority does not pass the Government gateway process to unlock the devolution deal funding. Appropriate programme and project management will be put in place to ensure that the delivery is achieved and the prioritised activity will achieve the outputs and outcomes to address the Strategic Economic Plan priorities.

10. The detailed risks associated with the detailed investment proposals are set out in the attached appendices.

CONSULTATION & COMMUNICATION

11. Consultation has been undertaken on the ten year Investment Plan with the Local Authorities and the Local Enterprise Partnership.

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TEES VALLEY COMBINED AUTHORITY | TEES VALLEY MAYOR

TEES VALLEY INVESTMENT PLAN 2019/29

Tees Valley Combined Authority Investment Plan 2019-29

Introduction

The Tees Valley City Region connects five boroughs, with the river Tees running through all of the boroughs, and forms a functioning economic geography. The whole is greater than the sum of its parts, which is why the five authorities have a long history of partnership working and why they established the Combined Authority.

Our Strategic Economic Plan (click here) sets out the area's ambition to drive the transition to a high-value, low-carbon, diversified and inclusive economy and sets an ambition to unlock a net additional 25,000 jobs by 2026. It is essential that all Tees Valley residents can gain the skills and confidence they need and have the ability to travel to these job opportunities.

With the creation of the Combined Authority in 2016 and the Mayoral election in May 2017, the Devolution Deal with Government in 2015 provides for the transfer of significant powers for employment and skills, transport, and investment together with the first Mayoral Development Corporation outside London. Through the deal the Combined Authority has the power to create an Investment Fund, bringing together funding for devolved powers to be used to deliver a 30 year programme of transformational investment in the region. This includes the control of a new £15m a year funding allocation over 30 years. The initial Tees Valley Combined Authority Investment Plan was agreed in March 2017 and set out the investment priorities for the period to 2021. The Combined Authority has been developing its detailed strategies for key areas of activity including Education, Employment and Skills with the publication of Inspiring our Futures (click here), our Strategic Transport Plan, which will shortly to go out for consultation as will our strategy to deliver our cultural ambitions. The productivity challenges and opportunities will be further detailed in our emerging Local Industrial Strategy to be published by the end of summer 2019. However, with much of this long-term thinking already in place, together with the significant uncertainties for the economy over the next few years, both nationally and locally, it is now critical to make use of the devolution powers for long term investment planning. Therefore, this Investment Plan sets out our investment strategy for the period 2019 – 2029.

It is essential that our focus is on economic growth if we are to deliver our ambitions for the Tees Valley economy as set out in our Strategic Economic Plan and our developing Local Industrial Strategy. Our activity is therefore prioritised across six growth generating themes:

- Transport
- Education, Employment and Skills
- Business growth
- Culture & Tourism
- Research, development, & innovation
- Place

The Investment Plan will be reviewed annually to take account of changing economic circumstances, what is working well and what is not, and new funding and investment opportunities. We have significant funds to invest over this period. For the purpose of a ten year planning horizon, reviewed annually, we have a greater level of certainty over some funds than others. **The ten year planning figure used in this Investment Plan is £588.2m**. The general approach taken in preparing the financial basis for the Plan has been prudently balanced with our ambition to commit funding to deliver transformational activity. The detailed funding cash flow for the Investment Plan is set out in Appendix 1. The assumptions used for this planning figure are detailed in the section Our Resources.

The total impact of delivering the Investment Plan £588.2m of TVCA funding will be in the order of **16,875** direct jobs and an **additional £1.48bn of additional output (GVA).**

The Tees Valley Economy - Progress to Date and the Economic Challenges

The Tees Valley economy was only starting to recover from the recession when it was hit with one of the most significant economic shocks in our industrial history, the closure of SSI in 2015. This is now being reflected in the national statistics. For example, Tees Valley's GVA per head of population increased from 2014 to 2015, fell back in 2016 and increased again in 2017. This reflects the significant job losses of high paid jobs when SSI closed late in 2015 and the subsequent negative supply chain effects experienced during 2016. GVA per head of the population in Tees Valley fell from 79.9% of the UK rate in 2009, to 71.5% in 2017.

The Tees Valley labour market has been broadly stable over the past 18 months with little change in local rates. However, this contrasts with an improving situation nationally for both employment and unemployment: -

- The Tees Valley employment rate for the 12 month period to June 2018 was 68.4%, compared to a UK rate of 74.9%.
- Of the 409,900 residents of working age (June 2018), 287,000 were in employment. This is 5,500 fewer than the 2016 estimate of 292,500.
- The Tees Valley unemployment rate was 6.3% in the year to June 2018, compared to the UK rate of 4.2%.

The Strategic Economic Plan set a target for the creation of 25,000 net additional jobs (after any job losses) in the economy by 2026.

- Between June 2017 and June 2018 we experienced a net loss of 1,000 jobs with 279,400 jobs in June 2018.
- There has been a change in the occupational profile of people working in Tees Valley:
    - with losses in highly skilled occupations (managers, professionals and associate professionals) across a range of sectors including, science, research, engineering and technology, and teaching and education, with some gains in health professionals, business, media and public service professionals and culture, media and sports occupations. However, the gains have been overshadowed by significant losses.

  - Increases have taken place across the intermediate skilled occupations (administrative & secretarial, skilled trades and caring, leisure and other service occupations) and to a lesser extent in low skilled occupations (sales and customer service, process, plant & machinery).
- Against our Strategic Economic Plan baseline of 275,900, the number of jobs in Tees Valley has risen by 3,500 in two years. Whilst the rate of job increase is below national rates (1.3% compared to the UK's 2.4%), this is against a backdrop of a declining working age population in contrast to the increasing population nationally.
- Since the Strategic Economic Plan in 2016 we have an additional 130 businesses in Tees Valley with 17,230 business enterprises in 2018, including 17,150 SMEs. However, the number of businesses has decreased since 2017 when we had 17,500. Tees Valley's business density (number of businesses per 1,000 population) is now the lowest of all Local Enterprise Partnership areas. Most Tees Valley businesses are micro (employing fewer than ten people). However, more than one third of private sector workers are in firms employing more than 250 staff and 29% work in very large companies employing more than 500.

During 2017/18 a total of £51m was invested in programmes, projects, grant schemes and development funding which will support the creation of 4,000 new jobs through making or attracting investment into the region. By the end of 2018/19 the Combined Authority expects to have invested at least a further £25m. Jobs that are supported by the Combined Authority investment will not be reflected in the national data until they come to fruition with some being created over several years.

The Tees Valley Ten Year Investment Plan

The unique assets and strengths across the five Tees Valley boroughs combine to create the opportunity to build a diverse and inclusive economy for Tees Valley residents and businesses. However, there are also a number of challenges to be addressed to ensure this can happen, including ensuring that residents, no matter where they live in the Tees Valley, can access all job opportunities, ensuring we have an appropriately skilled workforce for business needs today and in the future, and ensuring that there is a supportive business environment where businesses can start-up, grow and innovate. These are set out in more detail in our Strategic Economic Plan (click here), thematic strategies including the Education, Employment and Skills Strategy (click here) and our Strategic Transport Plan, which is shortly to go out for consultation. The productivity challenges and opportunities will be further detailed in our emerging Local Industrial Strategy to be published by the end of summer 2019.

This ten year Investment Plan sets out, at a high level, the transformational investments that Tees Valley Combined Authority will commit resources to, subject to the detailed consideration and appraisal of project business cases. Some are still project ideas at this stage and might not be feasible, others are further advanced. It is not intended to be an exhaustive list of activity as new opportunities will arise during the period but it identifies the key activity that we know now could be transformational and will need investment during the Plan period to unlock the opportunities they could bring**.** Prioritisation has been undertaken to ensure that our investment goes into projects that will unlock transformational anchor projects that will have a significant impact on growing the Tees Valley economy. The initial priorities within the thematic areas are detailed in the thematic sections that follow and our initial capital priorities are identified in ***bold, italics*** in Appendix 2.

Our Resources

The ten year planning figure used in this Investment Plan is £588.2m. The general approach taken in preparing the financial basis for the Investment Plan has been prudently balanced with our ambition to commit funding to deliver transformational activity. The assumptions used for this planning figure are:

- Local Growth Fund (LGF) ceases at the end of 2020/21.
- European Structural Investment Funds (ESIF) (guaranteed by Government post Brexit) cease at the end of Dec 2023:-
    - Replacement for LGF and ESIF – the UK Shared Prosperity Fund will start in 2021/22;
- Transport funding for activities (such as Transforming Cities Fund) will continue in some shape or form at current levels.
- Gainshare funding (Devolution Deal) £15m p.a. 30 year commitment. This long term commitment from Government enables the Combined Authority to borrow funds to unlock growth in the earlier years when it is critical to developing our economy. A total of £241m is scheduled to be borrowed in the Plan period.
- Enterprise Zone income is projected at £57m during the Plan period – this is based on rates currently being collected, together with known projects currently under construction (such as MGT and TeesAMP), other potential projects during the Plan period are not accounted for.
- Returns in investment and loan repayments which are based on current schedules.
- Some miscellaneous grants and income such as LEP core funding.

Beyond this Plan period there remains £91.7m (of Gainshare and EZ income) available for investment through to 2046, excluding any further funding from Government.

Table 1 below identifies the funding allocated in the 2017 Investment Plan and the resources that are uncommitted from that Plan period, given the overlap with this new Plan, together with the allocations against each priority theme for the period 2019 – 2029.

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Place					**50,000,000**
Total Direct Investment	**108,000,000**	**17,586,638**	**125,586,638**	**41,113,121**	**588,200,000**

How we will use our funds

Some funding can only be used for specific purposes, such as the Transforming Cities Fund. Where possible projects will be delivered on a commercial basis and we are moving to a position where grant funding will be a last resort. However, we recognise that for investments in certain thematic areas grants will still be required. We would expect any partners that are leading on projects to have explored all other funding opportunities and we recognise that our support can be used to unlock other sources of funding.

The last Investment Plan referred to us exploring our borrowing powers and considered the different approaches that could be taken. This Investment Plan utilises borrowing against our future Gainshare and Enterprise Zone income to accelerate investment to maximise

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opportunities now and to address the significant economic challenges facing the area now rather than waiting for 15- 20 years to use the funding at that point. This was the whole basis of the Devolution Deal.

Securing Additional Resources

The Investment Programme only allocates funds that are under the Combined Authority's control. In addition, a wide range of public sector funding opportunities are and will be available over the Plan period. The scale of our ambition for growth and the challenges that need to be addressed to unlock this growth and enable our resident's to access these opportunities will require additional funding.

The Combined Authority will seek to influence the allocation of national funding and will submit proposals, where appropriate to unlock further funds. Some of our large scale transformational transport schemes will require national funding, particularly those that are linked to the national strategic road network. Our funds will be used to enable development works to progress and to provide a local contribution alongside national funding.

During the Plan period we will continue to discuss with Government, the opportunity for the further devolution of central government resources, for example the UK Shared Prosperity Fund.

UK Shared Prosperity Fund

European Structural and Investment Funds (ESIF) have been essential to delivering economic growth in Tees Valley. Alongside our devolved Investment Fund, they are enabling us to deliver an economic shift, by creating the conditions for a high value, high wage economy, with low levels of welfare dependency.

However, we know that there are also short-comings with ESIF. Not least, that levels of central control do not allow for flexible decision making about how the funds are best spent at a local level. It is therefore important that the new Shared Prosperity Fund is fully devolved to MCAs. This will enable the alignment of regional economic growth funds, and ensure that we maximise the impact of interventions at the local level.

Tees Valley was identified as a 'Transition Region' in the current ESIF programme. This saw us receive the second highest allocation of funds nationally, recognising the scale of the challenge that exists here. The funds have been supporting us to move from a heavy industrial economy, to a more modern business and employment base, characterised by the use of new technologies and low carbon energy solutions.

Delivering the level of economic change needed in areas like Tees Valley can take many years to achieve, as our economic structures undergo a fundamental shift. Whilst the ESIF resources have added considerable value, stubborn economic challenges remain, and it will be critical to ensure that the added value of ESIF resources are not lost through successor arrangements.

The UK Shared Prosperity Fund should be based on the following:

- There is a principle of devolution, enabling regions such as Tees Valley to benefit from the maximum level of local control, where we have demonstrated robust governance arrangements and our ability to use devolved funding to address local needs and opportunities;
- Resources come without ring-fences, enabling local leaders to identify the priorities for spend, and respond to changing needs and opportunities over time;
- Areas receive funding that is at least equal to the amount previously allocated through ESIF, plus a reasonable additional amount to reflect the match funding requirements of ESIF and the loss of the Local Growth Fund – for Tees Valley this equates to £45m p.a.; and,
- We receive a multi annual allocation, which matches at a minimum, the current EU budgetary period of 7 years, to ensure that transformational activity can be planned and delivered across the programme period.
- It will also be essential that resources can address local need, reduce regional imbalances, and realise regional economic potential to increase productivity and deliver sustainable economic growth.
- GVA (per capita), as an indicator of the area's journey towards a modern economy through industrial restructuring, will be an important measure to determine the allocation of the UK Shared Prosperity Fund. Alongside this, measures relating to business density, start-ups and survival rates will be important, as will indicators that measure innovation activity, such as R&D investment and export activity. Levels of unemployment, wage levels and skills, will also be essential to understand the gap in productivity, levels of poverty, and to address the challenges experienced in low-income households, including the barriers to entering the workforce. It is noteworthy that at least 50% of the areas' receiving the most from ESIF resources have seen improvements (faster than the UK average) in both pay and employment levels. This shows how essential these funds are in helping to deliver economic growth and also highlights the risk to these areas if the resources are not replaced.

Transport

Strategic Economic Plan Aim

To improve connectivity within Tees Valley, across the Northern Powerhouse, the UK and the world.

During 2019 we will be consulting on our draft Strategic Transport Plan – Connecting Tees Valley. The Strategic Transport Plan will detail how an Integrated Transport approach will be delivered. A fully integrated transport system is essential to meets the needs of:

- residents to access jobs, education and skills, health facilities, shopping and cultural and leisure opportunities
- businesses to have access to the workforce and to ensure that they can move and receive goods in the most productive way
- visitors to the area with easy access to cultural and leisure opportunities
- businesses to attract inward investment to the area

The draft Strategic Transport Plan's Vision is to:

Provide a high quality, quick, affordable, reliable and safe transport network for people and freight to move within, to and from Tees Valley.

The Strategic Transport Plan recognises that transport is a means to an end, not an end in itself and that in the past transport networks have been designed and developed in a vacuum, without a true understanding of the role of transport in everyday life. The Strategic Transport Plan is therefore derived from this wider context to ensure that it is effective. Strategic transport is central to a diversified, high value, low carbon economy, providing links for people and goods to connect to the wider economy, while local transport is central to an inclusive economy where local people can access employment across Tees Valley. Transport also plays a fundamental role in the delivery of new homes.

Unlocking the growth potential of Tees Valley requires resilient and reliable connections across the area and into and out of the area by road, rail, bus, foot and bicycle. This must ensure Tees Valley firms can access UK and European supply chains, particularly in the Northern Powerhouse, and that Tees Valley residents can benefit fully from emerging job opportunities.

Durham Tees Valley Airport has been vulnerable for a number of years with the loss of the Heathrow connection and fewer leisure operators providing residents with a choice of destinations. Access to international flights and the Schiphol Hub is critical for business investment and for residents to have access to international travel for leisure purposes. The Mayoral Combined Authority has been in discussions with the owners of Durham Tees Valley Airport to secure its future. This Investment Plan creates the opportunity to support the purchase of the airport.

Progress to Date

Since 2016, the Tees Valley Combined Authority has secured funding to deliver schemes and brought forward a number of transport schemes with the aim of delivering a high-quality, quick, affordable, reliable and safe transport network for people and freight to move within, to and from Tees Valley. Highlights include:

- £75.5m funding secured from Government for the Transforming Cities Fund to deliver transport schemes across the region (this funding was devolved direct to the Combined Authority rather than through a competitive process);
- £11.5m has secured the delivery of a number of walking and cycling schemes through the Local Growth Fund and the Department of Transport's Access Fund;
- £2m funding secured for A171 Swans Corner to Flatts Lane highways improvements, reducing congestion for existing traffic and providing capacity for future housing growth;
- £3.37m funding secured for Darlington Growth and Enterprise Zone Connectivity to help unlock growth sites;
- £2.95m funding secured for the A66/A171 Cargo Fleet Roundabout improvement scheme to improve capacity;
- Middlehaven Dock Bridge opened in 2018, improving accessibility into and across the Middlehaven regeneration development site;
- Funding secured for the delivery of improved access to South Tees Development Corporation land;
- £2m funding secured towards the delivery of a £4.5m Middlesbrough Station master plan, a series of major improvements at the station to allow more efficient use by existing and planned services;
- £25m funding committed to improve Darlington railway station and £20m further funding to regenerate Middlesbrough Station and secure future improvements to local and long-distance rail services;
- £250,000 committed to the development of rail options to improve the transit of intermodal traffic to and from port facilities; and,
- £2million of development funding has been committed to the development of the New Tees Crossings and Darlington Northern Link Road schemes, to prepare them for future funding opportunities.

Our resources for Transport - £256.7m (excluding LTP and concessionary fares funding)

Our Initial Priorities

Strategic Road investment:

- New Tees Crossings (West and Eastern)[4]

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[4] These projects will require national funding to deliver them. TVCA funding will be used to prepare the development works required to access national funding, and / or represent a local contribution alongside national funds

- Darlington Link Road[4]
- Improved east-west connectivity along the A66 corridor from the A1M to Teesport[4]
- Hartlepool Western Growth Corridor - £4m
- A689 Wynyard Improvements

Rail investment:

- Darlington Station Growth Hub [4]
- Middlesbrough Railway Station Improvements[4]
- TransPennine Extension to Saltburn
- Upgrade of the line from Northallerton to Middlesbrough / Teesport including gauge clearance for freight[4]

Local rail network improvement programme – projects for consideration include:

- Hartlepool Station Platform Capacity
- Eaglescliffe Station Western Access
- Nunthorpe Parkway station Feasibility
- Redcar Central Station Access Improvements
- Billingham Station Accessibility

Other potential stations improvements / new stations programme to be considered and developed:

- Durham Tees Valley Airport Station
- Nunthorpe Parkway
- Morton Palms
- South Tees
- Teesside Park

Local journeys:

- Urban Traffic Management Control System
- Potential bus improvements including:
    - Bus improvement corridors and key hubs / stations
    - Ongoing consideration of bus franchising
    - Bus shelters
    - community transport
    - “dial a ride” style service
- Meeting individual needs – “wheels to work” across Tees Valley
- Cycle and walking networks
- Low emission vehicles
- Hydrogen fuelling stations
- Connect Tees Valley marketing and information

International transport:

- Durham Tees Valley Airport development programme

Additional funding sources, including:

- Department for Transport
- Network Rail
- Highways England
- Homes England
- Office for Low Emission Vehicles
- Transport for the North
- National Productivity Investment Fund
- Private sector

What this will deliver:

- Unlock 2,600 jobs and an additional £472m GVA within the economy

Education, Employment and Skills

Strategic Economic Plan Aim

To increase educational attainment, produce the skilled workforce that businesses need and increase lifetime opportunities for our residents.

Inspiring Our Future, our plan to build the skills we need for a modern economy, was published in 2018 and set out the priority themes including:

- Supporting education innovation and collaboration
- Developing a skills system for business growth
- Addressing long-term unemployment
- Transforming careers and enterprise education
- Challenging and supporting businesses as an integral element to achieving success
- Enhancing the Higher Education role in driving economic growth

Inspiring Our Future set out our indicative revenue investment in Education, Employment and Skills for the period 2017-21. The education, employment and skills challenges in Tees Valley are significant, with:

- Skills shortages across most of our key sectors
- Fewer learners choosing science, technology, engineering and maths and fewer achieving higher grades in these subjects compared to national averages
- Only 52% of our secondary schools are rated good or better compared to 75% nationally
- Higher levels of unemployment compared to national averages – this makes up part of our productivity gap – 4.1% compared to 2.3% nationally
- Youth (18-24 years) unemployment rate more than double the national average – 6.6% compared to 3.2% nationally
- Under-employment, highlighting a mismatch between the skills residents have and those businesses need

Progress to Date

Since the first Investment Plan we have:

- Launched the Inspiring Our Futures Plan
- Supported more than 1,200 (since August 2016) apprenticeships through our Apprenticeship Grant for Employers

- Secured £6m of Government funding, matched with £1.5m Combined Authority funds, for our innovative Routes to Work pilot. The initiative has already engaged with 719 residents with 61 having gained employment.
- Held events for schools including our annual schools summit in September 2018 attended by more than 2,000 year 9 -13 pupils and hosted the annual Big Bang Science, Technology, Engineering and Mathematics event at Teesside University attended by 3,000 children
- Had Government confirmation that we have met the requirement for the devolution of the Adult Education Budget (in the order of £30.5m per annum for the area)
- Secured a Careers Hub Pilot
- Developed a Careers Framework and Young Persons Careers Pledge

The high level aims for the period to 2021 are to:

- Support 1,000 businesses to engage with schools careers initiative
- Implement the £2m Education Collaboration and Innovation Fund
- Assist 2,500 long-term unemployed people to move towards gaining work
- Increase the number of adults qualified to Level 2 to 80% (currently 69%)
- Increase the number of secondary schools achieving Ofsted Good and Outstanding in line with the national average
- Engage every school and college in our careers initiative, TeesValleyCareers.com
- Fully devolve the Adult Education Budget
- Maximise the unallocated ESF funding

Achieving sustained impacts in this area of activity requires a longer term commitment than we were in a position to give in our Inspiring Our Future plan. This Investment Plan provides a longer term commitment with a programme of investment through to 2029.

Our resources for Education, Employment and Skills - £55m (with a further £290m anticipated for Adult Education Budget)

Our Initial Investment Priorities

We are now piloting a range of initiatives and interventions in partnerships with schools, local councils and employers, which will inform future priorities in this programme. Additionally, even in this short period since the Inspiring Our Futures Plan was produced, changes to the delivery of education and skills means that there are also new challenges / opportunities to address. Each activity will be subject to evaluation and new programme activity will be developed / commissioned over this plan period to build on the lessons learnt, continue programmes that are working well and adapt programmes to meet new challenges / opportunities. Investment programmes could include:

Education, Employment and Skills Programmes - £40m

- Supporting education innovation and collaboration
- Skills Academy for Teachers
- Developing a skills system for business growth potentially utilising Centres of Excellence and employer led routeways
- Addressing long-term unemployment and 15-19 programme
- Careers and Enterprise activity
- Business Challenge and Workforce Planning
- Apprenticeship support
- Technical education including apprenticeships and T Levels
- Pathways to Work
- Adult Education Budget
- Higher level skills
- Digital Skills

The Combined Authority is currently the only source of capital for FE provision as the national funding was subsumed into the Local Growth Fund. What happens to FE Capital funding beyond 2021 is unclear as we do not yet have details of what funding will be included within the UK Shared Prosperity Fund which will replace the Local Growth Fund from 2021 onwards. We have identified the following initial priorities:

Capital investment - £15m

Initial project priorities:

- Northern School of Art Middlesbrough Relocation
- Hartlepool ISQ Phase 2 - £4m

Additional funding sources, including:

- Department for Work and Pensions
- Education and Skills Funding Agency
- The Office for Students
- National Lottery Community Fund

- ESF
- Careers Education Company
- Department of Education
- Department for Culture, Media and Sport

What this will deliver:

- Support 5,625 jobs and an additional £462m GVA in the economy.

Business Growth

Strategic Economic Plan Aim

To diversify the economy, support more business start-ups, develop high growth potential businesses and key growth sectors.

Since the Strategic Economic Plan in 2016 we have an additional 130 businesses in Tees Valley with 17,230 business enterprises in 2018, including 17,150 SMEs. Most Tees Valley businesses are micro (employing fewer than ten people). However, more than one third of private sector workers are in firms employing more than 250 staff and 29% work in very large companies employing more than 500. The Local Industrial Strategy will identify, in detail, the productivity challenges and opportunities and it is critical that we have resources available to address them. In addition, we will access external funding and work with partners and the private sector to access funding opportunities targeted at productivity improvements such as through the Industrial Strategy Challenge Funds.

Businesses are currently facing high levels of uncertainties. Even with several company growth projects since 2016 (including Cubic Transportation Systems, Fujifilm Diosynth and JDR Cables) the area has experienced a net loss of 1,000 jobs in the past 12 months. This is in part due to these uncertainties with some companies delaying investment and not filling vacant posts. It is now even more critical that we are able to provide a supportive business environment to encourage inward investment, the growth of existing businesses and the creation of new businesses.

Progress to Date

Since the first Combined Authority Investment Plan significant European funds have been invested in Business Growth. Tees Valley has allocated £19.5m ERDF to the Northern Powerhouse Investment Fund and £12.9m to the Tees Valley Business Compass Growth service commissioned by the Combined Authority. Additionally European funds are supporting the delivery of start-up advice and SSI funds are now being used to provide start-up grants across Tees Valley, building on the success of the scheme for former SSI and supply chain workers which has already supported the creation of 341 new businesses.

- Since the 2017 Investment Plan the Combined Authority has worked with companies to create and safeguard a total of 1,400 jobs through more than £209m private sector investment. This includes new inward investment and the growth of existing businesses in the Tees Valley. There are almost 10,000 further jobs identified within the 2019-21 pipeline of projects.
- The Tees Valley Grant scheme, provided by the SSI Task Force, has supported businesses to expand and create and safeguard a total of 1,167 jobs of the overall total of 1,400. The Tees Valley Business Compass Growth activity has undertaken more than 1,000 detailed company diagnostics and supported 417 SMEs to the value of £4.2m against projects totalling almost £13m private capital investment. However, the project is significantly behind profile spend of the £12.9m ERDF for the programme through to the end of December 2019. There are several reasons for this, including the economic uncertainties over the past few years. It is critical that moving forwards the UK Shared Prosperity Fund, as the replacement for EU funding, is as business friendly as possible and can address the business needs and opportunities to unlock growth.
- The Northern Powerhouse has invested £5.98m (as at September 2018) into Tees Valley companies. This represents 8.7% of the total invested across the entire Northern Powerhouse, whilst Tees Valley is home to only 4% of SMEs eligible for funding.

The South Tees Development Corporation (STDC) was established in shadow form in February 2016 and formally launched by the Prime Minister in August 2017. The vision will create 20,000 new jobs in Tees Valley; realise a world-class industrial business park that will ensure sustained economic growth for Tees Valley; contribute an additional £1bn per annum into the Tees Valley economy; and utilising the powers transferred from Whitehall, will transform the area into a global industrial hotspot. Infrastructure development has already started with the development of the roundabout to access the South Bank Wharf site and land acquisition of the SSI land from the Thai banks and other strategic sites within the STDC area that are closer to development are a critical part of the masterplan. Government funding is already in place for elements of this work. The intention is that the acquisition of land will be locally funded and this Investment Plan makes provision for it. Funding for the site redevelopment will be sought from Government.

Our resources for Business Growth- £146.5m

Our Initial Investment Priorities

Support Business Growth - £30m

- Attract and support new businesses to Tees Valley
- Support companies to introduce new products or processes
- Support start-ups and the growth of new and existing businesses
- Offer consistent support in Tees Valley for SMEs and large companies
- Extend or complement Tees Valley Business Compass services, particularly through sector specific support

Unlock Sites for Business - £116.5m

- Secure strategic sites within the South Tees Development Corporation area
- Site infrastructure
- Business accommodation to unlock key sectors' growth
- Focus on bringing forward brown field land

Initial Strategic Project Priorities

- STDC site (infrastructure and land acquisition) - £56.5m
- Riverside Northshore Development – up to £20m
- Boho Next Generation – up to £20m
- Revitalising Redcar – up to £20m

Additional funding sources, including:

- Department for Business, Energy, Innovation and Skills
- Ministry for Housing, Communities, and Local Government
- Private Sector

What this will deliver:

- Create 4,400 jobs and an additional £277m GVA within the economy.

Culture and Tourism

Strategic Economic Plan Aim

To build cultural vibrancy in our communities and change external perceptions of Tees Valley through the arts, cultural and leisure offer whilst creating places that attract and retain businesses and business leaders and make the area more attractive to investors, workers and visitors.

The Strategic Economic Plan recognises the important role that the arts, culture tourism and leisure offer has to play in shaping the quality of the Tees Valley proposition and making it an attractive place, to invest, work, live and visit. Culture in particular can help to create places that attract and retain businesses and business leaders, while maximising the use of arts, cultural, heritage, rural, maritime and natural assets to create jobs and attract more, higher spending visitors. Cultural development will boost employment and diversify industry through growth of creative industries; shaping a vibrant, enriching environment in which communities prosper.

Progress to date

Since the 2017 Investment Plan we have launched Tees Valley's first destination marketing service for seven year with Enjoy Tees Valley. Tees Valley attracts as many day visitors as Newcastle and Gateshead, but doesn't attract the overnight stays and national profile. Enjoy Tees Valley is working to address this. It is aiming to attract more than 20m people to the region and add £1bn per year to the local economy by 2021. This could create around 3,000 jobs.

We are working with the five local authorities and partners to develop our bid for the City of Culture 2025. We are developing the 'Big Conversation' with our communities, gathering people's thoughts and ideas on the heritage, identity and culture of the Tees Valley in preparation for the bid.

We have secured £1.35m from the Heritage Lottery Fund and with match funding from the five local authorities and the Combined Authority we are delivering a £1.5m Great Place Programme - ten diverse community-based and creative industry projects delivered over a three year period.

We have been awarded Heritage Action Zone status by Historic England for the Darlington and Stockton Railway. In 2025 it will be the 200th anniversary of the first passenger train which travelled from Stockton to Darlington. The project will preserve the 26-mile track bed from Witton to Darlington to Stockton and create a heritage and nature walking and cycling route; subject to feasibility, create a major attraction with an outstanding centre to tell the story of the railway; and to create an exceptional 200th anniversary celebration event.

We have developed a three year film development programme and begun to invest in art form development, such as music practitioner development with the T-Junction international poetry festival to improve writing and poetry opportunities for young people.

A series of strategic festivals and events have been supported including the Stockton International Riverside Festival, the Festival of Thrift, the Hartlepool Waterfront Festival, the Great Exhibition of the North, Periplum's region wide Glass Ceiling project, and T-Junction. In 2019, Take That will play at the Middlesbrough Football Club and following the submission of a bid we are in discussions to secure matches and training venues in Tees Valley during the Rugby League World Cup in 2021. Also, working with Stockton Borough Council we have attracted The Great Run Company, headed by Brendan Foster, to bring the Great City Games to Tees Valley in September 2019. The Great Run Company are world leaders in mass participation and televised sporting events, including the Great City Games Series and renowned Great North Run half marathon. The City Games package includes 90 minutes of prime time TV coverage on BBC each time the event is staged, plus additional live and repeated coverage on other channels.

Our resources for Culture and Tourism - £60m

Our Initial priorities

Programme activities - £20m:

- City of Culture Development Programme (including building cultural capacity)
- Destination Marketing Programme
    - Promoting the Tees Valley as a visitor destination – including through the Enjoy Tees Valley brand
- Festivals and events programme

Capital Programme - £40m:

- Maritime:
    - Hartlepool Waterfront (including NMRN)- up to £20m
- Heritage:
    - Stockton and Darlington Railway Heritage – up to £20m

Additional funding sources, including

- Arts Council England
- Heritage Lottery Fund
- Department for Culture, Museums and Sport
- Museums National Portfolio Organisations

- Private Sector
- Trusts and Foundations
- Visit Britain

What this will deliver:

- Create 2,000 new jobs and an additional £126m GVA in the economy
- Attract new domestic and international visitors to the Tees Valley - 20m by 2021 and up to 23m by 2029
- Increase length of stay of existing visitors thereby increasing expenditure per visitor
- Encourage repeat visitation by increasing visitor satisfaction with their experiences
- Increase visitor expenditure into Tees Valley to £1bn by 2021
- Transform the perception of Tees Valley as a visitor destination

The process of bidding for City of Culture will be transformational in its own right, whatever the outcome. New partnerships will be cultivated, the importance of culture will be elevated, routes for progress will be mapped and opportunities for achieving cultural excellence will be identified. The Tees Valley Local Authorities, working in partnership with the Combined Authority, have made clear their ambitious commitment to investing in culture to achieve transformation in the region and a successful City of Culture designation will accelerate this process and its impacts:

- Building capacity and sustainability in our arts and culture sector
- Cultivating a thriving, distinctive and robust cultural ecology – a vibrant region
- Strengthening Tees Valley's offer and profile as a distinctive and engaging cultural destination, growing the visitor economy
- Significant inward investment, business growth
- Strong public and private sector investment in our City of Culture bid
- Increased participation and engagement in culture through increased cultural investment
- Create the 'Big Conversation' re culture across Tees Valley to gather the stories and hopes of our residents
- Strong cultural partnerships and collaboration
- High Quality heritage and cultural assets transforming the way Tees Valley tells its story and the visitor experience

A successful bid to be UK City of Culture in 2025 and strong cultural partnerships will continue to attract investment, create new jobs and build the appeal of Tees Valley in the years following.

Research, Development, & Innovation

Strategic Economic Plan Aim

To introduce new processes and practices which reduce carbon emissions, increase productivity and the availability of high value jobs.

Building a greener economy is a top priority for Government. Tees Valley is establishing itself at the forefront of the clean growth agenda with the development of significant UK energy assets and the pursuit of an industrial decarbonisation and utilisation network that will secure a sustainable future, making it a location of choice for high energy users and emitters.

Our Innovation Strategy (2015) (click here) identifies our strengths and focus for innovation in:

Advanced manufacture

- Advanced materials
- Low carbon
- Engineering design
- Offshore

Heathcare

- Bilogics and biopharmaceuticals
- Digital care and assistive technology

Process and Energy

- Carbon storage, utilisation and storage
- Sustainable chemical, energy from waste including polymers and hydrogen
- Biorefining, formulation and biotechnology

Digital

- Animation, computer gaming, simulation and visualisation
- Industrial digitalisation

Since the production of the Innovation Strategy in 2015 we have also been exploring the opportunities for the utilisation of hydrogen as an alternative fuel, together with the development of new approaches to the provision of nuclear energy.

Progress to date

Since the 2017 Investment Plan, the Combined Authority has led the development of a Middlesbrough District Energy Network. This £40m scheme will deliver energy savings to businesses and public-sector buildings in Middlesbrough (including James Cook Hospital, Teesside University, and some council buildings), and, when developed, could reduce residents' energy costs. Seen as a flagship scheme by Government, it will provide financial benefits including energy cost savings, returns to investors and also significant carbon savings by potentially utilising waste industrial heat generated in the region.

We have demonstrated that Carbon, Capture, Utilisation and Storage (CCUS) would be an extremely cost-effective way to decarbonise the UK economy and we have convinced the European Union to adopt the project as a strategic European project, creating the possibility for millions of pounds of funding. The ambition is for Tees Valley to have the UK's first CCUS network operating by the mid-2020s, helping decarbonise industry while using the strategic infrastructure to attract new carbon-intensive companies. The carbon which has been collected could then create innovative products. National Government funding of £315m has been announced for transforming Industrial Energy use including the deployment of CCUS and this will be developed in 2019 for application in 2020. Tees Valley is currently one of five UK clusters looking to take forward CCUS technologies against the stated ambition for early deployment of at least one cluster in the 2020's and the mission to develop a net zero cluster in the 2040s.

Tees Valley produces more than half of the UK's hydrogen. This is stored in cavities, transported across Tees Valley via 17km of pipes and supplied to the rest of the country. By removing CO2 from hydrogen production via a CCUS network we can cost-effectively be the main supplier of low-carbon fuel to the UK. This can be used to power cars, buses, trucks and trains, replace natural gas to heat our homes, and be used by industry to create new products. We are progressing a pilot of the UK's first hydrogen train with Northern Rail as they have seen potential locations for a hydrogen rail facility in the Tees Valley and are pushing for delivery in 2021. A bid for two Tees Valley hydrogen transport fuelling stations was submitted to OLEV by the Combined Authority with a partner, the Materials Processing Institute. The outcome of the bid will be communicated in January 2019 and the target is to have vehicles deployed in early 2020. Further development of vehicles is being pursued.

Tees Valley is also being considered as a location for the demonstration and development of hydrogen fuelled domestic appliances within the national Hy4heat programme.

The development of a CCUS network is a particular feature of the Clean Growth Programme which seeks to develop the first grid-scale CCS equipped gas fired power plant. This provides the opportunity for establishing an industrial CCS network at an affordable cost. Tees Valley has been selected as the best location for this development by the OGCI and a project team is being set up by OGCI members to develop the initial design in 2019.

The Dogger Bank Wind Farm, as a significant renewable energy supply, offers opportunities for further decarbonisation of industry, homes and transport and can be linked to the development of a hydrogen based energy system in the region.

The area's capability in nuclear with the EDF power plant at Hartlepool and materials research facilities mean that the area is ideally placed to build on this expertise to take forward the future of the sector including the development of fusion technologies and innovative approaches to nuclear power, such as small modular reactor development. Having a ready nuclear licenced site at Hartlepool, the area is regarded as an "oven ready" location for the future development of the nuclear sector. This has been recognised by the UK Atomic Energy Authority (UKAEA) and Rolls-Royce who have engaged in early discussion with both TVCA and HBC.

Tees Valley collaborates with Local Enterprise Partnerships on areas of common interest. Since 2017 we have led the development of a Science Innovation Audit for the Chemicals and Process sector across the Northern Powerhouse LEPs. The Combined Authority is also providing the co-ordination the Northern Energy Hub activities within the national energy hub programme. This demonstrates how critical this sector is to UK manufacturing and the delivery of the National Industrial Strategy. Together with the Tees Valley Chemical and Process Sector

Action Plan (click here) it reinforces the position as Tees Valley's globally competitive sector and provides an extremely detailed evidence base for the sector to take forward activities for productivity improvement including Industrial Digitalisation.

The Tees Valley has two nationally significant NHS trusts together with another of appreciable scale (increasingly seeking to work together, particularly on the Research and Innovation), one of the country's leading centres for advanced manufacturing (with an increasing focus on Healthcare Innovation), a university for whom the largest element of its academic provision and research capabilities are sighted on Health and Wellbeing, collectively situated in an area that presents some of the most challenging demands on the health services and amongst the greatest challenges of disparity in health outcomes anywhere in the UK. This is all set against a Northern Powerhouse strategy in which Health Innovation is identified as one of the four prime capabilities, reflected in our Strategic Economic Plan and the underlying areas of Smart Specialisation, which identifies health innovation alongside Digital as one of four key growth sectors for the Tees Valley Economy. There is a real opportunity for us collectively to position the Tees Valley as a nationally/internationally recognised location to test, develop, manufacture and benefit from Healthcare innovations.

Our resources for Research, Development & Innovation - £20m

Our Initial Investment Priorities

The investment priorities identified in the 2017 Investment Plan remain appropriate for this theme:

- Energy production, storage and efficiency
- Significant carbon reduction
- Sector and supply chain support
- Commercialisation of innovative technologies

Additional funding sources, including:

- Industrial Strategy Challenge Funds
- Department for Business, Energy and Industrial Strategy
- Department for Transport
- Private Sector
- Economic and Social Research Council
- UK Research and Innovation
- Office for Low Emissions Vehicles

- The Office for Students
- NHS England

What this will deliver:

- Create 1,000 jobs and an additional £63m GVA in the economy

Place – Investing in our Towns and Communities - £50m

Strategic Economic Plan Aim

To accelerate the supply of good quality homes across the whole housing market, revitalise our town centres and urban core, bring forward surplus public and blighted brownfield land for development and strengthen our commercial property offer.

The Strategic Economic Plan recognises the importance of place in creating vibrant, attractive and sustainable places that businesses, employers, and staff want to be, want to live and have a range of facilities that they expect. Ensuring a high quality environment where people and business thrive is a critical enabler of our Strategic Economic Plan and our Local Industrial Strategy. Our partners have long invested in not only upgrading town centres but remediating former industrial sites. The challenges facing our high streets, as with other towns across the country, need to be addressed with new and innovative approaches to the role of town centres. To support our ambitions we must continue to invest in place to ensure that we continue to attract and retain the businesses and people we need and to draw visitors to the area.

Progress to Date

As agreed within the Devolution Deal, a Tees Valley Land Commission was established in May 2017. The Land Commission established four key areas of work; publicly owned land, brownfield land, One Public Estate programme, and housing. A Tees Valley Land Register has been developed identifying brownfield and publicly owned land. This has enabled the prioritisation of a series of land portfolio reviews which have identified a number of sites in public ownership across Tees Valley that are of interest for housing development and economic growth. A total of 36 sites are identified within the brownfield land register as priorities in the joint housing delivery plan, with 35 having the potential to start, with the right intervention, within the next three years. This equates to 735ha with the delivery potential of more than 3,800 homes.

The Combined Authority and the five partner councils secured £819,000 of One Public Estate funding for a package of projects in Darlington, Hartlepool, and South Tees, and to enable integration of health and other public service assets to achieve service transformation.

Proposals were submitted to Government for a devolved £1m capacity fund over three years and a £20m brownfield land fund to deliver the opportunities identified through the Land Commission's work. However, despite the case being made repeatedly to Government the response is that no financial deal will be offered.

Each of the five boroughs that make up the Tees Valley City Region has distinct economic assets and opportunities which lend themselves to particular investments. It is essential that we can unlock these opportunities for residents of the whole of Tees Valley. More than nine in ten of all residents live and work in the Tees Valley and it is critical that we ensure that a job in any part of the Tees Valley is available and accessible to all residents. If we can harness these assets and opportunities at the Tees Valley level they will combine to create a vibrant and diverse economy and a place where people want to invest, work, live and visit. Our partner councils have ambitious programmes to invest in their communities, including capital investment programmes in the town centres and working with the private sector to create sustainable high quality jobs.

Darlington is the gateway to Tees Valley, with direct connections to the A1(M) and the East Coast mainline. Improvements to the station are critical for both north-south and east-west connectivity and provide major regeneration opportunities at and around the station. The town is home to some major engineering and specialist services companies (Cleveland Bridge, Magnet, Cummins and Wood) including subsea and seabed companies (Deep Ocean and Modus). At Central Park, the home to CPI's National Biologics Manufacturing Centre and Teesside University's National Horizons Centre, the town is the ideal location for the development of biologics market. With its proximity to the A1(M) the borough is a growing location for logistics distribution centres - one currently in development will shortly become the town's largest employer with potentially 3,000 staff and with the opportunity for further developments at key sites. With a rich heritage including, the first railway from Darlington to Stockton (with a bicentenary in 2025) and a strong cultural offer including the newly renovated Hippodrome Theatre and a nationally renowned children's theatre group (Theatre Hullabaloo) the town has further opportunities to grow the visitor offer.

Hartlepool has a rich maritime heritage and is home to the National Museum of the Royal Navy. Plans are in place to develop the Waterfront to create a mix of civic, cultural, leisure and visitor attractions that complement the wider Hartlepool Marina area. The town is home to the Northern School of Art, the leading provider of specialist creative art and design in the north, counting with Sir Ridley Scott among its former pupils. It is central to the opportunity to create the biggest film studios outside London on the former council depot site, which will put Hartlepool at the centre of film making in the north. The town offers excellent opportunities for port-related industries with more than 300 acres at the Port of Hartlepool owned and operated by PD Ports, with deep water access, warehousing and open storage. Engineering companies employ around 1,700 people with Heerema, Liberty Steel and Able, with Seaton Port one of the largest dry dock facilities in the world and a recycling facility of international significance (currently dismantling the Shell Brent Delta platform). The chemicals industry is still also important to the town and clean energy production at EDF's Nuclear Power Plant generates 60GW (2% of GB's peak electricity demand).

Middlesbrough continues to diversify its economy with a stronghold in engineering companies across the borough, the recently developed TeesAMP site provides world-class research and commercial premises, including a home to TWI,, an internationally renowned research institute. The digital cluster centred in the Boho area is becoming nationally recognised and has a unique opportunity to play a critical role in the productivity growth of the Tees Valley's industrial base in its adoption of industry 4.0 (industrial digitalisation). Middlehaven continues to develop as a mixed use regeneration site with leisure (home to Middlesbrough FC and the site for the snow centre), offices including Boho 5, innovative residential developments and education facilities. Centre Square will provide modern Grade A office developments and events space and the recent upgrade of the Town Hall facility provides a cultural venue with access to a new range of bars and restaurants including high street chains through to the quirky Bedford and Baker Street. Home to Teesside University the development of modern student facilities and proposals for a student village integrates the role of the university within the town. The town is also home to Tees Valley's largest employer South Tees NHS Trust, with almost 9,000 employees. The introduction of direct rail services to London and improvements at the station and the surrounding area will form the stimulus for independent businesses in the Historic Quarter linking the centre to the Boho area.

Redcar & Cleveland is home to the UK's largest integrated industrial complex with Wilton International one of the UK's most important locations for process manufacturing including global companies, Sabic, Sembcorp Utilities, Ensus, Lotte Chemical, Huntsman and Falck. The South Tees Development Corporation is one of the biggest industrial and coastal development sites (4,500 acres) in Britain and it presents a unique opportunity to develop the Tees Valley's strength in clean growth. With the combination of assets including large scale sites, deep access port facilities, global companies and innovation organisations including the Materials Processing Institute and the Centre for Process innovation, the area can become the clean growth centre of the UK. The borough is still home to a significant steel industry and mining and processing of minerals is growing with Boulby mine, one of the deepest in Europe, and the new £2.3bn polyhalite mine under construction in North Yorkshire with processing to take place at Wilton. Outdoor pursuits and a wide range of culture activities are available across the borough in the countryside, the North York Moors National Park, the heritage coastline, the beaches and the towns. These include festivals (such as The Festival of Thrift) and events, and the provision of new cultural venues including Kirkelatham will continue to grow the visitor offer.

Stockton is home to a mix of retail and visitor opportunities with Teesside Park and traditional market towns such as Yarm, whilst in Stockton the vision for a repurposed High Street is being created. This has a focus on culture, including the restoration of the Globe theatre (3,000 seat venue), leisure, heritage and events including SIRF, and Great North CityGames, to appeal to more visitors. This ambition will also focus on strengthening the links to the river – one the borough and Tees Valley's greatest assets. The river offers enormous leisure and development potential to maximise the ten miles of tidal controlled river frontage to create a thriving river-based economy building on successful attractions including the Olympic-standard International White Water Course at the Tees Barrage, the Air Trail ropes course and Preston Park. The borough's economy is diverse, including biotechnology with Fujifilm Diosynth Biotechnologies and Johnson Matthey, heavy industries including the expansion of the SUEZ UK energy from waste site, and a growing digital sector including fast growing Visualsoft. A range of office and industrial business accommodation is available such as Wynyard Business Park, Teesside Industrial Estate and Belasis Business Park together with the industrial areas of North Tees and Seal Sands, plus incubation facilities. Numbers of overseas students in the area continue to grow with Durham University's new International Study Centre.

Indigenous Growth Programme - £50m

The Investment Plan has set out the strategic investment programmes and initial transformational capital priorities that individually will have a significant economic impact and benefit residents and businesses across Tees Valley. However, there will also be local activity that will individually have a local impact but collectively across Tees Valley have a significant regional impact in strengthening the area as a vibrant place to invest, work, live and visit. Therefore, it is proposed that an Indigenous Growth Programme be established with up to £2m a year available in each borough for an initial five year period. This would be for investment in activity that will have a local economic impact and collectively, as a programme of activity across Tees Valley, make a significant contribution to economic growth. Programme criteria will be developed between the local authorities and the Combined Authority but are likely to include outputs such as number of jobs, visitors, new attractions, and business premises.

The programme will be administered under the Combined Authority's Assurance Framework at the Programme level with individual decisions on projects at the local level. Reporting against the programme outputs will be required in line with the Devolution Gateway evaluation process.

Additional funding sources, including:

- Ministry of Housing, Communities and Local Government
- Department for Business, Energy and Industrial Strategy
- Department for Environment, Farming and Rural Affairs
- Department for Transport
- Department for Education
- Homes England
- Arts Council England
- Historic England
- Heritage Lotter
- Private sector

What this will deliver:

- Create 1,250 jobs and an additional £80m GVA in the economy

Monitoring and Evaluation

The Combined Authority's Monitoring and Evaluation Framework sets out in detail how we will monitor and evaluate our progress in delivering this Investment Plan, against all activity at a programme and project level, within themes and across the whole Plan. This forms part of our Assurance Framework with Government and meets the requirements of our Devolution Deal. More importantly, it will support the Annual Review of the Investment Plan and will help inform and shape activities to be supported moving forwards.

The Investment Plan Cash Flow

Appendix 1

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	TOTAL
EXPENDITURE	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**
Transport	47.9	19.6	26.6	36.3	23.8	23.6	20.3	19.5	19.5	19.6	**256.7**
Education, Employment & Skills	7.5	7.5	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	**55.0**
Business Growth (including enabling infrastructure)	38.7	19.2	29.2	19.2	19.2	4.2	4.2	4.2	4.2	4.2	**146.5**
Culture & Tourism	1.0	11.0	11.0	15.0	15.0	7.0	0.0	0.0	0.0	0.0	**60.0**
Research, Development & Innovation	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	**20.0**
Place	10.0	10.0	10.0	10.0	10.0						**50.0**
Sub total											**588.2**
Adult Education	20.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	**290.0**
Transport & Infrastructure (incl LTP & Con Fares)	30.7	30.7	30.7	30.7	30.7	30.7	30.7	30.7	30.7	30.7	**306.5**
Other Approved Projects & Programmes In Delivery	64.5	22.8	7.3	0.3							**94.9**
Core Running Costs	4.8	5.4	4.8	4.8	5.4	4.8	4.8	5.4	4.8	4.8	**49.9**
Loan Principal Repayment	0.0	1.5	2.8	4.5	6.4	8.1	8.8	9.0	9.2	9.4	**59.7**
Loan Interest	0.0	1.1	2.0	3.0	4.0	4.8	4.9	4.7	4.5	4.3	**33.3**
TOTAL EXPENDITURE	**227.1**	**160.8**	**161.3**	**160.8**	**151.5**	**120.2**	**110.7**	**110.5**	**109.9**	**110.0**	**1,422.5**
INCOME											
Reserves Opening Balance	59.9										**59.9**
Loan Repayments & Investment Returns	4.0	1.1	2.3	1.9	2.0	2.0	2.0	1.2	1.0	1.0	**18.4**
Local Growth Fund	9.4	14.2									**23.6**
Gainshare Funds	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	**150.0**
EZ Rates	4.1	5.4	5.6	6.0	6.0	6.0	6.0	6.0	6.0	6.0	**57.0**
Government Grants	21.4	6.4	5.2	11.5	11.5	11.5	11.5	11.5	11.5	11.5	**113.5**
Transforming Cities Fund	13.0	18.0	24.0	16.5	15.1	15.1	15.1	15.1	15.1	15.1	**162.1**
Adult Education Budget	20.2	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	**290.2**
Local Transport Plan	13.9	13.9	13.9	13.9	13.9	13.9	13.9	13.9	13.9	13.9	**139.4**
Concessionary Fares	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	**167.1**
Loans	49.4	40.0	48.7	49.2	41.3	12.8					**241.4**
TOTAL INCOME	**227.1**	**160.8**	**161.3**	**160.8**	**151.5**	**123.0**	**110.2**	**109.4**	**109.2**	**109.2**	**1,422.6**
NET	**(0.0)**	**(0.0)**	**0.0**	**0.0**	**0.0**	**2.8**	**(0.4)**	**(1.0)**	**(0.6)**	**(0.7)**	**0.0**
CUMULATIVE	**(0.0)**	**(0.0)**	**(0.0)**	**(0.0)**	**0.0**	**2.9**	**2.4**	**1.4**	**0.8**	**0.0**	

Post 2029 Position	**£m**
Gain Share 2029-46	255.0
EZ Income 2029-36	54.0
Available Income	**309.0**
Loan Payments 2029-46	217.3
Remaining available for investment	**91.7**

Appendix 2

The Investment Plan Priorities at a Glance

Transport ***Integrated transport - £256.7m, together with £306.5m (inc. LTP & Con Fares-passported to LAs)***	**Education, Employment and Skills** ***£55m (£15m capital and £40m revenue), together with £290m devolved Adult Education Budget***	**Business Growth (including enabling infrastructure)** ***£30m – programmes*** ***£116.5m - sites and premises projects***	**Culture and Tourism** ***£20m – programme*** ***£40m - capital projects***	**Research, Development, & Innovation** ***£20m – programme / projects***	**Place** ***£50m - programme***
Strategic Road investment: • New Tees Crossings (West and East) • Darlington Link Road • Improved east-west connectivity along the A66 corridor from the A1M to Teesport • ***Hartlepool Western Growth Corridor*** • A689 Wynyard Improvements	E,E & S Programmes: • Supporting education innovation and collaboration • Skills Academy for Teachers • Developing a skills system for business growth • Addressing long-term unemployment and 15-19 programme • Careers and Enterprise activity • Business Challenge and	Business Compass • Start-up advice and support • Growth Hub (advisory / business development service) • Access to finance • Grants for inward investment and business growth • Equity and loan investment • Scale-up and growth / productivity programmes • Sponsorship and events including • Business Summit	City of Culture Development Programme (including building cultural capacity)	Research and innovation programme covering the following priorities: • Energy production, storage and efficiency • Significant carbon reduction • Sector and supply chain support • Commercialisation of innovative technologies Initial projects to be considered include: CPI Healthcare Futures Centre	***Indigenous Growth Programme***

	Workforce Planning - Technical education including apprenticeships and T Levels - Pathways to Work - Adult Education Budget - Higher level skills - Digital Skills			TWI / Teesside University Hydrogen Innovation and Skills Accelerator Hydrogen Gas Networks Cluster decarbonisation TWI Polymers Testing & Validation Centre MPI pilot Thermomechanical Processing facility Medical / digital opportunities	
Rail investment: - Darlington Station Growth Hub - Middlesbrough Railway Station Improvements - TransPennine Extension to Saltburn - Upgrade of the line from Northallerton to Middlesbrough / Teesport including gauge clearance for freight	Specialist sector developments : - Northern School of Art Middlesbrough Relocation Other capital projects: - ***Hartlepool ISQ Phase 2- £4m*** - Skills capital and infrastructure investment	Inward investment - Promoting the Tees Valley as a business location including through the Invest Tees Valley brand - Conferences and exhibitions - Sponsorship and events	Destination Marketing Programme - Promoting the Tees Valley as a visitor destination – including through the Enjoy Tees Valley brand		

Local rail network improvement programme – projects for consideration include: • Hartlepool Station Platform Capacity • Eaglescliffe Station Western Access • Nunthorpe Parkway station feasibility • Redcar Central Station Access Improvements • Billingham Station Accessibility Other potential stations improvements / new stations programme: • Durham Tees Valley Airport Station • Nunthorpe Parkway • Morton Palms • South Tees • Teesside Park		Sites and Premises Programme (including infrastructure) • ***STDC site (infrastructure and land acquisition) - £56.5m*** • ***Riverside Northshore Development – up to £20m*** • Darlington Sports Village Delivery against the recommendations of the Sites and Premises study currently being undertaken ***Revitalising Redcar – up to £20m***	Festivals and events programme		

Local journeys: Urban Traffic Management Control System Potential bus improvements including: • Bus improvement corridors and key hubs / stations • Ongoing consideration of bus franchising • Bus shelters • community transport • dial a ride Meeting individual needs – “wheels to work” across Tees Valley Cycle and walking networks Low emission vehicles Hydrogen fuelling stations		*Sector Support*: • Tees Valley Digital including industrial digitalisation • ***Boho Next Generation – up to £20m***	Maritime: • ***Hartlepool Waterfront (including NMRN)- up to £20m***		

Connect Tees Valley marketing and information					
International transport: - ***Durham Tees Valley Airport development programme - £74.6m***			Heritage: - ***Stockton and Darlington Railway Heritage – up to £20m***		

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Appendix 2

Acquisition and Operation of Durham Tees Valley Airport

Overview

This Report seeks approval for the Tees Valley Combined Authority ("the Combined Authority") to acquire the 89% shareholding of Peel Holdings Limited ("Peel") in Durham Tees Valley Airport Limited ("DTVAL"), and separately, to enter into a joint venture arrangement with its preferred operator covering the ongoing ownership and operation of Durham Tees Valley Airport ("the Airport") on the terms set out below.

Decision

1. Cabinet is recommended to mandate the Chief Executive, in consultation with the Mayor and Cabinet Member for Transport, to:-

(i) Conclude an agreement with Peel whereby the Combined Authority acquires the 89% shareholding held by Peel in DTVAL ("the Peel Shareholding") for a consideration of £40 million ("the Acquisition");

(ii) Separately, and on the basis that the Combined Authority finalises legal arrangements with the preferred operator on the terms set out in this report, to conclude:-

a. a Joint Venture Agreement with the preferred operator pursuant to which the preferred operator would take a share of no more than 25% of the Combined Authority's equity interest in the airport as an incentive mechanism to reduce ongoing losses. This would offer limited dividends to the preferred operator in the longer term to focus on the Combined Authority's investment being recovered once the airport is in profit. This arrangement would be subject to the preferred operator funding its share of the losses in the interim; and

b. an Operating Contract pursuant to which the preferred operator will put in place arrangements for the supply of support services to DTVAL, will provide strategic direction in accordance with an agreed 5 year business plan (to be reviewed annually) and oversight of the DTVAL management team on the day to day operation of the airport; and

(iii) If the arrangements set out in paragraph (ii) above are not agreed, the Acquisition will proceed in any event and the Combined Authority will put into place arrangements to support the DTVAL management team on the day to day operation of the airport required;

(iv) Complete all due diligence, sign all documents and complete all other actions required to give effect to this Report.

Recent History & Background Information

1. Durham Tees Valley Airport is within the Tees Valley conurbation and is situated on the border of the Darlington and Stockton-on-Tees local authority areas. Originally an RAF

airbase, the Airport has supported private and commercial air traffic since the mid-1960s, reaching peak passenger numbers of around 900,000 per annum in 2006.

2. On 1 April 2003 Peel acquired a 75% shareholding in the Airport with the Local Authorities (four Tees Valley Local Authorities and Durham County Council) retaining a 25% shareholding in aggregate. In 2004 Peel changed the name from Teesside International Airport to Durham Tees Valley Airport. The new owners committed to a minimum of £7.5 million of upfront investment. Passenger numbers grew significantly, to over 900,000 by 2007. This growth was supported by a mix of scheduled and charter services from KLM, BMI Baby and Ryanair, Thomson and First Choice holidays.

3. After 2007 however, passenger numbers declined quickly and significantly (to 190,000 per year in 2011, and 130,000 in 2017), due to a number of factors, including the global recession from 2007, structural changes in the aviation market and competition from other airports. The direct flight to Heathrow was lost in 2009 Investment plans predicated on continued growth in passenger numbers were cancelled. Over the period 2011-12 ownership changed, due to the purchase of a controlling stake in Peel Airports by Vancouver Airport Services, and the subsequent sale and re-purchase of the Airport by Peel under a new subsidiary. The Airport has since made significant cost reductions, including a move away from the chartered flight market, and aimed to consolidate around a smaller number of services and non-passenger related business. The only regular scheduled services are now to Amsterdam Schiphol by KLM and Aberdeen by Eastern.

4. The Airport has been loss making since 2003, with the current owners covering the losses. Consequently, the local authority shareholdings have been diluted from 25% to 11%, with Peel owning the majority (89%) stake. In the latest available accounts to March 2017, DTVAL declared a loss of £2.4m in 2017. This compared to £2.6m the previous year.

5. These shareholding arrangements included a commitment from Peel to keep the Airport open and functioning up to 2026. Additional steps were also taken by the local councils to reduce DTVAL's exposure to historical Local Government Pension Scheme liabilities. However Peel's "keep-open" commitment becomes conditional over the period 2021-2026, dependent on the achievement of financial benchmarks. On current performance, these are unlikely to be met and Peel would be entitled to close the Airport from 2021.

6. DTVAL published a Masterplan for the Airport in 2014, which established the principle of a business focused airport supported by commercial activity and nearby residential development. It proposed the development of the North and South Sides into an aviation themed business park. DTVAL also secured planning permission for a housing development of around 350 units on the Northside, which was highly contested but was supported by Darlington's planning committee in 2017 (this was recently brought forward for development but as it would have a potentially adverse effect on the future development of the Airport, it will not now go ahead if the Acquisition proceeds as set out in this Report).

7. The Airport now only offers scheduled flights to Aberdeen, Amsterdam Schiphol and Jersey (summer only) and hosts some other aviation-related activities including some general aviation services, the North-East Air Ambulance (who are in fact intending to re-locate their operate offsite), firefighting training (run by Serco) and Cobham's air activity for the Ministry of Defence. Other activities include a hotel (now closed) and a TNT distribution depot in a former hangar. The total airport site extends to almost 819 acres (33 hectares/3.3million square metres) as shown in the map in Appendix 1 to this Report.

The Economic Role of the Airport in Tees Valley

8. Even at the current low level of activity, the Airport plays an important economic role within the Tees Valley. In 2012 consultants Regeneris produced an economic impact assessment for DTVAL, which estimated the Airport's **direct** economic contribution to the Tees Valley then at £37 million a year. The reduced passenger numbers since 2012 will have reduced the impact of the Airport, so an estimate now would be around £23.8 million a year.

9. A number of more recent studies have highlighted the wider impact of international connectivity on regional economies. These include analysis by Oxford Economics for the Mayor of London in 2013 and Transport for the North's 2016 study of the international connectivity of the North of England. In an increasingly inter-connected global economy, air connectivity is becoming a more important driver of successful local development. Inward investors will often consider air routes to their key markets in deciding where to invest, and the Combined Authority routinely presents the benefits of connections through the Airport in presentations to potential inward investors. A number of existing local companies have also developed commercial relationships on the back of the connections made possible by the Airport. The Aberdeen route is regarded as valuable to the local offshore engineering industry. Circa 90,000 passengers a year use the flight to Amsterdam, including transfer to inter-continental connections which are of particular benefit to the many Tees Valley businesses with connections to the Middle East, Far Asia and America. The Airport also plays a role in enhancing the attractiveness of the South Tees Development Corporation site, the future success of which is highly dependent on securing mobile international investors who value easy connectivity to international markets and their HQs. The loss of the Airport would therefore significantly impact those businesses and have a significant (though unquantifiable) impact on their future investment decisions.

10. A return of the Airport to its pre-2006 peak of 900,000 passengers would raise its annual contribution to the Tees Valley to circa £210 million per year(including wider catalytic effect). This future potential for growth would be lost if the Airport is closed, or continues at its current level of operations.

11. There is also the consideration of regional pride and identity, which many residents of the Tees Valley associate with the Airport. The closure of the Airport could have a negative effect on reputation and image of the Tees Valley, beyond the immediately identifiable impact on GVA.

The Future of the Airport – Strategic Case for Intervention

12. The Combined Authority has now been informed by Peel that it intends to close the Airport as soon as it is able to under the terms of the existing Shareholders' Agreement, in 2021. As set out above, the Airport is economically important to the Tees Valley. It is therefore necessary to consider the commercial options for the Airport, including the "do nothing" option of allowing the Airport be closed by Peel with no intervention from the public sector.

13. The Strategic Case for public sector intervention is set out in the Business Case in Appendix 1 to this Report. In summary, the Strategic Case looks at a numbers of factors:-
    - UK, regional and local economic agenda, including Tees Valley's Strategic Economic Plan, the South Tees Development Corporation and both Stockton's and Darlington's Local Plans;

- UK, regional and local transport agendas;
- Assessment of Need including performance against key metrics: consumer choice, financial viability and wider economic impact; also case study evidence;
- Constraints, including timeframe, regulatory environment and property proposition; and
- Objectives and critical success factors, including:-
    - Greater consumer choice;
    - Financial viability;
    - Wider economic impact;
    - Timeliness of delivery; and
    - Regulatory compliance.

14. The Strategic Case conclusion is:-
    - The Airport is currently operating at a loss, with substantially reduced passenger movements and negligible freight activity, at a time when neighbouring airports within the wider North of England are continuing to grow at or above national trend;
    - There is a need for public intervention to avoid closure of a strategic asset and the consequent reduction in annual output of £32.6 million or 712 jobs (including 516 jobs and £23.8 of output directly related to the Airport) across the region;
    - Devolved administrations such as Wales have recognised the strategic importance of airports and have brought back Cardiff Airport into public control on the principle of ensuring sustainable regional economic growth. Cardiff has significantly improved through a combination of public ownership and subsequent partnering with an experienced private sector airport management company; and
    - Although the Airport will continue to require an ongoing direct financial subsidy it will have a sizeable positive economic impact on the region. Failure to support the Airport will deprive the region of a significant economic asset.

Options Appraisal

15. A formal options appraisal was then undertaken as set out in the Economic Case element of the Business Case in Appendix 1 to this Report. The appraisal looked at a range of 9 options in connection with the Airport, as set out in the table below:

Option 1: Status Quo Option: Peel continues to run the airport and it closes in 2021	This option makes the following assumptions: • Airport continues to make a loss; • The airport function closes; • Peel decides to develop the former airport site as residential property.
Option 2: Do something: Peel are supported to deliver a turnaround plan	This option identifies the ongoing financial problems faced by Peel and provides financial support to ensure the continued operation of the airport. The option assumes that Peel still have the inclination to operate the airport and that they have the discretion to use funds provided by the public sector.
Option 3: Do something: Peel are bought out by another commercial organisation	This option assumes a third party commercial organisation recognises the potential financial viability of the airport, purchases it for the market rate and subsequently operates it without public subsidy. It must be noted that the airport function is currently operating at a loss.
Option 4: Do something: Public sector becomes the majority shareholder of the airport, with Peel retaining a minority share	This option assumes that the public sector is free to purchase a controlling share of the airport from Peel,

	who are also minded to have a minority shareholding and to continue managing the airport. This would mean Peel ceding overall control of the airport and continuing to have to fund (at a lower rate) ongoing losses.
Option 5: Do something: The Combined Authority takes lease of airport and operates it	This option assumes that Peel are minded to lease (for a defined period – circa 10 years) the airport to the Combined Authority who subsequently operate it. This option means that all risk is transferred to the Combined Authority without the benefit of having an asset for potential resale, if the airport can't be turned around.
Option 6: Do something: The Combined Authority buys airport and operates it	This option assumes that Peel are minded to sell the airport to the Combined Authority who subsequently operate it. All risk rests with the Combined Authority, however they do have an asset for potential resale.
Option 7: Do something: The Combined Authority buys airport and sub-contracts out management to a third party	This option assumes that Peel are minded to sell the airport to the Combined Authority and that the Combined Authority has a partner who are responsible for developing the airport proposition. The inclusion of a specialist partner mitigates a number of operational risks such as the ability to attract additional routes and ensuring regulatory compliance.
Option 8: Do something: The Combined Authority buys airport with a third party under a joint venture who also act as an operating partner	This option assumes that Peel are minded to sell the airport to the Combined Authority and a third party, who is also responsible for developing the airport proposition. The cost of purchasing and subsequently running the airport are shared between the Combined Authority and the third party and the inclusion of a specialist partner mitigates a number of operational risks such as the ability to attract additional routes and ensuring regulatory compliance.
Option 9: Do something: Allow the airport to close and establish a new airport on another site	This option assumes that Peel close the airport and that in order to ensure access to an aviation function within the region, a new airport is developed. Since there is no existing alternative within the region, this necessities the purchase of a site, the provision of infrastructure, ensuring regularity compliance and subsequent promotion of a new brand and entity. It is anticipated that such a replacement airport would take between 10-15 years to be developed and could cost in excess of £1bn.

16. Each of the identified options was assessed against SMART objectives and critical success factors (as set out in the Economic Case section of the Business Case). Four options were then shortlisted for further consideration:-
    - Option 1: Status Quo Option: Peel continues to run the Airport and it closes in 2021;
    - Option 2: Do something: Peel are supported to deliver a turnaround plan;
    - Option 7: Do something: The Combined Authority buys the Airport and sub-contracts out management to a third party; and
    - Option 8: Do something: The Combined Authority buys the Airport with a third party under a joint venture, who also act as an operating partner.

17. These four short-listed options were then assessed against the following scenarios (including costs and benefits):-
    - Scenario 1: Organic: DTVA's market share remains constant relative to its North East peers and grows at the market rate. This scenario reflects no material change to how DTVA operates today, with growth coming from improvements to load factors on existing routes and marginal increases in capacity;
    - Scenario 2: Seasonal/Regional: more active management allows DTVA to attract seasonal services, bringing its service levels to the standard seen at other UK airports; also that DTVA attracts a regional operator to better service the domestic and short haul market;
    - Scenario 3: Low Cost Carrier (LCC): It is assumed that driven management is able to attract an established LCC from a regional competitor airport to DTVA.

    For each shortlisted option, the associated cash flows were reviewed over a 35 year period. As per Green Book Guidance, the economic case considers all quantifiable costs, benefits and risks from the perspective of society as a whole – the public, private and third sectors.

    Preferred Option

18. The following table sets out the assessment leading to the identification of the preferred option for each of the shortlisted "do something" options:

	Option 1	**Option 2**	**Option 7**	**Option 8**
Net present value	N/A (4th)	£139m-£182m BCR: 1:5.1 – 1:6.16 (3rd)	£875m - £7.15bn BCR 1:.34 – 1:5.2 (2nd)	£876m - £7:182bn BCR: 1:4.6 - 1:16.2 (1st)
Non-monetary benefits	0 (4th)	400 (3rd)	850 (2nd)	1,000 (1st)
Qualitative Risk Assessment	60 (4th)	34 (=2nd)	34 (=2nd)	24 (1st)
Overall ranking	**4**	**3**	**2**	**1**

    Option 8 ("Do something: The Combined Authority buys airport with a third party under a joint venture who also act as an operating partner") was identified as the preferred option. This option has the benefits of:-
    - Maintaining public sector control of the Airport in the long term;
    - Bringing in private sector expertise in airport turnaround and ongoing operations; and
    - Sharing an element of risk and reward with another party.

19. The alternative option (Option 7) is for the Combined Authority to acquire the Airport and put in place any arrangements for strategic management and oversight of DTVAL's

management team and any support services required, while in the interim continuing with a transitional services arrangement with Peel. This represents a satisfactory solution but would take longer to put in place and does not achieve all the other benefits listed above.

Position of Peel Holdings

20. The current Shareholders' Agreement for DTVAL was finalised on 1 April 2003 and amended in 2017 includes a commitment by the company to retain airport operations until 2026, but after 2021 this commitment becomes conditional. In detail, the implication is that:-
    - If in any financial year after 2021 the Airport makes a loss of more than £1 million on operational activities, Peel Airports, as majority shareholder in the Airport Company, may downsize the Airport to general aviation; or
    - If such loss in any financial year post 2021 is more than £1.5 million on operational activities, then Peel may close the Airport.

21. The option of extending the keep-open commitment has been discussed with Peel previously. Peel's position has been that it is not willing to consider this as an option under its management.

22. In more recent discussions the Combined Authority has been informed by Peel that it has already taken the decision that the Airport will close in or shortly after 2021.

23. In late November 2018 the Combined Authority agreed a proposal with Peel for the Combined Authority to acquire Peel's 89% shareholding in DTVAL, on the basis that the proposal would be brought forward for discussion at Cabinet, as set out in this Report.

Joint Venture with the Preferred Operator

24. Since 2017, the Combined Authority has been exploring a specific opportunity for a partnership with an experienced airport operator (under Option 8). This arose as a consequence of a productive relationship already developed with TVCA and Stockton Borough Council in another area of the preferred operator's business.

25. The preferred operator has successfully grown another UK airport significantly in recent years. This experience in particular makes the preferred operator an attractive organisation to provide strategic direction and oversight to supplement with experience of the existing DTVAL management team (which is itself significant). The preferred operator's contacts with target airlines would also be helpful.

26. The preferred operator is keen to extend its role in regional aviation and sees this as a sector with a growth opportunity, particularly through the application of new forms of customer marketing and relationships with airlines. Discussions with the preferred operator have progressed well since initial meetings first took place in 2017 between the Mayor and Combined Authority officers, the Chief Executive of the preferred operator and other senior figures within their Group. From the start, the preferred operator has taken an optimistic and growth-orientated approach to the future of the Airport. These discussions have informed the scenarios for growth set out in the Business Case.

Legal Terms of Proposed Transactions

27. The proposed Sale and Purchase Agreement for the purchase of the Peel Shareholding has been negotiated on behalf of the Combined Authority by external lawyers highly

experienced in mergers and acquisitions including those in the aviation sector. Our advisers have ensured that the Combined Authority's liability in taking on the Peel Shareholding is limited as far as possible and that warranties and indemnities are in place where appropriate where such liability cannot be entirely removed. The due diligence process has identified the current DTVAL position which is set out in the disclosure letter prepared by Peel.

28. A Transitional Services Agreement is required to ensure that there is no gap in support operations which may put at risk the ability of DTVAL to continue to trade. This includes the provision of back office functions such as IT, payroll and HR. It should be noted, however, that DTVAL has all operational staff it requires to operate the airport itself in-house and does not require any external support to maintain airport operations.

29. Peel has agreed to continue to provide services under this Transitional Services Agreement to allow for a smooth handover to the preferred operator (or failing that, to other providers put in place through a procurement process). The price for these transitional services will reflect the cost of providing these services to DTVAL direct previously.

30. Assuming recommendation (ii) is taken forward, a Joint Venture Agreement shall be entered into which will govern the relationship between the Combined Authority and the preferred operator. This will detail how the shareholders shall appoint directors, sharing of voting rights, dividends, company losses etc, each of which shall be in proportion to the relative shareholdings of the parties, with the preferred operator having a maximum of a 25% of the Combined Authority's equity interest.

31. Also assuming recommendation (ii) is taken forward, the Combined Authority shall put an Operating Contract arrangement for the supply of support services to DTVAL, will provide strategic direction in accordance with an agreed 5 year business plan (to be reviewed annually) and oversight of the DTVAL management team on the day to day operation of the airport. Any deviation from the agreed business plan will need to be agreed by the Combined Authority. The operating fee shall be 10% of the agreed annual operating cost.

32. The Combined Authority will enter in to a Deed of Adherence to the existing Shareholders Agreement in place between the DTVAL shareholders. This is on the basis that the provisions in the Shareholders Agreement which are Peel specific and therefore no longer relevant are deleted going forward.

Legal Implications

33. The Combined Authority has powers pursuant to section 113A of the Local Democracy, Economic Development and Construction Act 2009 to do anything it considers appropriate for the purposes of carrying out its functions, anything incidental thereto and anything considered appropriate for purposes indirectly incidental (without regard to the degree of separation) thereto. For a commercial purpose, the Combined Authority may do anything under the same section above powers which it would otherwise do for a non-commercial purpose (section 113A (1)(e), 2009 Act). These powers enable the Combined Authority to carry out the recommendations set out in this report.

34. The award of the operating contract requires compliance with procurement legislation in this case the Utility Contract Regulations 2016. However, in this case, the Combined Authority is advised by a leading procurement QC that it can use the proposed joint venture structure to award an operating contract to the preferred operator pursuant to Regulation

29 of the Utility Contract Regulations 2016 without the need for a procurement exercise. This is on the basis that the contract is awarded to a wholly owned subsidiary of the company in which the Combined Authority and the preferred operator hold equity ('Subco') and that Subco is managed by the preferred operator and that Subco supported by services arrangements with the preferred operator. The Combined Authority is satisfied that this award of the operating contract would offer value for money.

35. If recommendation (ii) is not taken forward, the Combined Authority will procure the provision of any supplementary strategic and support services required through processes which comply with the Utility Contract Regulations 2016. In the interim, the Combined Authority will continue to rely on the provision of back-office support by Peel under the Transitional Services Agreement. As stated previously, DTVAL has all operational staff it requires to operate the airport itself in-house and does not require any external support to maintain airport operations. As such, it is able to continue to operate the airport as it has done for many years during this interim period.

36. [The proposed transaction taken as a whole is required to demonstrate state aid compliance. An assessment that the proposed transaction has been carried out by the Combined Authority's external financial advisers to confirm that it complies with the market economy operator principle ('MEOP'). The Combined Authority's external legal advisers have confirmed that the proposed transaction is state aid compliant on the basis of the MEOP assessment.]

Financial Terms of Proposed Transactions

37. The acquisition price is £40m for an 89% majority shareholding in Durham Tees Valley Airport Limited. The acquisition of the shares will incur Stamp Duty at 0.5% which is £200k. Therefore the total acquisition cost is £40.2m. The Combined Authority will fund the share purchase and shall recover this investment over a [40] year period either by way of a loan or by way of a preferential dividend arrangement in the Joint Venture Agreement (depending on which approach is the most advantageous to the Combined Authority which will be established through the due diligence process being undertaken).

38. The airport is currently loss making and it is expected to continue to make losses until 2026. Financing will therefore be required in the short-term to enable the Business Plan to be delivered and achieve a financial turnaround. The Business Plan forecasts a requirement for additional financial support during the turnaround period of up to £19.4m to cover operating losses and up to £15m capital expenditure. The level of finance required will be reviewed on an annual basis by the Combined Authority. Any finance provided to meet these costs will be provided on a loan basis from the Combined Authority as required.

39. Under the proposed Joint Venture Agreement with the preferred operator, the operator shall receive limited dividends until the Combined Authority's investment is repaid and will have the option to either provide a cash injection to cover is share of losses / capex, thereby reducing the repayment requirements. Alternatively, the operator will be able to take an equivalent in share dilution. For the purposes of setting a prudent funding requirement it has been assumed that the operator will opt for the latter option and dilute their shareholdings.

Financial Implications

40. The Business Plan requires up to £74.6m to fund acquisition, operations and capex before the airport becomes profitable and begins to repay this investment. However, this level of investment will be under a level of confidence that delivery against the Business Plan growth targets are being achieved and the loans will be fully recovery. Based on Business Plan forecasts it is expected that recovery will take 40 years.

41. If the Business Plan growth targets were not being achieved then whilst the £40.2m for the acquisition would be recovered (see para.45) through residual land values there is a risk that further advances to fund revenue and capex to date would not be recovered. The extent of this will be dependent on how long the airport continues to be funded. For example, assuming the airport is fully funded for the first three years and growth targets are not achieved nor expected to be achieved then a decision to close would lead to a potential loss of £8.5m.

42. Arrangements will be in place to ensure that there is ongoing review of performance against an agreed Business Plan. Should at any time it become clear that the financial position is becoming much worse than expected then the Combined Authority, as majority shareholder, will be able to trigger airport closure and seek to recoup its investment through land values.

43. Any loans provided will be on a first charge basis and therefore the Combined Authority will be able to recover any value in the residual assets should a later decision to close the airport need to be made. With a total landholding of 820 acres there is potential for significant financial recovery. The most significant value in this circumstance would be through promoting the site for housing. Independent valuation has set the valuation on this basis at £41.8m (see Appendix 3).

Risk Assessment

44. The Risk Schedule associated with the Acquisition transaction is set out in the Management Case of the Business Case in Appendix 1, and the Risk Schedule in connection with the operation of the Airport post-acquisition is set out in the Commercial Case of the Business Case in Appendix 1. These schedules set out the risks and how it is proposed that they will be mitigated/managed. Arrangements for the governance of the Joint Venture Company and the management agreement with the preferred operator will be set out in the documentation covering those arrangements and will be managed, monitored and reported as set out in the Management Case.

Due Diligence and Assurance

45. Due diligence on the proposed arrangements has been carried out as follows:-
    a. Legal – Pinsent Masons;
    b. Financial – Ernst & Young LLP;
    c. Property and valuation – Turner & Townsend;
    d. Airport industry – ICF/ York Aviation; and
    e. Insurance – JLT Specialty Limited.

Summary and Next Steps

46. In summary, this report sets out a credible proposition for the future development of the Airport under the majority ownership of the Combined Authority. It is clear that the

alternative is that the Airport will close and that this would impose wider economic costs and the loss of future economic benefits for the Tees Valley.

47. The Acquisition offers a pragmatic approach to the future ownership and operation of the Airport, and provides the Combined Authority with the opportunity to deliver a much stronger growth prospectus than is possible under the current ownership. The opportunity for a joint venture with the preferred operator brings in a credible private sector partner, with experience as an established airport operator and with growth ambitions and new opportunities for route development and revenue enhancement. The risks are significant, but the risk analysis identifies opportunities to mitigate the financial and operational risks involved.

48. Intervention would require a significant allocation of future Combined Authority funds, with the range of financial outcomes as set out in Business Plan in Appendix 2. Although this would secure important wider economic benefits of sufficient scale to justify this investment, the commitment of these funds has an opportunity cost in terms of alternative investments which could also secure other economic benefits. It is therefore important for Cabinet to consider the proposition in the round, and to make an assessment based on the importance of the Airport to the Tees Valley, the financial, legal and risk assessment, and the strength of the commercial arrangements proposed in this Report.

49. Following consideration of the proposals set out in this Report, it is recommended that Cabinet mandate the Chief Executive, in on-going consultation with the Mayor and Cabinet Member for Transport, to finalise the arrangements for the Acquisition from Peel, and for the Joint Venture with the preferred operator.

Consultation

50. Consultation has been undertaken with Tees Valley Management Group, Tees Valley Chief Executives, the LEP Board, Transport Committee, Informal Cabinet, Overview & Scrutiny Committee and Audit & Governance Committee.

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Appendices

1 Full Business Case
2 ICF Business Plan (Please note that elements of the Business Plan have been redacted as they contain exempt information as defined by paragraph 3 of schedule 12A of the Local Government Act 1972).
3 Valuation Report

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TEES VALLEY COMBINED AUTHORITY | **TEES VALLEY MAYOR**

FULL BUSINESS CASE: SECURING THE FUTURE OF OUR AIRPORT

Contents

1. Introduction

Background, Description and Investment Proposition

ORGANISATIONAL CONTEXT

1.1 Tees Valley Combined Authority (the Combined Authority) was created in April 2016 with the aim of driving economic growth and increasing investment and job creation in the area. It is a partnership of five local authorities:[1] Darlington, Hartlepool, Redcar and Cleveland, Middlesbrough, and Stockton-on-Tees, working closely with the local business community and partners to make local decisions that support the growth of the economy.

1.2 Tees Valley is at the forefront of northern economic growth and a flagship for successful devolution. The Combined Authority has big ambitions for the region, and the Strategic Economic Plan (SEP) aims to create 25,000 new jobs and deliver an additional £2.8billion into the Tees Valley economy by 2026. The SEP sets out the main priorities of the Combined Authority and the Local Enterprise Partnership. They are working to improve: transport links, to better connect residents and businesses; housing, to ensure the provision of affordable, quality homes that meet the needs of a growing Tees Valley; skills and education, to make sure everyone has the same opportunities to access work; and tourism and culture, so that Tees Valley is an area residents feel proud of and that others want to visit or to make their home.

1.3 Tees Valley's Local Authorities and Local Enterprise Partnership agreed legislation with Government to enable devolution such that powers previously held by Whitehall, on matters of transport, planning, investment, skills, homes and communities and culture, were transferred to the area.

1.4 In his 2017 election manifesto, the elected Mayor pledged to take Durham Tees Valley Airport (DTVA or the airport) back under public control in order to address its visible decline.

VISION

1.5 The vision for the project is:

> **"To secure for Tees Valley an internationally connected airport and aviation orientated business park which will continue to support indigenous economic growth and act as a catalyst for enhanced inward investment and tourism activity."**

PURPOSE OF THIS BUSINESS CASE

1.6 This business case has been developed to assess the Combined Authority's future options with respect to the airport.

1.7 The business case will discuss options related to both the core functions of the airport – passenger numbers and logistical support – and wider co-locational activities, related to maximising the economic impact of the airport's associated property offering.

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[1] The region has a total population of 670,000 residents spread across the five Local Authorities.

BACKGROUND

1.8 The relative performance of the airport is a matter of public record, dropping from a peak of 900,000 passenger movements in 2006 to the present situation of 131,000 passengers in 2017. This is a decline of 769,000 (85%) passenger movements over a period when airports in neighbouring regions (Newcastle and Leeds Bradford) have experienced a rise of 1% and 6% respectively.

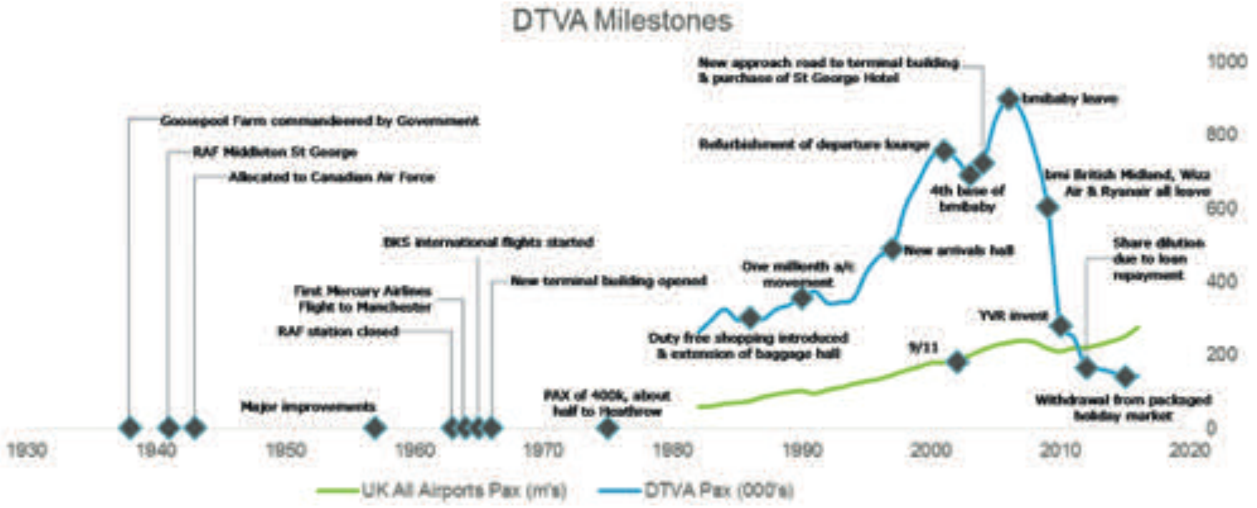
1.9 The rationale for the return to public control reflects the following imperatives:

- The airport will close in 2021 if not purchased leaving Tees Valley residents and businesses without a regional airport, the only major conurbation in the United Kingdom without such a provision. It would also see the loss of a significant employer (circa 400 direct employees).
- That a return to public ownership could bring with it three principal benefits:
  - **Consideration of wider economic impact:** The public sector can take into consideration the wider economic impact that an airport brings to a region, something commercial operators cannot do. The creation of a thriving regional airport is a vital strategic asset to realising the economic potential of Tees Valley and the wider Northern Powerhouse;
  - **Ensuring greater consumer choice:** The performance of DTVA has been weak compared with competitor airports across the UK and has consequently limited resident and business choice and their accessibility in to and out of the region; and
  - **Ensuring a return to financial viability:** Additional investment and a commitment to grow the airport could promote not only economic but financial viability and would ensure previous investment was not wasted.

DESCRIPTION

1.10 Durham Tees Valley Airport is within the Tees Valley conurbation and is situated on the border of the local authority areas of Darlington and Stockton-on-Tees. Originally an RAF airbase, the airport has supported private and commercial air traffic since the mid-1960s, reaching peak passenger numbers of circa 900,000 per annum in 2006. Since then, passenger numbers have declined significantly with a number of key airlines withdrawing from the airport.

1.11 The following graphic shows selected key milestones in the history of the airport:

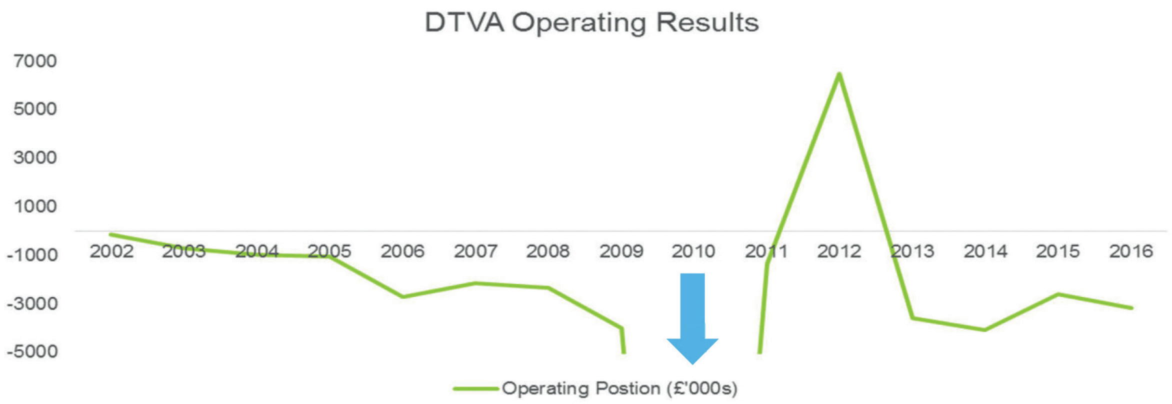


Source: Durham Tees Valley Airport Ltd, CAA, Department for Transport

1.12 On 1 April 2003 Peel Airports Ltd, part of Peel Group, acquired a 75% shareholding in the airport with the Local Authorities (five Tees Valley Local Authorities and Durham County Council) retaining a 25% shareholding in aggregate. The Combined Authority is a not a shareholder in DTVA Ltd.

1.13 In 2003, passenger numbers had dipped as a result of the 11 September 2001 terrorist attacks in New York and operating costs were up, predominantly due to an increase in insurance costs as a result of that terrorist incident. This meant the airport remained in a loss making position, with losses after tax of £816k for the year ending 3 March 2003. Passenger numbers continued to grow until 2006.

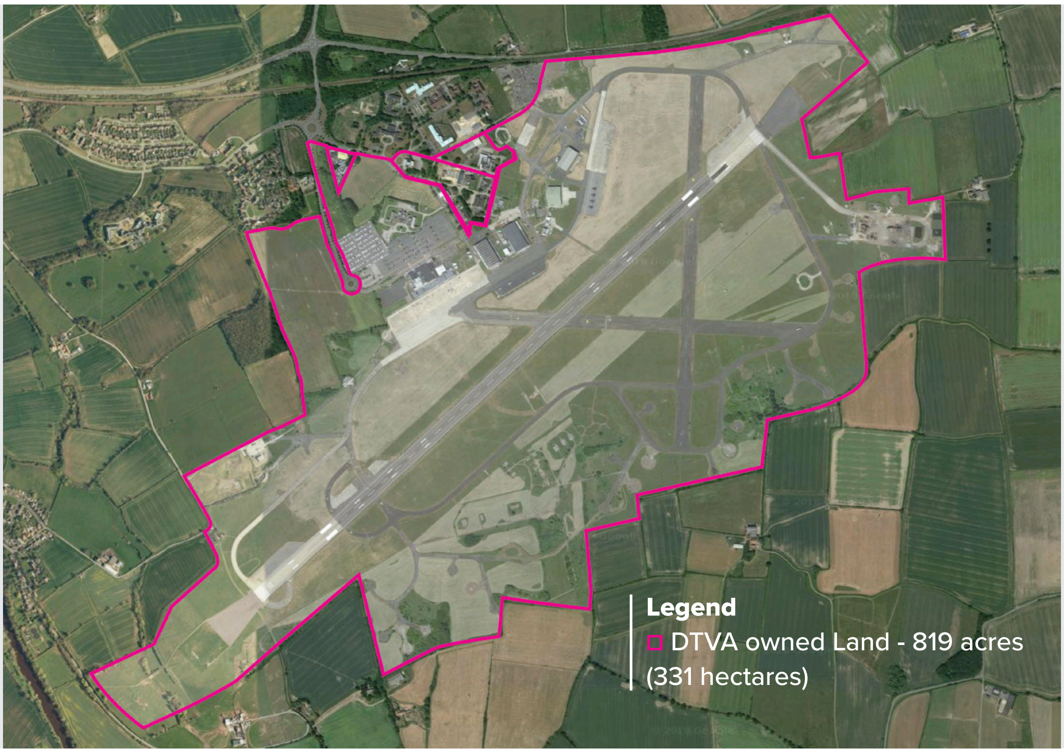
1.14 Since then, passenger numbers and aircraft movements have reduced dramatically at the airport. This has also been reflected in the airport's financial position, as shown in the following chart of operating profits/losses (the 2012 profit arose from an exceptional £6.9million settlement payment by the airline bmi for breach of contract):



1.15 The largest drops in passenger numbers took place in 2009 and 2010 following the withdrawal of bmi (which had provided the service to Heathrow) and Ryanair.

1.16 At the time of writing, the airport only offers scheduled flights to Aberdeen, Amsterdam Schiphol and Jersey and hosts other aviation-related activities including general aviation services, the Great North Air Ambulance (although they currently intend to build new headquarters offsite), firefighting training (run by Serco), and Cobham's air activity for Ministry of Defence and aircraft decommissioning by Sycamore Aviation. Other activities include one hotel and a TNT distribution depot (in a former hangar).

1.17 The total airport site extends to 819 acres (331 hectares/3.3million square metres) and is shown below:



1.18 Of this site:

- The area relating solely to the operation of the airport is around 470 acres (190 hectares);
- The area described as the Northside has an overall area of around 90 acres (36 hectares); and
- The area described as the Southside has an overall area of around 260 acres (105 hectares).

1.19 The existing property provision at the airport includes:

- The Priory Hospital is classified under planning use 'C2' as they are part of a residential institution;
- The 'Fire Training Centre' and 'Technology House', operated by Serco Ltd fall under use class D1 which covers educational uses of buildings;
- The St George and Durham Tees Hotel buildings are classed under 'C1' which covers hotel uses;
- Motor Home Sales (classed as Sui Generis) is the use class of two buildings used by Cleveland Motor Homes;
- The Control Tower is also covered by Sui Generis use class; and
- All other buildings are either office uses (B1), general industrial (B2) (e,g. workshops), storage/distribution (B8) or a mixture of these three uses.

1.20 The table below summarises the scale and nature of employment assumed by previous economic studies of the airport, including Regeneris (2012) and York Aviation (2018).

ACTIVITY	NUMBER OF JOBS
Airport Company Employment	111
Employment associated with Terminal Operations, including:	183
• Airline/Handling Agents	50
• Concessions	36
• Security/Border Agency/Police	81
• Other Terminal Activity	16
Employment associated with third party operators at the Airport	**306**
Total Direct Employment linked to the Airport	**600**

Source: Regeneris 2012 and York Aviation 2018

1.21 In preparing this business case, senior management at the airport was consulted regarding the numbers employed either directly by Durham Tees Valley Airport or in positions which were conditional on there being a continued aviation function at the site.

1.22 DTVA management was able to confirm (January 2019) that 111 staff were either directly employed or contracted to deliver certain functions, including security and airline handling. In addition, and adopting a conservative approach which we believe enhances the reliability of this report, around 290 were directly employed in third party operators at the Airport.[2]

ACTIVITY	NUMBER OF JOBS
Total Direct Employment linked to to the Airport	400

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[2] It is assumed that the following companies are still operating at the airport, including but not limited too: Cobham, TNT, Serco, KLM, Flying Schools and emergency services. Notable closures include: Weston Aviation and Camair.

1.23 COST OF CLOSURE

COST OF CLOSURE

The immediate economic impact on the wider Tees Valley economy:

- Reduction in annual output of £32.6m; and
- The potential loss of 712 jobs direct and indirect jobs.

COST OF REPLACEMENT

1.24 At present DTVA is the only commercial airfield operating within the region. If closed, one option could be to identify a replacement site within the region. The size of site required (circa 500 acres) and aeronautical related regulatory issues significantly limit the number of possible location options, and because of lack of choice therefore potentially escalate both planning and cost risks. Useful benchmarks for new build airports in the UK are hard to find, as few have moved past initial planning over the last forty years (Cliffe, Thames Reach only reached preliminary planning stage). However a number of common factors have emerged: the extensive time between planning to development (circa 10-15 years minimum) and cost structure: (compensation for immediate land use/ wider flight path and subsequent site preparation and specialist construction costs). Preliminary benchmarking for the recently built St Helena Airport, identified a cost of circa £200-250million, however further analysis of plans developed by Oxera (2003) identified that more realistic costs for airport construction in the UK run in excess of one billion pounds, and in many locations significantly more than this.

A replacement airport is deemed not to be feasible due to the interruption of service and excessive costs.

INVESTMENT PROPOSITION

1.25 In response to the potential closure of the airport, the Combined Authority is considering the following actions:

- The purchase of the airport and ongoing management of the airport.
- Creation and delivery of an expansion plan for the airport, specifically aimed at increasing passenger movement and attracting additional routes;
- The on-going management of the existing portfolio of businesses currently operating at the airport; and
- The better utilisation of the wider property proposition on the airport site in line with key priority sectors (advanced manufacturing, materials and pharmaceuticals) within the SEP.

STRUCTURE AND CONTENT OF THE DOCUMENT

1.26 The remainder of the business case follows HM Treasury Green Book guidance and the five case business case model and is set out in the following structure:

- Section 2: Strategic Case;
- Section 3: Economic Case;
- Section 4: Commercial Case;
- Section 5: Financial Case; and
- Section 6: Management Case.

2. Strategic Case

Introduction

2.1 The strategic case seeks to consider the need for public sector intervention by assessing its ability to address relevant market failures. It will also confirm the subsequent scope and scale of support with recourse to identified critical success factors and associated constraints and project dependencies.

2.2 The strategic case has the following structure:

- Strategic Context;
- Assessment of Need;
- Constraints and Dependencies;
- SMART Objectives and Critical Success Factors; and
- Conclusion.

Strategic Context

2.3 The Strategic Context has been derived from a review of two principal policy areas potentially influenced by the acquisition of the airport:

- **Economic Growth:** The role of the airport as a strategic asset in support of wider economic development.
- **Transport Policy:** Focused on enhancing choice and convenience for passengers.

2.4 The review of the strategic context provides two critical outputs:

- Assessment of strategic fit as per policy areas; and
- Identification of key outputs and outcomes to influence development of logic model for assessment of need for the airport.

2.5 The table below provides a summary of the key documents per policy area:

Transport	Economic Development
■ Airports National Policy Statement (2018); and ■ Beyond the Horizon: The Future of UK aviation: Next steps towards an Aviation Strategy (2018).	**Impact of International/National Linkages** ■ UK Industrial Strategy; ■ Northern Powerhouse Strategy; ■ Refreshed Strategic Economic Plan; and ■ South Tees Development Corporation. **Impact of Enhanced Property Provision** ■ Darlington Local Plan; and ■ Stockton Local Plan.

Transport Agenda

2.6 The UK’s Aviation Strategy aims to:

> **“Achieve a safe, secure and sustainable aviation sector that meets the needs of consumers and of a global, outward-looking Britain’’**

2.7 The strategy has the following six objectives:

- Help the aviation industry work for its customers;
- Ensure a safe and secure way to travel;
- Build a global and connected Britain;
- Encourage competitive markets;
- Support growth while tackling environmental impacts; and
- Develop innovation, technology and skills.

2.8 Of particular pertinence is:

- **Expanding our international connectivity:** The UK has 111 bilateral air service agreements (ASAs). These agreements provide access to overseas markets for UK carriers as well as access to UK airports for foreign carriers. The greater competition that liberalised access allows results in greater choice and connectivity for all consumers, at lower fares. The UK has opened up its markets to foreign carriers in return for access to their markets. The Government has also pursued greater access to airports outside of the South-East;

- **Facilitating the air freight market in the UK:** The industries which rely on aviation to deliver their products and services are often of high value to the economy. Aviation supports the more productive aspects of the UK economy and has directly and indirectly been a driver of innovation. The UK air freight sector is flourishing. In 2016, the volume of freight handled by UK airports grew by 5% to 2.4 million tonnes shipped. The Government recognises the crucial role this sector plays in the economy, especially high end manufacturing, engineering, pharmaceuticals, retailing and the automotive sectors. For time critical goods such as pharmaceuticals, air freight is the only method of shipping fast enough to deliver these items in the required timeframe. Although the volumes are comparatively small, the value of air freight per tonne is much greater than other modes of freight, due to the nature of the goods transported. In 2016, goods worth around £178billion were shipped by air between the UK and non–EU countries; this was over 45% of total non-European trade; and

- **Encouraging competitive markets:** While the total number of regional airports connected to Heathrow has remained stable over recent years, the total number of terminal passengers from UK regional airports handled by London Heathrow between 2000 and 2016 has fallen, mostly as a result of being driven out by more lucrative long haul flights. **The new aviation strategy calls for a review of the number of regions (such as Tees Valley) who do not have connectivity with London Heathrow, which they require to support economic growth for the regions they serve.**

Assessment of Strategic Fit

The securing of the airport is in line with the UK’s Aviation Strategy and will:

- Ensure continued access to a vital regional airport, and retain the opportunity for a restored London flight as capacity is increased in the capital;
- Increase the propensity to travel by encouraging more choice and price competition;
- Deliver an opportunity to utilise air freight to enhance the productivity of locally based industries in priority industries such as advanced manufacturing, materials and pharmaceuticals; and
- Support economic growth including through inward investment.

Economic Development Agenda

UK INDUSTRIAL STRATEGY

2.9 The Industrial Strategy notes the following:

> **“The Industrial Strategy is designed to place us (the UK) at the forefront in finding solutions to both UK and global emerging trends and challenges. As set out in our paper Preparing for Our Future Trade Policy, we (the UK) will reach out to old friends and new allies in expanding access to markets, supporting our businesses to export, and welcoming investment and collaboration from emerging and established partners from across the globe.”**

2.10 The Government has identified five foundations of productivity which are “the essential attributes of every successful economy.” These are:

- Ideas (R&D, innovation);
- People (skills and education);
- Infrastructure (broadband, energy, transport);
- Business environment (support for specific sectors and SMEs); and
- Places (tackling regional disparities).

2.11 Improving the Five Foundations will enable the UK to tackle a series of Grand Challenges that the Government has identified which will help the UK “take advantage of global changes, improve people’s lives and the country’s productivity.”

2.12 The Grand Challenges are:

- AI and the data revolution (how to embed and maximise the advantages of AI and data);
- Clean growth (low carbon technologies across the economy);
- Mobility (low carbon transport, automation, infrastructure); and
- Ageing society (healthcare and labour market challenges).

Assessment of Strategic Fit

The securing of the airport is in line with the Industrial Strategy and will:

- Enhance productivity by reducing the costs of doing business through the provision of infrastructure to nationally important sectors, such as clean growth (advanced manufacturing and process and chemicals); and
- Support economic growth including through inward investment.

Northern Powerhouse

2.13 The vision of the Northern Powerhouse includes:

- Boosting the local economy by investing in skills, innovation, transport and culture, as well as devolving significant powers and budgets to directly elected mayors to ensure decisions in the North are made by the North; and
- Backing business growth right across the North, and giving our great cities the power and resources they need to reach their huge untapped potential.

2.14 This is to be achieved by:

- Connectivity: to improve connections within and between the towns and city regions of the North;
- Skills: a highly skilled and educated workforce is critical to economic growth and productivity, the government is to work with Northern Powerhouse to improve educational standards and skill levels across the region;
- Enterprise and innovation: to ensure that the North continues to be an excellent location to complete ground breaking research, develop innovative ideas, and start and grow a business;
- Trade and investment: the North of England is now recognised across the world as a great place to do business, and is home to billions of pounds worth of exciting opportunities for international investors. A Northern Powerhouse Investment Taskforce will bring together the local authorities and businesses of the North to present a single internationally competitive offer to the world; and
- Engagement: the Government will engage with local authorities, local enterprise partnerships, businesses and others across the north to consider what more can be done to support the delivery of the Northern Powerhouse.

Assessment of Strategic Fit

The securing of the airport is in line with the Northern Powerhouse Strategy and will:

- Enhance productivity by reducing the costs of doing business through the provision of infrastructure to nationally important sectors, such as clean growth (advanced manufacturing and process and chemicals); and
- Support local economic growth including through international engagement and the facilitation of inward investment, from new and existing international investors.

Refreshed Strategic Economic Plan

2.15 The Tees Valley Strategic Economic Plan: Sector Action Plan Overview Document (2017) articulates the new economic geography of the Tees Valley:

> **"Tees Valley is no longer solely a component part of the North East, it now operates in new economic and political geographies: Part of the Northern Powerhouse, one of six Combined Authorities and according to the emerging Industrial Strategy, as an international cluster for sectors such as chemicals, advanced manufacturing and producer of intermediate goods for the automotive sector. Working across such geographies necessitates clearer messaging of strategic intent, alliance building and prioritisation of resources."**

2.16 Central to this revised economic geography is utilising national and international connectivity, by rail (Darlington and Middlesbrough Rail station upgrades), by sea (Investment at Teesport) and by air, releasing the economic potential of Durham Tees Valley Airport.

2.17 The overarching economic plan and Industrial Strategy for the Tees Valley, the refreshed SEP provides a framework for economic development to deliver six growth generating themes:

- **Business Growth:** Further increase jobs and business density through targeted support to create and attract new companies and to grow businesses and sectors with high growth potential;
- **Research, Development, Innovation & Energy:** Further enhance productivity in all core sectors through the commercialisation of knowledge;
- **Education, Employment & Skills:** Ensure a labour market which meets the needs of local business and supports the lifetime opportunities of all our residents;
- **Place:** Promote the Tees Valley as the preferred location in the UK for energy intensive indigenous firms and Foreign Direct Investment and create the conditions necessary to attract businesses and individuals with a focus on vibrant town centres;
- **Culture:** Change the external perceptions of Tees Valley through the arts, cultural and leisure offer, create places that attract and retain businesses and business leaders and make the area an attractive place to live, work and visit; and
- **Transport & Infrastructure:** Facilitate local, regional, national and international road, rail and broadband connectivity through collaborative investment in physical infrastructure.

2.18 To unlock potential growth and to create a Tees Valley where people want to live, work and visit, there is a need to improve:

- Road and rail connectivity for the region;
- A workforce that is fit for purpose; and
- A supportive business environment.

2.19 This will aim to further develop the Tees Valley growth narrative:

- By targeting support on Foreign Direct Investment and indigenous SMEs with high growth potential in internationally competitive key sectors such as chemicals, health innovation, energy and advanced manufacturing, whilst encouraging further diversification into new sectors and technologies (including logistics, digital & creative, culture & leisure and business & professional services); and
- By ensuring a fit for purpose labour force which also recognises the lifetime opportunities of all residents.

2.20 As the overarching economic plan and Industrial Strategy for the Tees Valley, the SEP provides a framework for economic development to deliver our six growth generating themes, one of which is ‘Transport & Infrastructure’ that will facilitate local, regional, national and international road, rail and broadband connectivity through collaborative investment in physical infrastructure.

South Tees Development Corporation

2.21 This 4,500-acre development area represents an international-scale opportunity to attract investors and improve the economy in what is the single biggest development opportunity in the UK. Chaired by the Tees Valley Mayor, a 25-year plan to create 20,000 good-quality jobs has been developed.

- STDC is the first Mayoral Development Corporation to be set up outside of Greater London;
- £137million has been secured from Government to prepare the site for private investment;
- STDC has a 25-year vision to bring 20,000 jobs and an additional £1billion a year for the local economy;
- More than 100 investor inquiries from global companies wanting to base themselves on site; and
- The project is a key part of the Government's Industrial Strategy.

Assessment of Strategic Fit

The securing of the airport is in line with the Tees Valley Strategic Economic Plan and the South Tees Development Corporation:

- Durham Tees Valley Airport has a long term role in contributing to the competitiveness and prosperity of the Tees Valley particularly through its regular services to the Amsterdam Schiphol hub and to Aberdeen, important routes for Tees Valley businesses, particularly in the oil and gas sectors; and
- The airport will also be key to ensuring accessibility to the region and will therefore be a key supporting structure in relation to the emerging place and culture proposition.

Darlington Local Plan

2.22 The current adopted Plan Core Strategy May 2011 is the subject of review with an emerging Local Plan, subject to public consultation in June 2018 and which includes:

- Policy E1: Safeguarding existing employment opportunities: confirming that the airport (Northside) has a total (DBC) gross area of around 150 acres (60 hectares) with a gross area of 16.6 acres (6.73 hectares) available for mixed use/B1 B2 airport and related uses; and
- Policy E2: Promotion of New Employment Opportunities: confirming that at the airport (Southside) a total gross area (DBC) of 97 acres (39.30 hectares) exists, with 67 acres (27.1 hectares) gross available for B2 airport uses.

Stockton-on-Tees Local Plan

2.23 The current adopted Local Plan recognises the economic benefits of the airport to the wider Tees Valley and promotes its growth and safeguards the continued operation of a regional airport:

- 124 acres (50 hectares) of land are allocated for airport related uses to the south of the runway. To support this expansion a further 50 acres (20 hectares) of general employment land is also allocated south of the runway;
- Transport improvements will be supported to enable future aviation and economic growth at the airport; and
- Public transport access to the airport and road access to the Southside employment site.

2.24 The Plan confirms that new development will only be permitted where it can be demonstrated that:

- The proposed development is necessary to enable long term sustainability and viability of the airport;
- The amount and type of development will not adversely impact on the Council's ability to deliver the locational strategy and key development sites of the Local Plan and its wider strategic objectives; and
- The use would not prejudice the operation of the airport and in circumstances where the proposal would result in the loss of employment land or specialist airport related land use.

OVERALL - Assessment of Strategic Fit

The securing of the airport is in line with key strategies at National, Northern Powerhouse and Tees Valley levels. The airport will ensure the following:

- **Outward Looking Region:** The Industrial Strategy, Northern Powerhouse Strategy and refreshed SEP have identified a number of priority sectors, which are viewed as being globally competitive. Within the Tees Valley, clean growth, including process, chemicals and energy, professional services (in particular high value servitisation functions) and advanced manufacturing are the most likely to benefit from enhanced connectivity associated with new route development and the restoration of some form of air cargo capability at DTVA. With a combined output of £4.2bn (one third of the regional total) and between them accounting for circa 60% of exports of goods and services, enhancing the number of air routes at DTVA will facilitate supply chain diversification and entry into new faster growing export markets;
- **Gateway point for the North:** Tees Valley receives a negligible number of international tourists to the region annually via Durham Tees Valley Airport. An enhanced number of air routes into the region would not only have a direct impact on Tees Valley tourism, but could potentially be a jumping off point for the wider region, including better known tourism destinations in both Durham and Yorkshire which are presently accessed via Manchester, Newcastle and London airports;
- **A more confident and visible region:** Enhanced perceptions and visibility in support of inward investment: Tees Valley has all the components of a successful international region, strong messages (through our international diaspora) and international connectivity. A recent Ernst and Young Report on foreign direct investment (inward investment) into Europe found that investors placed transport infrastructure as one of their top determinants of whether to invest in a place. Existing major users of the airport include the likes of multinationals such as Sabic, GlaxoSmithKline, Huntsman, AMEC and ABS with Tees Valley having close industry links across the globe: from France (EDF, Mersen), Netherlands (Heerema, Hertel) to Saudi Arabia (Sabic, Cleveland Bridge), the USA (Cummins, Darchem, Huntsman) and Japan and Singapore (Nifco, Fujifilm and Sembcorp). Such firms have collectively invested billions of pounds of capital expenditure in Tees Valley, and it is imperative that these investment channels are maintained in decades to come.

  The region, through the South Tees Development Corporation, has the target of creating circa £1bn of additional output and around 20,000 jobs. These will not be sourced purely from the UK and so are to some degree dependent on inward investment. Success will be achieved through an easily accessible and increasingly visible region served by an international airport focused on strategically important routes; and
- **Ensuring the viability of a strategic asset and avoiding a significant closure:** Not only is the airport the strategic enabler for the delivery of the aforementioned themes, but with a direct workforce of circa 400, its loss would have a significant impact on local employment and output in its own right.

Assessment of Need

2.25 The assessment of need will be reviewed from the following perspectives:

- Performance against key metrics;
- Mitigation of identified market failures;
- Case study evidence; and
- SWOT/TOWS.

Performance against key metrics

2.26 The following table uses the key metrics identified in the strategic context section to develop robust baselines which can measure the comparative performance of the airport, including:

PERFORMING AIRPORT		
CONSUMER CHOICE	**FINANCIAL VIABILITY**	**WIDER ECONOMIC IMPACT**
PROPENSITY TO FLY	CURRENT PROVISION	PERCEPTIONS OF REGION
NUMBER OF ROUTES (DOM/ INTERNATIONAL)	OCCUPANCY RATES	SUPPLY CHAIN SUPPORT
NUMBER OF PASSENGER MOVEMENTS	INDUSTRIAL CLUSTERING	VISITOR IMPACTS
FREIGHT		

CONSUMER CHOICE

2.27 Central to securing the future of the airport is the impact it will have in terms of consumer choice, in particular increasing passenger and business use. This can be assessed through a review of the following key indicators:

- Propensity to fly;
- Access to airports/number of routes (domestic/international); and
- Freight.

2.28 The relative performance of the airport is on public record, dropping from a peak of 900,000 passenger movements in 2006 to the present situation of 131,000 passengers in 2017. This is a decline of 769,000 (85%) passenger movements at a time when neighbouring airports (Newcastle and Leeds Bradford) have experienced a rise of 1% and 6% respectively.

2.29 In quantifying passenger movements, emerging demand will be assessed through a review of population and its propensity to fly and emerging supply through a review of the operation of comparable airports across the potential catchment area (the wider North of England).

2.30 An analysis of population size and access to an airport was carried out and of the top 25 settlements **100% had access to an international airport.**

Position	Name of Region	Population	Presence of an airport (within 30 miles/45 minute)	Nearest airport
1	Greater London Built-up Area	9,787,426	Yes	Heathrow
2	Greater Manchester Built-up Area	2,553,379	Yes	Manchester
3	West Midlands Built-up Area	2,440,986	Yes	Birmingham
4	West Yorkshire Built-up Area	1,777,934	Yes	Leeds Bradford
5	Greater Glasgow Built-up Area	1,209,143	Yes	Glasgow
6	Liverpool Built-up Area	864,122	Yes	Liverpool
7	South Hampshire Built-up Area	855,569	Yes	Southampton
8	Tyneside Built-up Area	774,891	Yes	Newcastle
9	Nottingham Built-up Area	729,977	Yes	East Midlands
10	Sheffield Built-up Area	685,368	Yes	Doncaster Sheffield
11	Tees Valley	660,000	In question	DTVA
12	Bristol Built-up Area	617,280	Yes	Bristol
13	Belfast Urban Area	595,879	Yes	Belfast IA and City
14	Leicester Built-up area	508,916	Yes	East Midlands
15	Edinburgh	482,005	Yes	Edinburgh
16	Brighton and Hove Built-up area	474,485	Yes	Gatwick
17	Bournemouth/Poole Built-up area	466,266	Yes	Bournemouth
18	Cardiff Built-up area	447,287	Yes	Cardiff
19	Stoke-on-Trent Built-up Area	372,775	Yes	Manchester
20	Coventry Built-up area	359,262	Yes	Birmingham
21	Sunderland Built-up area	335,415	Yes	Newcastle
22	Birkenhead Built-up area	325,264	Yes	Liverpool
23	Reading Built-up area	318,014	Yes	Heathrow
24	Kingston upon Hull Built-up area	314,018	Yes	Humberside
25	Preston Built-up area	313,322	Yes	Manchester

Source: ONS 2018

2.31 The closure of the airport would mean that Tees Valley would be the only significant urban area in the United Kingdom not to have access to an airport.

2.32 The table below provides an assessment of the region in terms of population and Gross Value Add per capita:

Area	GVA Per Capita	Population
County Durham	£15,475	520,000
Northumberland	£15,951	315,000
Newcastle Upon Tyne	£26,232	293,000
Sunderland	£20,728	277,000
North Tyneside	£20,026	202,000
Gateshead	£21,661	201,000
Stockton on Tees	£20,257	195,000
South Tyneside	£14,341	149,000
Middlesbrough	£18,540	140,000
Redcar and Cleveland	£15,188	135,000
Darlington	£24,585	105,000
Hartlepool	£15,777	92,000
Yorkshire and Humber	£20,351	5,391,000
Regional Total/Average	£20,176	8,016,000

Source: Durham Tees Valley Airport: Business Case, ICF (August 2018)

2.33 DTVA is one of seven airports servicing the North of England (maximum 3 hour journey time), with a combined population of 15,190,000. The airports include:

Airport	Total Number of Passengers
Doncaster/Sheffield	1,290,000
Durham Tees Valley	130,000
Humberside	170,000
Leeds/Bradford	4,020,000
Liverpool	4,860,000
Manchester	27,720,000
Newcastle	5,290,000
Total	43,480,000

Source: Durham Tees Valley Airport: Business Case, ICF (August 2018);

2.34 The table below compares the historical performance of the airports servicing the region (in terms of passenger numbers and percentage of share of catchment area market):

Airport	2005	2009	2017
DTVA	0.902 (11%)	0.288 (5%)	0.128 (2%)
Newcastle	5.187 (61%)	4,569 (68%)	5.298 (60%)
Leeds Bradford	2.609 (7%)	2.553 (8%)	4.075(13%)
Manchester	22.083 (14%)	18.630 (11%)	27.774 (16%)
Total Market NE and N. Yorkshire	7,493,000	5,900,000	7,537,000
Proportion of DTVA Passengers from outside of core catchment area	4%	5%	5%

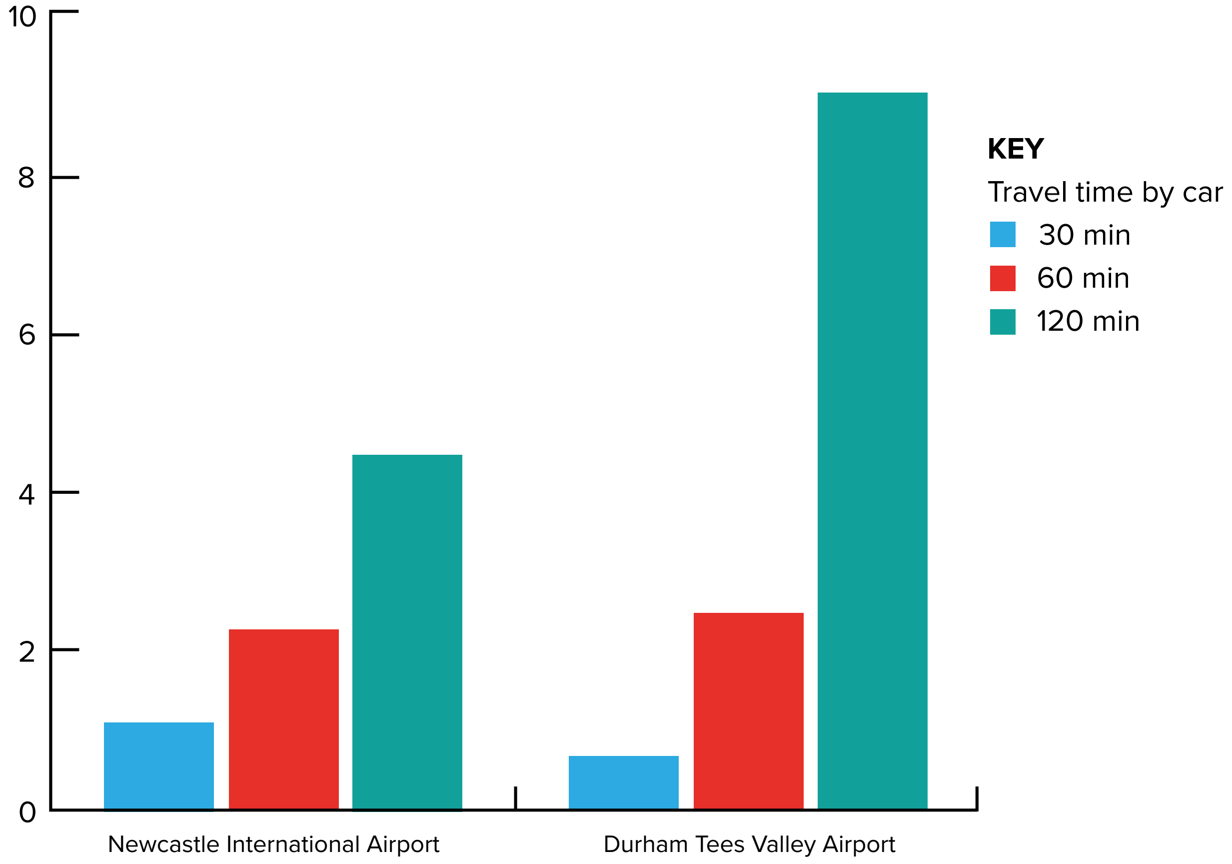
Source: Future Scenarios for Durham Tees Valley Airport, York Aviation (June 2018).

2.35 Department for Transport statistics demonstrate the catchment population area for DTVA compares well to its closest competitor, Newcastle Airport. The table below notes the population living within specified travel times of the airport, calculated by driving time.

Airport Name	30 mins	60 mins	120 mins
Newcastle	1.1	2.3	4.5
Durham Tees Valley	0.7	2.5	9.0

Source: DfT Transport Connectivity and Accessibility Statistics (updated June 2015).

Airport catchment / travel times



Source: DfT Transport Connectivity and Accessibility Statistics (updated June 2015).

2.36 Benchmarking of the breakdown of business to leisure passengers using Newcastle, Bristol and Cardiff airports, assumed a ratio of 1:5 business to leisure breakdown. For DTVA this could equate to circa 24,000 business passenger movements annually. However given the routes presently on offer at DTVA it is probably closer to 75% business travel equating to 96,000 passenger movements annually.

PROPENSITY TO FLY

2.37 Based on the UK's ONS data for 2015, the North East has a propensity to fly (P2F) of between 1.9 and 2.1 trips per capita per annum. P2F is usually driven by a mix of factors such as:

- disposable income;
- pricing (which in turn is influenced by number of routes and choice of provider); and
- transport alternatives.

2.38 The Gross Value Add (GVA) per capita, a proxy for income levels, in the North East is 25% below the national average and as a result analysts would expect the region's P2F to reflect this income level and be **2.7 trips per capita**. The North East's P2F is actually 40% below the national average of 3.61 trips per capita, albeit that average is influenced by London's outlying P2F.

2.39 The following table identifies the reasons for selecting departure airport, which in turn impact on propensity to fly:

	Total (%)	Domestic Flights (%)	Short/mid haul (%)	Long haul (%)
Availability of flight route	56	79	72	60
Cost and convenience of getting to airport	55	48	52	53
Cheapest flights available	33	12	17	39
Airport facilities	8	36	39	8
Other	4	10	1	4

Source: Passenger choice survey: Civil Aviation Authority Report (2011)

2.40 We have only assessed those issues most easily quantified and which have a material impact on choice of airport and propensity to fly:

- **Availability of flight route:** The following should be noted:
    - **DTVA:** Over the past decade, several airlines have exited the airport reducing its customer base to only a handful of carriers. Eastern is the airport's second largest operator with 17% market share serving domestic routes such as Aberdeen and Jersey. The most significant in DTVA's route map is summer seasonal destinations, along with other locations served from other NE airports. The summer seasonal market used to be served by charter operators and low cost companies such as Ryanair, Flybe, Easyjet but these routes have not been replaced following airline moves. DTVA also lacks domestic connectivity to London. While London can be reached within 2-3 hours by train, there is significant spill over to the capital and London hub airports which could be served by air rather than rail or road;
    - **Leeds/Bradford:** The airport's route map is comparable to most UK regional airports with a strong focus on serving leisure destinations in Spain (Alicante, Malaga, Mallorca), domestically (London, Belfast, South/South West England) and European cities/hubs such as Dublin and Amsterdam; and
    - **Newcastle:** From a route perspective, Newcastle serves a wide range of domestic, short-haul and long-haul markets with the majority of frequencies bound for locations in Europe such as summer beach destinations in Spain, Greece and Portugal or capital cities/hubs such as Amsterdam, Paris and Dublin. Newcastle also has long haul services to Dubai, Orlando, Cancun and Barbados, reflecting its passenger and airline mix.
- **Cheapest flights available:** In a relatively static market the main beneficiary from the reduction in the number of passengers using DTVA between 2005 and 2017 is Leeds Bradford Airport, which has grown its market share substantially over that time. The key feature of competition with Leeds Bradford is the relative cost for airlines and passengers in terms of direct charges (i.e. excluding the costs of access and car parking). As noted above, these costs are a material factor in attracting airlines to use an airport as they ultimately impact on the air fare that can be charged and how many passengers can be attracted. The following table illustrates the relative costs per airport, using Leeds Bradford as a baseline (Source: Leigh Fisher):
    - **Doncaster Sheffield +1%;**
    - **Newcastle +2%;**
    - **Humberside +16%; and**
    - **Durham Tees Valley +20%**
- **Cost and convenience of getting to airport:** The immediate catchment population for DTVA (assuming a one hour travel distance) is 2.5 million, however in the interests of prudence and calculating the direct impact to the region, we have used a figure of 670,000 (the Tees Valley population) in this section.

2.41 In summary, the present lack of competition due to the low number of flights (compounded and caused by relatively high flight costs) is having a negative effect on both propensity to fly and overall volume **(considering that DTVA is potentially accounting for only 10% of Tees Valley flights[3] even assuming the lower propensity to fly).**

2.42 A functioning airport would ensure greater choice through enhanced route availability. Assuming a propensity to fly figure of 2.7 (the national average) for the wider North East, this would increase the number of passenger movements to circa 8.6million per annum across the wider region. Assuming a 10% take up by DTVA this could equate to circa 860,000 passenger movements (comparable to 2005).

2.43 Increasing the propensity to fly to 25% below the national average would return Durham Tees Valley Airport back to its 2005 level, and illustrates extensive untapped demand. A more proactive route development strategy could further expand choice and in turn further stimulate demand, in particular the attraction of a low cost carrier.

Freight

2.44 The table below provides historical trend analysis for the amount of air freight (by tonne) from a selection of airports:

Airport	**2007**	**2009**	**2017**
DTVA	786	298	4
Newcastle	785	2,597	5,482
Leeds/Bradford	109	359	15
Manchester	165,366	102,543	120,181
Total UK airports	2,325,238	2,047,861	2,622,496

| **Source: UK Airport Data - Freight: Civil Aviation Authority (2018)**

2.45 The table clearly illustrates a slight increase in air freight over the period of 297,258 tonnes or 11% across the UK since 2007, compared to a decline in air freight of 41,364 tonnes or 25% across the North. Newcastle has significantly bucked the trend, but overall demand has declined. This is particularly the case for DTVA which has witnessed a reduction of 782 tonnes or 99.5% in air freight.

2.46 In summary, assuming air freight had continued to grow at the UK level of 11%, the output gap for DTVA would be 868 tonnes per annum, which assuming revenue per tonne of £1,000, is a direct loss of £868,000 per annum (notwithstanding wider catalytic effects).

Conclusion

2.47 It is our contention that a better functioning airport supported by a partner focused on economic development could realistically achieve circa 860,000 passenger movements per year and 868 tonnes of air freight per annum (extrapolated from ICF (2018) and CAA (2018) analysis).

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[3] Total population of catchment area 670,000 x 2 (propensity to fly for North East) = 1.34m flights

2.48 However independent analysis carried out by ICF has identified that driven management and the attraction of a low cost carrier has the potential to achieve even higher passenger numbers (1,579,000) and consequently a return to financial viability by year 8.

FINANCIAL VIABILITY OF THE PROPERTY PROPOSITION

2.49 Key to improving the financial viability of the airport is maximising its wider property assets and in particular developing a key cluster which maximises the co-locational benefits of close proximity to the airport. This can be assessed through the review of the following indicators:

- Occupancy Rates;
- Assessment of current provision; and
- Industrial Clustering:

2.50 The following reviews the current property proposition at the airport in terms of overall occupancy rate and its type of use:

- There is an occupancy rate of 92%, meaning that 8% of rentable space is currently vacant;
- Most vacant space is presently unlettable due to size, configuration or general quality; and
- Commercial take-up is mainly within the (comparatively lower value adding) logistics sector (circa 90%).

2.51 The following assessment of current provision was undertaken by Turner and Townsend and includes the views of existing tenants:

- The existing site is challenged in many ways but most notably from a lack of public transport connectivity and tired infrastructure;
- A visual inspection of the infrastructure shows the decline in the quality of the hard and soft landscaping areas and that good housekeeping is needed to maintain reasonable standards. This needs to be balanced between achieving a high standard of environment and the tenants' wish to pay service charges.
- There was unanimous complaint that the provision of broadband was lamentably poor at around 6MB. Investment is needed to provide 100Mb and continuous improvement to provide the highest capacity of broadband and to keep the provision up to date and investment continued to make it attractive to potential users and occupiers;
- Several of the occupiers had been in occupation for many years and were anxious that the declared planning position of allowing only 'airport use' to occupy the airport would result in their being prevented from investing further or having to vacate; and
- There was a general wish to remain at the airport and to support growth.

2.52 When taken in conjunction with the review of present occupancy and use, the aforementioned stakeholder feedback identifies many opportunities for increasing occupancy and a move to higher value-adding sectors (those sectors which would benefit from co-location on the airport) taking up airport premises.

2.53 The Peel Masterplan identified ambitious plans for developing the site, including:

- Northside development area:
  - **9,600 sq m of office accommodation;**
  - **1,900 sq m of workshops; and**
  - **12,170 sq m of warehousing.**
- Southside development area:
  - **176,900 sq m of industrial space.**

2.54 The following table places these proposals in the context of the wider Tees Valley property proposition and notes the following:

	Offices (sqm)	Industrial (sqm)	Total (sqm)
Darlington	173,000	798,000	971,000
Hartlepool	71,000	550,000	62,000
Middlesbrough	212,000	568,000	780,000
Redcar &Cleveland	127,000	670,000	797,000
Stockton-on-Tees	330,000	1,215,000	1,545,000
Tees Valley	913,000	3,801,000z	4,714,000

Source: Stockton on Tees Employment and Land Review (2018)

2.55 The overall vacancy rate in Tees Valley equates to around 9% of units and 6% of floorspace. In a healthy property market a vacancy rate of 5 to 10% allows market churn and facilitates the changing floorspace requirements of expanding businesses to be accommodated but avoids high volumes of floor space on the market for a prolonged period.

2.56 It is important to note that the build-out of the Southside (the more commercial of the two propositions) would equate to 5% of the total Tees Valley property proposition and would be at least 5 times the annual completion rate for the region.

2.57 It has been estimated that it would create circa 1,861 jobs (at full occupancy):

	Sum of floorspace (m^2)	Gross Jobs	Net Jobs (including leakage)
Phase 1	7,920	133	81
Phase 2	24,367	455	277
Phase 3	57,914	1,170	713
Phase 4	86,502	1,297	790
Total	176,763	3,055	1,861

Source Regeneris Consultants

2.58 However, the following should be noted:

- Leakage and displacement effects could be minimised through the careful phasing and marketing of the development as part of the wider Tees Valley property proposition; and
- Careful marketing in conjunction with additional powers (such as enterprise zone and/or Mayoral Development Corporation status) could bring with it a greater focus on higher value adding sectors, which may have a longer lead-in time, but would be of greater strategic importance to the region.

2.59 The assumed added value of (patient) public management of the airport property proposition could equate to 180 additional jobs and an increase of GVA per FTE of 50% per job leading to an additional £50million per annum solely for the Southside business park.

WIDER ECONOMIC IMPACT

2.60 The final core benefit of the airport is its impact on the wider economy, in particular ensuring connectivity, facilitating access to key supply chains and as a gateway for increasing visitor numbers. This can be assessed through the following variables:

- Perceptions of the region;
- Supply chain support; and
- Visitor income.

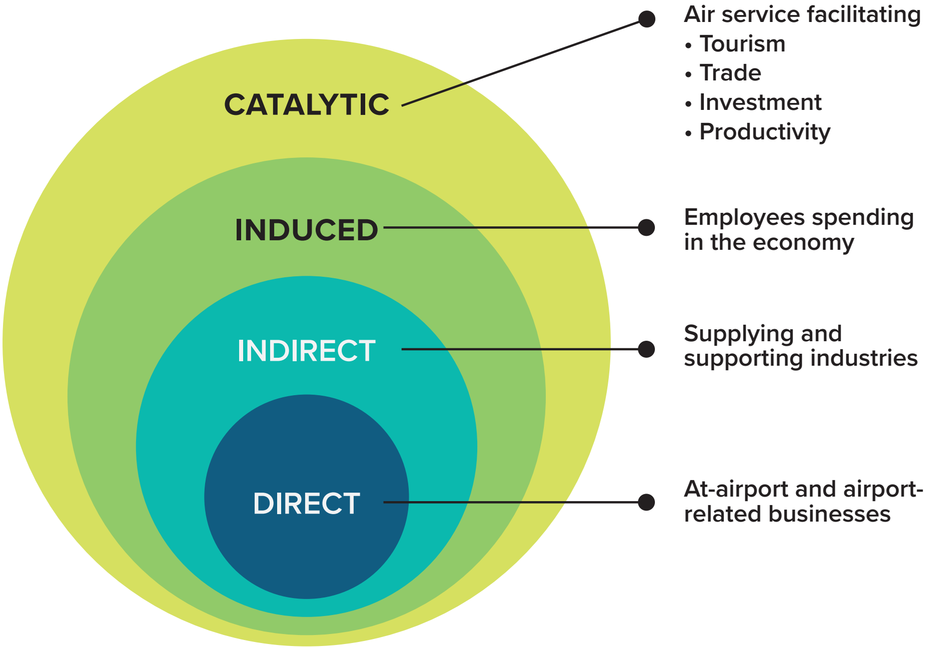
2.61 For regions like Tees Valley, the importance of the connectivity afforded by domestic and international air links, whether in addressing perceptions of peripherality, helping to facilitate trade, attract inward investment or stimulate inbound tourism is now well recognised in Government policy. If appropriate airport infrastructure is foregone locally, then the ability to capture the economic benefits associated with new air services will be lost altogether.

2.62 Reliance on air services from airports in neighbouring regions is rarely a satisfactory means of delivering strategically important connectivity. This is true, even when the immediate alternatives are only 60-90 minutes away and a global hub offering inter-continental services can be accessed within three hours, as is the case with DTVA for both Manchester and London airports.

CATALYTIC IMPACT

2.63 There are two kinds of economic effects related to airports. The first, the generation of employment, income and capital investment comes from the process of providing airport services. The second, the dynamic economic 'catalytic' or 'spin-off' benefits, include tourism, improved export levels and inward investment and are stimulated by the presence of an airport serving the wider sub-region.

2.64 These are summarised in the following chart:



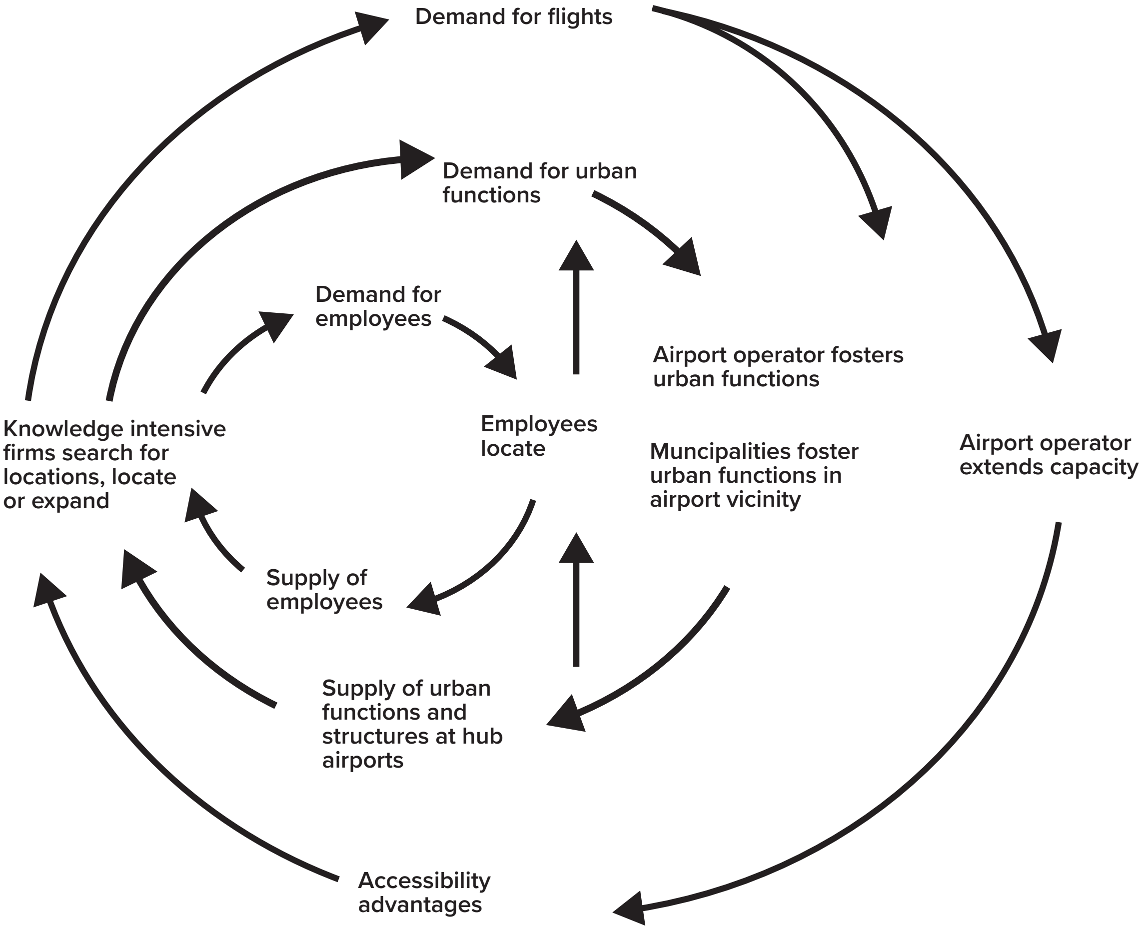
Source: Categories of Economic Impact Generated and Facilitated by European Airports: Economic Impact of European Airports, InterVISTAS 2015.

2.65 Recent economic impact assessments of DTVA have focused solely on the direct economic impacts of the airport, however as the earlier policy review has identified, the ‘substantive worth’ of the airport is as a key strategic asset and this analysis will seek to monetise the following benefits:

- Jobs/Gross Vale Add (Output) (Direct, Indirect and Induced); and
- The Catalytic effect (Increased consumer choice and business activity related to tourism, inward investment and productivity).

2.66 As noted above, any airport has both direct and indirect (catalytic) effects. These catalytic effects may arise from enhanced air connectivity (e.g. trade, tourism, inward investment and productivity) and cluster effects (i.e. agglomeration economies and spill-over effects) associated with aviation related and non-aeronautical development in and outside the operational boundary of the airport.

2.67 The following chart provides a stylised model of the relationship between priority sectors, the region and air transport services:



Source: Thierstein et al (2011)

2.68 Thierstein's conceptualisation defines the positive feedback loops between the sector concerned and aviation and identifies three main forms of benefit:

- By allowing better understanding of markets and competitors (especially internationally) so that resources may be redirected to the most productive uses and increase international trade in goods, services and tourism;
- By facilitating knowledge sharing and access to new markets and suppliers, more sophisticated technologies and new ways of working may be identified helping to improve cost efficiency and raise domestic productivity; and
- By enabling inward investment to be attracted, capital intensity can be increased, raising per capita output and the scale of trading activity.

2.69 Oxford Economic Forecasting (2006) demonstrated that a good air transport network positively affects economic growth by improving efficiency, boosting investments and encouraging innovation. It states:

> **"The improvement in productivity in firms outside the aviation sector comes through two main channels: through the effects on domestic firms of increased access to foreign markets and increased foreign competition in the home market, and through the freer movement of investment capital and workers between countries."**

2.70 The following table provides an assessment of the propensity to fly (both passenger and cargo) for the seven priority sectors in the region and also informs the wider catalytic effects:

Sector	Propensity to fly (Passengers)	Propensity to fly (Air Cargo)
Advanced Manufacturing	Yes	Yes
Chemicals and Energy	Yes	Yes
Life-sciences	Yes	Yes
Logistics	No	No
Digital	Yes	No
Culture, Creative and Leisure	Yes	No
Business & Professional Services	Yes	No

2.71 The table below provides a breakdown of the scale of each sector in terms of total jobs and output (GVA):

Sector	Jobs	GVA
Advanced Manufacturing	27,180	£1.8billion
Chemicals & Energy	7,600	£843 million
Life-sciences	1,000	£90 million
Logistics	16,500	£533 million
Digital	5,000	£285 million
Culture, Creative and Leisure	21,180	£332 million
Business & Professional Services	34,700	£1.65 billion
Total Business Base	318,900	£12.7 billion

Source: SEP Sector Action Plans (2017)

2.72 As noted above the sectors which are likely to have a catalytic effect as a result of air connectivity are: Advanced Manufacturing, Chemicals & Energy, Life-sciences, Digital and Business & Professional services, which between them have a combined output of £4.6bn.

Measuring the catalytic effect

2.73 This is a two stage process:

- the first stage is to measure connectivity and develop a connectivity index[4] for the airport; and
- The second stage is to apply the InterVistas calculation of economic impact[5] as a result of an increase in connectivity (based on an increase in the connectivity index).

2.74 The following table utilises the growth scenarios developed by ICF and impact assumptions originally developed by Regeneris Consultants, and augmented by InterVistas analysis of Catalytic Impacts:

Scenarios		Jobs	GVA	Catalytic Impact	Total (Direct, Indirect, Induced and Catalytic Impacts)
ICF Organic Growth[1]	Direct	636	£33m	£14.6m & 324 jobs	£57.4m & 1,145 jobs
	Indirect/ Induced	185.5	£9.8m		
	Total	821.5	£42.8m		
ICF Seasonal Growth[2]	Direct	802	£49.8	£41m & 911 jobs	£105.6m & 1,947 jobs
	Indirect/ induced	234	£14.8m		
	Total	1,036	£64.6m		
Optimistic[3]	Direct	3,419	£211m	£147m & 3,266 jobs	£421m & 7,682 jobs
	Indirect/ induced	997	£63m		
	Total	4,416	£274m		

Source: ICF and Tees Valley Combined Authority (2018)

[4] Connectivity index is calculated as (Number of destinations x weekly frequency x seats per flight/weighted by the size of the destination airport)

[5] A 10% increase in connectivity is associated with a 0.5% increase in GDP per capita. The assessment of economic impact using the catalytic approach has been endorsed through the following studies: European Airports Council (2004)- The Social and Economic Impact of Airports in Europe and CAPA (2015) 'Europe's Airports: Economic Impact – the theory and practice

[1] Scenario 1: Organic: It is assumed that DTVA's market share remains constant relative to its North East peers and grows at the market rate. This scenario reflects no material change to how DTVA operates today with growth coming as a result of improvements to load factors on existing routes and marginal increases in capacity.

[2] Scenario 2: Seasonal/Regional: It is assumed that more active management allows DTVA to attract seasonal services, bringing its service levels to the standard seen at other UK airports. It is also assumed that DTVA attracts a regional operator to better serve the domestic and short haul market. For this scenario, ICF have adopted a bottom up approach at the route level based on regional demand and benchmarking to other UK airports.

[3] Scenario 3: Low Cost Carrier (LCC): It is assumed that driven management is able to attract an established LCC from a regional competitor airport to DTVA. It is assumed that the carrier moves all operations to DTVA over a two year period, with minor disruption to its market share. It is assumed that regional operations are established in addition to the LCC traffic, but at a lower throughput given the competition from the LCC operator. It is assumed that the LCC provides services to cater for the summer seasonal demand and that therefore only a limited charter operation remains at DTVA outside the LCC's network.

2.75 In summary, the airport has the potential to provide £363.6m of **additional** GVA through wider (catalytic) benefits.

Mitigation of identified market failures

2.76 At the time of writing, the airport is viewed by the market as not being commercially viable, however, as is demonstrated above the economic worth of this strategic asset far exceeds the short to medium term loss position.

2.77 However, in such a circumstance it is not feasible for a private concern to carry the financial cost of enabling a wider economic benefit. In this instance the airport may be considered that rare thing in economics a genuine public good in terms of its wider economic impact as it has the following characteristic:

- **Non rival/non-excludable:** Where one person's consumption of the wider economic impact does not prevent anyone else from benefiting from it.

2.78 The present financial position means that only the public sector and in particular a body charged with ensuring the wider economic development of the region would be in the position to fund/part fund a facility that indirectly supports the continuing wider economic benefits attributed to the airport.

2.79 The proposed purchase of the airport is also designed to address the following market failures associated with the provision of a public good, including:

- **Coordination Failure:** The ability and institutional patience to coordinate and fund the range of interventions essential to fully commercialise the operation of the airport and ensure the maximum economic benefit of the wider business park proposition; and
- **Funding Gap:** The public sector is the only body which has the risk appetite and willingness to wait on a financial return necessary to fund a medium term commitment of the scope and scale of the airport and the wider business park proposition.

2.80 Indicative activities related to developing the airport include:

- The acquisition of the airport and wider business park proposition;
- Establishment of a sector specific business growth hub and ensuring its complementarity with the wider business support structure across the region;
- Securing new routes, in particular access to main hubs such as Heathrow;
- Supporting inward investment to the sector specific business growth hub and ultimately secure enterprise zone status from central Government;
- Strategic investment in road and rail infrastructure; and
- Leading discussions with the Ministry of Defence to establish a potential joint military-civilian airport hub.

2.81 Individually these interventions will enhance the commercial viability of the airport, but their cumulative impact over the next 10 years will create the necessary step change to the region.

2.82 All of the aforementioned activities are judged to be beyond the ability of a private sector enterprise to deliver on its own, but can be delivered by a body such as the Combined Authority which has a strategic role in economic development and transport, and has direct access to central Government.

2.83 The table below reviews the ownership structure of other comparable regional airports and concludes that rather than being the exception, regaining control by the relevant municipality seems to be the guiding principle (accounting for 55% of airports) in ensuring sustainability in the regional airport sector:

Airport	**Public Ownership**
Aberdeen	No
Belfast International	No
Birmingham	Yes (49%)
Blackpool	Yes (5%)
Bournemouth	Yes (64%)
Bristol	No
Cardiff	Yes (100%)
Durham Tees Valley	Yes (25%)
East Midlands	Yes (64%)
Edinburgh	No
Exeter	No
George Best Belfast City	No
Glasgow	No
Glasgow Prestwick	Yes (100%)
Humberside	Yes (18%)
Inverness	Yes (100%)
Leeds Bradford	No
Liverpool John Lennon	No
Manchester	Yes (64%)
Newcastle	Yes (51%)
Norwich	Yes (19.9%)
Robin Hood Doncaster Sheffield	No

Source: House of Commons Library - Assessment of Regional Airports (2016)

2.84 The move to enhanced public ownership/private sector operating partner[6] is in line with the most recent Aviation Strategy (2018) which continues to encourage greater regional provision, and Transport for the North (TfN) strategy which also calls for more destinations to be serviced from Northern Airports (a target of 30 million passengers a year).

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[6] Such public sector provision of infrastructure is in accordance with economic theory: Baumol's Contestable markets theory. A contestable market is one with zero entry and exit costs. This means there are no barriers to entry and no barriers to exit.

Case study evidence

2.85 The following table demonstrates through the use of a case study how the public acquisition of an airport may mitigate the identified market failures of provision of a public good:

CARDIFF INTERNATIONAL AIRPORT

BACKGROUND

When the Welsh Government bought CIA for circa £52m in March 2013, the price paid was reported by industry commentators to be at a premium compared to that which a private sector investor would have paid. However, this ignored a series of factors that justify a valuation well above the kind of figure suggested by simplistic use of multipliers of EBITDA including:

- The apparent willingness of Abertis to continue to run down the condition of the asset and lose market share rather than make further investment (with the possible result that ultimately the airport would have closed or been moth-balled);
- The consequent need to accept an acquisition ‘premium’ in order to persuade a recalcitrant seller to agree to an early disposal when doing so would crystallise their losses. Abertis claimed the disposal price reflected the value of the asset in their accounts, but this public position almost certainly overlooked earlier write downs of the airport’s book value as its profitability diminished between 2008-12; and
- The opportunity that the Airport represents to a new owner, wise enough to recognise its underlying commercial value, and with the resources and commitment to realise its long-term potential, if well run, to generate material investment returns is significant.

RATIONALE FOR INVESTMENT

Under Abertis’s stewardship, CIA went into a period of significant decline (2,094m (2007) to 1.02m in 2014) and the Welsh Government faced a choice of acting to ensure Wales’ capital city continued to have its own airport (as every other capital city in Europe does), or risking further deterioration, loss of accessibility and eventual closure. That it chose to take over the airport has been politically challenging and involves some financial risk, but it also gives Cardiff Capital region and South Wales more broadly, the opportunity to grasp the substantial economic opportunities that ownership of Cardiff and St Athan airports bestows. These include:

- The creation of a thriving regional airport with prospectively significant future realisable asset value;
- Retention of a symbolically important gateway to Wales and one that is important in realising some of the broader ambitions of the Capital Region board to attract major events and investment in new venues;
- Securing enhanced domestic and international route connectivity that will support many of the priority sectors identified in the Welsh Government’s economic strategy; and
- Underpinning and expansion of a key economic cluster that is vital to the wider economy of South Wales;

EMERGING INTERVENTIONS AT CARDIFF:

- The acquisition of the airport and wider business park proposition;
- Establishment of a sector specific business growth hub and ensuring its complementarity with the wider business support structure across the region;
- Securing new routes, in particular access to main hubs such as Heathrow;
- Strategic investment in road and rail infrastructure; and

Since the Welsh Government acquired the business from Spanish conglomerate Abertis in 2013, passenger numbers have grown by 50%.

2.86 The following table summarises the assessment of need into a SWOT analysis:

Strengths	**Weaknesses**
■ The airport has a catchment population of circa 670,000 residents within the Tees Valley and circa 2.5m in wider 1 hour drive time; ■ The airport is currently operational and with a highly recognised brand; ■ The airport has a runway of sufficient scale to be able to cope with intercontinental flights; ■ The airport is close to major road and rail infrastructure and could be a main logistics hub;	■ There are currently too few scheduled routes; ■ Freight carriage through the airport is at an all-time low; ■ The airport is viewed as having a high cost per passenger, exacerbated by high fixed costs and low passenger numbers;
Opportunity	**Threat**
■ The airport is being sold with an experienced management team in place; ■ The attraction of one low cost carrier to the airport would be sufficient to return the airport back to profitability; ■ The propensity to fly in the North East is lower than national averages, meaning that there is significant untapped demand; ■ Terms of trade moving towards diversification out side of Europe, need for more transatlantic flights; ■ The airport is a key strategic asset in the attraction and retention of inward investment, particularly in relation to the following air freight intensive sectors: • **Advanced manufacturing;** • **Biologics/Pharmaceuticals;** • **Logistics.** ■ Sizeable inward investment opportunities across the region, which should increase the demand for international connectivity, beyond the existing Schiphol route; ■ The airport has significant land which could be utilised for wider economic development purposes	■ The airport is currently operating at a loss and is under risk of closure; ■ The current airport management have pledged to develop housing options on the site, which increase any future purchase price at the same time as diminishing the commercial viability of the site for aviation and wider economic development purposes; ■ There has been under-investment in the physical infrastructure of the airport; ■ There is increasing price sensitivity in the airline industry and its selection of airports; ■ The closure of the airport would exacerbate negative perceptions of the Tees Valley amongst potential inward investors

2.87 The following table addresses the opportunities and threats in the SWOT to create a TOWS summary which was used to develop the proposal:

Internal Strengths and External Opportunities (S-O) – how can they use the strengths to benefit from existing external opportunities?	**Internal Strengths and External Threats (S-T) how can they benefit from their strengths to avoid or lessen (potential) external threats?**
■ Ensure the airport is controlled by an organisation which recognises its key strategic role within the region; ■ Secure the operational functions of the airport, by attracting more and varied (Business focused) routes and specifically the attraction of a low cost carrier.	■ Need to reduce the high cost per passenger, by increasing passenger numbers at same time as reducing overhead costs;
Internal Weaknesses and External Opportunities (W-O) – how can they use opportunities to overcome the organisation's internal weaknesses?	**Internal Weaknesses and External Threats (W-T) – how can they minimise weaknesses and thus avoid potential threats**
■ Maximise the freight and co-locational benefits of sympathetic (priority sectors) inward investment on to the airport site;	■ Purchase the airport before Peel has an opportunity to invest in a large scale housing development;

Constraints

2.88 The proposed airport acquisition has been developed to address the following constraints:

- **Timeframe:** There is a need to purchase the airport prior to contracts being finalised to build houses on a key part of the site. This would significantly increase the potential purchase price of the airport and consequently reduce the likelihood of sale by Peel and the continuing use of the site as a functional airport and would prejudice wider commercial development of the site;
- **Regulatory environment:** The purchase price of the airport reflects the opportunity cost in ensuring compliance with the complex regulatory environment faced by airports;
- **Property proposition:** The sale includes not just the airport but also the wider property proposition within the airport environs;
- **Management structure:** The existing operational team will be included in the transfer of responsibilities; and
- **Choice of operator:** Given the tight regulatory environment, there is a significant constraint as to the selection of operator partners.

Objectives and Critical Success Factors

2.89 The critical success factors (CSFs) are the attributes essential to the successful delivery of the airport acquisition and subsequent operation. The CSFs will be used to assess the long list of options prior to the economic appraisal being undertaken. CSFs should encompass:

- **Greater consumer choice:** This relates to the increased number of routes and the frequency of flights resulting in increased passenger numbers;
- **Financial viability:** This relates to the airport (both aviation and property related activities) returning to surplus;
- **Wider economic impact:** This relates to enhanced supply chain activity, a rough proxy of which is enhanced freight activity at the airport (particularly in higher value adding sectors such as pharmaceuticals and advanced engineering);
- **Timeliness of delivery:** This relates to ensuring no break in service; and
- **Regulatory compliance:** This relates to ensuring that the airport continues to operate in line with regulatory requirements.

2.90 The SMART objectives for the acquisition and subsequent operation of the airport include:

- Purchase of the airport by end March 2019;
- The attraction of 10 additional routes by 2022; of which:
  - **50% are chartered; and**
  - **50% are scheduled.**
- The attraction of a low cost carrier by 2022;
- The increase in freight tonnage to 500 tonnes per annum by 2023;
- The tenfold increase in passenger numbers by 2023, of which:
  - **25% are business passengers;**
  - **75% are recreational passengers**
- Increase the propensity of Tees Valley residents to fly to the national average of 3.41 flights per annum;

Conclusion

2.91 The airport is currently operating at a loss, with declining passenger movements and negligible freight activity, at a time when neighbouring airports within the wider North of England are continuing to grow at or above national trend.

2.92 There is a need for public intervention to avoid closure of a strategic asset and the consequent reduction in annual output of £57.4 million or 1,145 jobs (including 634 jobs and £33m of output directly related to the airport) across the region.

2.93 Devolved administrations like the Welsh and Scottish Governments have recognised the strategic importance of airports. The Welsh Government has brought back into public control Cardiff on the principal of ensuring sustainable regional economic growth. Cardiff has significantly improved through a combination of public ownership and subsequent partnering with an experienced (private sector) airport management company.

2.94 Although it is possible the airport may continue to require an ongoing direct financial subsidy it will have a sizeable positive economic impact on the region. Failure to support the airport will deprive the region of a significant economic asset.

3. Economic Case

Introduction

3.1 This section sets out the proposed options related to the provision of an airport within the Tees Valley.

3.2 The section is structured as follows:

- Options Development;
- Long-list of Options;
- Short- Listing of Options;
- Economic Appraisal:
  - **Costs;**
  - **Benefits;**
  - **Non-Monetary Assessment; and**
  - **Risk Assessment**
- Preferred Option.

Options Development

3.3 When drafting the long list of options consideration was given to two principal factors: ownership structure/control and the expertise of possible delivery partners. Consequently, the following long list of options has been developed:

Options	Description
Option 1: Status Quo Option: Peel continues to run the airport and it closes in 2021	This option makes the following assumptions: • Airport continues to make a loss; • The airport function closes; • Peel decides to develop the former airport site for residential purposes.
Option 2: Do something: Peel are supported to deliver a turnaround plan	This option identifies the ongoing financial problems faced by Peel and provides financial support to ensure the continued operation of the airport. The option assumes that Peel still have the inclination to operate the airport and that they have the discretion to use funds provided by the public sector.
Option 3: Do something: Peel are bought out by another commercial organisation	This option assumes a third party commercial organisation recognises the potential financial viability of the airport, purchases it for the market rate and subsequently operates it without public subsidy. It must be noted that the airport function is currently operating at a loss.

Option 4: Do something: Public sector becomes the majority shareholder of the airport, with Peel retaining a minority share	This option assumes that the public sector is free to purchase a controlling share of the airport from Peel, who are also minded to have a minority shareholding and to continue managing the airport. This would mean Peel ceding overall control of the airport and continuing to have to fund (at a lower rate) ongoing losses.
Option 5: Do something: The Combined Authority takes lease of airport and operates it	This option assumes that Peel are minded to lease (for a defined period – circa 10 years) the airport to the Combined Authority who subsequently operate it. This option means that all risk is transferred to the Combined Authority without the benefit of having an asset for potential resale, if the airport cannot be turned around.
Option 6: Do something: The Combined Authority buys airport and operates it	This option assumes that Peel are minded to sell the airport to the Combined Authority who subsequently operate it. Responsibility rests with the Combined Authority, however they do have an asset for potential resale.
Option 7: Do something: The Combined Authority buys airport and sub-contracts out management to a third party;	This option assumes that Peel are minded to sell the airport to the Combined Authority and that the Combined Authority has a partner jointly responsible for developing the airport proposition. Although the Combined Authority will still incur risk, the inclusion of a specialist partner mitigates a number of operational issues such as the ability to attract additional routes and ensuring regulatory compliance.
Option 8: Do something: The Combined Authority buys airport with a third party investor under a joint venture who also act as an operating partner	This option assumes that Peel are minded to sell the airport to the Combined Authority and a third party investor, who is also responsible for developing the airport proposition. The cost of purchasing and subsequently running the airport are shared between the Combined Authority and the third party investor and the inclusion of a specialist partner mitigates a number of operational risks such as the ability to attract additional routes and ensuring regulatory compliance.
Option 9: Do something: Allow the airport to close and establish a new airport on another site	This option assumes that Peel close the airport and that in order to ensure access to an aviation function within the region, a new airport is developed. Since there is no existing alternative within the region, this necessitates the purchase of a site, the provision of infrastructure, ensuring regulatory compliance and subsequent promotion of a new brand and entity. It is anticipated that such a replacement airport would take between 10-15 years to be developed and could cost in the region of £200-250 million[7]. UK airport construction is likely to cost considerably more than this.

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[7] Based on Department for International Development estimates for the construction of a new airport (2018).

Short Listing of Options

3.4 The table below shows the identified options assessed against the SMART Objectives and Critical success factors outlined in the strategic case section. Any option which does not score yes against each criteria has not been shortlisted:

	Option 1	Option 2	Option 3	Option 4	Option 5	Option 6	Option 7	Option 8	Option 9
Critical Success factors									
Greater consumer choice:	No	Yes	Yes	Yes	No	No	Yes	Yes	No
Financial viability:	No	Yes	No	No	No	No	Yes	Yes	No
Ensure wider economic impact: can be delivered	No	Partial	No	Yes	Yes	Yes	Yes	Yes	No
Timeliness of delivery:	No	Yes	Yes	Yes	No	No	Yes	Yes	No
Regulatory compliance:	No	Yes	Yes	Yes	No	No	Yes	Yes	No
SMART Objectives									
Purchase of the airport by March 2019;	No	No	No	No	No	No	Yes	Yes	No
The attraction of a low cost carrier by 2022;	No	Yes	No	No	No	No	Yes	Yes	No
The tenfold increase in passenger numbers by 2023	No	Yes	No	No	No	No	Yes	Yes	No
The increase in freight tonnage up to 500 tonnes per annum by 2023;	No	Yes	No	No	No	No	Yes	Yes	No

SHORTLISTED:

Option 1: Status Quo Option: Peel continues to run the airport and it closes in 2021;

Option 2: Do something: Peel are supported to deliver a turnaround plan;

Option 7: Do something: The Combined Authority buys airport and sub-contracts out management to a third party; and

Option 8: Do something: The Combined Authority buys airport with a third party under a joint venture - this company also acts as an operating partner.

NOT SHORTLISTED

- **Option 3:** Do something: Peel are bought out by another commercial organisation:

Rationale: Given the current financial position it is highly unlikely that another commercial organisation would choose to invest in the airport without public subsidy.

- **Option 4:** Do something: Public sector becomes the majority shareholder of the airport with Peel retaining a minority shareholding;

Rationale: This option is highly unlikely as there is little appetite by Peel to become a junior partner and at the same time continue to share the ongoing costs and risks of operating an airport they wish to close.

- **Option 5:** Do something: The Combined Authority takes lease of the airport and operates it;

Rationale: This is not considered further due to concerns regarding deliverability and the fact that the Combined Authority only gains risk but does not get a tangible asset.

- **Option 6:** Do something: The Combined Authority buys airport and operates it itself;

Rationale: This has been rejected due to concerns regarding deliverability i.e. Combined Authority does not have the capacity or capability to run an airport.

- **Option 9:** Do something: Allow the airport to close and establish a new airport on another site.

Rationale: This has been rejected due to concerns regarding deliverability i.e. the capital costs are entirely prohibitive, build out would take at least ten years, and it would require the availability of a suitable site for development - this is unlikely to be available.

SENSITIVITY ANALYSIS

3.5 Where deemed relevant, short-listed options will be assessed against the following scenarios developed by ICF (which include costs and benefits):

- **Scenario 1: Organic:** It is assumed that DTVA's market share remains constant relative to its North East peers and grows at the market rate. This scenario reflects no material change to how DTVA operates today with growth coming as a result of improvements to load factors on existing routes and marginal increases in capacity;
- **Scenario 2: Seasonal/Regional:** It is assumed that more active management allows DTVA to attract seasonal services, bringing its service levels to the standard seen at other UK airports. It is also assumed that DTVA attracts a regional operator to better service the domestic and short haul market. For this scenario, ICF have adopted a bottom up approach at the route level based on regional demand and benchmarking to other UK airports;
- **Scenario 3: Low Cost Carrier (LCC):** It is assumed that driven management is able to attract an established LCC from a regional competitor airport to DTVA. It is assumed that the carrier moves all operations to DTVA over a two year period, with minor disruption to its market share. It is assumed that regional operations are established in addition to the LCC traffic, but at a lower throughput given the competition from the LCC operator. It is assumed that the LCC provides services to cater for the summer seasonal demand and that therefore only a limited charter operation remains at DTVA outside the LCC's network.

COSTS

3.6 For each shortlisted option, the associated cash flows have been reviewed over a thirty five year appraisal period.

3.7 As per Green Book Guidance, the economic case considers all quantifiable costs, benefits and risks from the perspective of society as a whole – the public, private and third sectors. Outlined below are the estimated high-level capital and revenue costs and the benefits associated with each of the short-listed options.

Option 1: Status Quo Option: Peel continues to run the airport and it closes in 2021

3.8 There is no direct cost to the public purse, however Peel would still incur losses up until 2021.

Option 2: Do something: Peel are supported to deliver a turnaround plan

3.9 This option is based on a submission made by the Combined Authority to DTVA in 2017: 'Creating a sustainable flourishing airport: A development programme for growth at Durham Tees Valley Airport.' It involved funding for the following actions:

- Establishing a growth trajectory for Durham Tees Valley Airport and ensuring long term financial sustainability by 2021;
- Retaining existing flights, establishing new routes and paving the way for the re-establishment of flights to an expanded Heathrow;
- Establishing Durham Tees Valley as a business growth hub, opening up new sites for business to locate near a successful international gateway;

- Developing a successful new community around the Airport, with excellent transport connections and community facilities; and
- Strengthening the partnership between the Airport, Peel Group, the Combined Authority and the Councils and the wider community.

3.10 The capital and operating costs of Option 2 **over a thirty five year appraisal period** are summarised in the table below. Note: these figures are presented in nominal terms:

Area of investment	Nominal Cost
Route development fund (£0.5m per annum for four years)	£2m
Total	**£2m**

Option 7: Do something: The Combined Authority buys airport and sub-contracts out management to a third party

3.11 The capital and operating costs of Option 7 over a thirty five year appraisal period are summarised in the table below. Note: these figures are presented in nominal terms for each of the three scenarios identified by ICF (the difference between Option 7 and Option 8 is the inclusion of payment for third party delivery partner).

Scenario 1 Area of Investment	Nominal Cost (£000's)
Aeronautical Revenue	116,795
Non Aeronautical Revenue	87,229
Total Revenue	**204,023**
Staff Costs	116,433
Non staff costs	145,951
Support Initiative	0
Payment for Third party (based on 10% staff costs)	26,238
Total Costs	**288,622**
Airport Capex	**15,000**
Purchase Cost	**40,000**
Overall Total	**547,645**

Source: ICF – see appendix 1

Scenario 2 Area of Investment	Nominal Cost (£000's)
Aeronautical Revenue	129,181
Non Aeronautical Revenue	116,845
Total Revenue	**246,026**
Staff Costs	116,433
Non staff costs	159,010
Support Initiative	3,123
Payment for Third party (based on 10% staff costs)	27,856
Total Costs	**306,422**
Airport Capex	**15,000**
Purchase Cost	**40,000**
Overall Total	**607,448**

Scenario 3 Area of Investment	Nominal Cost (£000's)
Aeronautical Revenue	330,276
Non Aeronautical Revenue	278,826
Total Revenue	**609,103**
Staff Costs	286,027
Non staff costs	228,276
Support Initiative	21,417
Payment for Third party (based on 10% staff costs)	53,572
Total Costs	**589,292**
Airport Capex	**25,000**
Purchase Cost	**40,000**
Overall Total	**1,263,395**

Source: ICF – see appendix 1

Option 8: Do something: The Combined Authority buys airport with a third party investor under a joint venture who also act as an operating partner

3.12 The capital and operating costs of Option 8 over a thirty five year appraisal period are summarised in the table below. Note these figures are presented in nominal terms for each of the three scenarios identified by ICF:

Scenario 1 Area of Investment	Nominal Cost (£000's)
Aeronautical Revenue	116,795
Non Aeronautical Revenue	87,229
Total Revenue	**204,023**
Staff Costs	116,433
Non staff costs	145,951
Support Initiative	0
Total Costs	**262,384**
Airport Capex	**15,000**
Purchase Cost	**40,000**
Overall Total	**521,407**

Source: ICF Assumptions – see appendix 1

Scenario 2 Area of Investment	Nominal Cost (£000's)
Aeronautical Revenue	129,181
Non Aeronautical Revenue	116,845
Total Revenue	**246,026**
Staff Costs	116,433
Non staff costs	159,010
Support Initiative	3,123
Total Costs	**278,566**
Airport Capex	**15,000**
Purchase Cost	**40,000**
Overall Total	**579,592**

Source: ICF Assumptions – see appendix 1

Scenario 3 Area of Investment	Nominal Cost (£000's)
Aeronautical Revenue	330,276
Non Aeronautical Revenue	278,826
Total Revenue	**609,103**
Staff Costs	286,027
Non staff costs	228,276
Support Initiative	21,417
Total Costs	**535,720**
Airport Capex	**25,000**
Purchase Cost	**40,000**
Overall Total	**1,209,823**

Source: ICF Assumptions – see appendix 1

Benefits

3.13 This section outlines the quantifiable benefits of each of the proposed options in relation to:

- Gross Value Added (GVA); and
- Employment.

3.14 For each of the 'do something options' the benefits are initially analysed separately for the airport.

3.15 We have also made the following assumptions in terms of additionality in line with earlier reports produced by Regeneris, York Aviation and ICF Consultants:

- Aviation Activities:
  - Displacement: Minimal; and
  - Leakage: 25% based on a 2004 survey of employees and their residence, referenced in Regeneris 2012.

Option 1: Status Quo Option: Peel continues to run the airport and it closes in 2021

3.16 It is assumed that there will be no benefits attributable, as the airport will close.

Option 2: Do something: Peel are supported to deliver a turnaround plan

3.17 It is assumed that benefits will only be attributable for the period up until 2021, however the impacts of all 3 scenarios will be assessed.

Option 7: Do something: The Combined Authority buys airport and sub-contracts out management to a third party

Option 8: Do something: The Combined Authority buys airport with a third party investor under a joint venture who also act as an operating partner

3.18 It is assumed that the same benefits profile will be experienced by both Options 7 and 8 as contracting out should bring with it the same benefits of having a specialist operating partner (but at a potentially higher cost and with different means of control).

NET PRESENT VALUE AND ASSESSMENT OF BCR

3.19 This section outlines the net present value and BCR for each of the do something options under each of the three listed scenarios:

Option	Scenario 1	Scenario 2	Scenario 3	Explanation
Status Quo: Peel continues to run the airport and it closes in 2021	N/A	N/A	N/A	An NPV and BCR were not considered due to the imminent closure of the airport
Option 2: Do something: Peel are supported to deliver a turnaround plan	£131m BCR 1:5.29	£146m BCR 1:5.70	£106m BCR 1:2.9	NPV and BCR were calculated for the first four years, however costs (even including the subsidy) were above revenues
Option 7: Do something: The Combined Authority buys airport and sub-contracts management to a third party	£870m BCR 1:5.07	£1,617m BCR 1:8.22	£6,033m BCR 1:16.6	35 year period, with direct and indirect benefits included
Option 8: Do something: The Combined Authority buys airport with a third party investor under a joint venture who also act as an operating partner	£876m BCR 1:5.21	£1,633m BCR 1:8.84	£6,064m BCR 1:18	35 year period, with direct and indirect benefits included

NON-MONETARY ANALYSIS

3.20 Benefits which can be quantified financially have been included in the economic appraisal and subject to cost benefit analysis (using NPV and BCR) for each option. However there are a number of benefits of the proposed acquisition which are not amenable to monetisation.

For these we have used weighting and scoring. This involves assigning weights to the criteria (from 10% to 100%) and then scoring options (from 0 to 10-0 being non-compliant and 10 indicating strong compliance) against those weighted criteria. The weighted scores are then added together and resulting totals used to rank the options. The scoring must be completed in an objective manner and the rationale behind the scores should be evidenced.

NON-MONETARY CRITERIA

Criteria	Explanation	Weighting
Pride in the region and its institutions	Demonstrates the validity of devolution	25%
Innovation	Provides opportunities to test new technologies in a regulated environment	25%
Creating a positive investment climate	Highlights a region open to trade and investing in key infrastructure	25%
Environment and sustainability	Provides more sustainable travel solutions, as Tees Valley residents will not need to travel to out of region airports	25%

3.21 The criteria have been assessed and a score applied to better understand the relative non-monetary value of each of the options.

NON-MONETARY ASSESSMENT

Criteria	Max Score	Score/Weighted score			
		Option 1	Option 2	Option 7	Option 8
Pride in the region and its institutions	250	0	100	250	250
Innovation	250	0	100	200	250
Creating a positive investment climate	250	0	100	200	250
Environment	250	0	100	200	250
Total	1,000	0	400	850	1,000
Ranking		4th	3rd	2nd	1st

PRIDE IN THE REGION AND ITS INSTITUTIONS

3.22 Option 8 scored highest for this aspect as it demonstrated a region which was able to develop robust institutional solutions which were partnered and therefore validated by active engagement with the private sector (and preferably a national level partner). Option 7 scored second highest as it proved the benefits of devolution in being able to provide innovative solutions to emerging constraints, but lacked the direct private sector buy-in.

3.23 Option 2 scored third highest, as the airport was still in place, but there was not the same ability to control policy direction and delivery at the airport. Finally Option 1 did not score as the closure of the airport would have significant impacts on regional pride in place and the ability of institutions to develop innovative solutions.

INNOVATION

3.24 Option 8 scored highest as it married maximum policy control on the part of the Combined Authority with the innovative actions of a motivated partner. Option 7 scored second highest, as although the Combined Authority can set the policy agenda the sub-contracting to a third party limits the degree of innovation from two perspectives: it depends on the Combined Authority setting the innovation agenda for subsequent delivery and secondly the flexibility of the contract and how willing a delivery partner is to be innovative. There were concerns that this option may not provide significant opportunities to motivate the delivery partner.

3.25 Option 2 scored third highest, as Peel would be in control and although the Combined Authority could influence through directed spending, ultimately Peel has the final discretion as to what would be delivered. Finally Option 1 did not score as the closure of the airport would deliver no innovation.

CREATING A POSITIVE INVESTMENT CLIMATE

3.26 Option 8 scored highest for this aspect as it demonstrated a region which had a positive investment climate validated by active investment in the airport by a third party. Option 7 scored second highest as it still provided a functioning airport, but was actively directed at supporting inward investment activities.

3.27 Option 2 scored third highest, as the airport was still in place, but there was not the same ability to control policy direction and delivery at the airport. Finally Option 1 did not score as the closure of the airport would have significant impact on accessibility to the region.

ENVIRONMENT

3.28 Option 8 scored highest as it married maximum policy control on the part of the Combined Authority with the innovative actions of a motivated partner, which in this case would be directed at supporting the environment. Option 7 scored second highest, although the Combined Authority can set the policy agenda the sub-contracting to a third party limits the degree of environmental control from two perspectives: it depends on the Combined Authority setting an informed environmental agenda for subsequent delivery and secondly the flexibility of the contract and how willing a delivery partner is to be environmentally sustainable. There were concerns that this option may not provide significant opportunities to motivate the delivery partner.

3.29 Option 2 scored third highest, as Peel would be in control and although the Combined Authority could influence through directed spending, ultimately Peel has discretion over what would be delivered. Finally Option 1 did not score as the closure of the airport would cause significant displacement of activity (and hence a wider negative environmental impact).

RISK ASSESSMENT

3.30 There are a number of risks that could impact on the delivery of the project. This assessment considered the risk and uncertainties in relation to the short listed options. The shortlisted options have been assessed against the following risks:

- Timeliness of delivery;
- Compliance with regulatory environment;
- Ability to gain Cabinet/Local Authority buy-in;
- Ability to attract a Low cost carrier and so reach passenger targets;
- Ability to develop the commercial property proposition; and
- Ability to develop a sustainable long term partnership.

3.31 The tables below outline the assessment of options scored against the risk criteria in terms of likelihood and impact. A RAG rating system has been used with scores allocated to allow quantification of assessment.

Red= 5 High Risk	Amber= 3 Moderate Risk	Green = 1 Low Risk

Timeliness of delivery;

Option	Description	Probability	Impact	Score
Option 1	This option will result in the closure of the airport	H	H	10
Option 2	This option can be delivered within a reasonable timeframe, but it does not guarantee the continued presence of the airport	H	H	10
Option 7	There may be a delay in delivery due to the need to procure a delivery partner	M	H	8
Option 8	There may be a delay in delivery due to to need to identify a partner	H	M	8

Compliance with regulatory environment;

Option	Description	Probability	Impact	Score
Option 1	This option will result in the closure of the airport	H	H	10
Option 2	An experienced body runs the airport, who are cognisant of the regulatory environment.	L	M	4
Option 7	An experienced body runs the airport, who are cognisant of the regulatory environment.	L	M	4
Option 8	An experienced body runs the airport, who are cognisant of the regulatory environment.	L	M	4

Ability to gain Cabinet/Local Authority buy-in;

Option	Description	Probability	Impact	Score
Option 1	This option will result in the closure of the airport and would not be favourable to the cabinet	H	H	10
Option 2	This has been to date the preferred option of the Cabinet	L	L	2
Option 7	This may increase the concern of the Cabinet as there is less sharing of risk.	H	H	10
Option 8	This option may mitigate some of the concern of the Cabinet in particular the need to robustly commercialise the airport	M	M	6

Ability to attract a Low cost carrier and so reach passenger targets;

Option	Description	Probability	Impact	Score
Option 1	This option will result in the closure of the airport and so will not meet the core objective.	H	H	10
Option 2	The continuing involvement of a less motivated partner limits the ability to meet this target.	M	M	6
Option 7	Although the procurement of a specialist partner would assist delivery, their impact may be partially impaired due to contractual terms of reference and their degree of buy in to the process, which may involve medium term commitment.	L	M	4
Option 8	This would include the active engagement of an informed delivery partner who has shared interest in success.	L	L	2

Ability to develop the commercial property proposition

Option	Description	Probability	Impact	Score
Option 1	This option will result in the closure of the airport and so will not meet the core objective.	H	H	10
Option 2	The continuing involvement of a less motivated partner limits the ability to meet this target.	M	M	6
Option 7	Although the procurement of a specialist partner would assist delivery, their impact may be partially impaired due to contractual terms and their degree of buy-in to the process, which may involve a longer term commitment.	L	M	4
Option 8	This would include the active engagement of an informed delivery partner who has shared interest in success.	L	L	2

Ability to develop a sustainable long term partnership				
Option	Description	Probability	Impact	Score
Option 1	This option will result in the closure of the airport and so will not meet the core objective.	H	H	10
Option 2	The continuing involvement of a less motivated partner limits the ability to meet this target.	M	M	6
Option 7	Although the procurement of a specialist partner would assist delivery, their impact may be partially impaired due to either terms of reference and their degree of buy in to the process.	L	M	4
Option 8	This would include the active engagement of an informed delivery partner who has shared interest in success.	L	L	2

3.32 The table below provides a summary of the scoring of each option against each risk as identified above:

Risk	Score			
	Option 1	Option 2	Option 7	Option 8
Timeliness of delivery;	10	10	8	8
Compliance with regulatory environment.	10	4	4	4
Ability to gain Cabinet/ Local Authority buy-in.	10	2	10	6
Ability to attract a Low cost carrier and so reach passenger targets;	10	6	4	2
Ability to develop the commercial property proposition.	10	6	4	2
Ability to develop a sustainable long term partnership.	10	6	4	2
Total	60	34	34	24
Position	4th	=2nd	=2nd	1st

Preferred Option

3.33 The following table provides an assessment leading to the identification of the preferred option for each of the shortlisted do something options:

	Option 1	Option 2	Option 7	Option 8
Net present value	N/A (4th)	£106-£146m BCR: 1:2.9 – 1:5.70	£870M- £6BN BCR: 1:5.07 – 1:16	£876M -£6BN BCR: 1:5.21 – 1:18
Non-monetary benefits	0 (4th)	400 (3rd)	850 (2nd)	1,000 (1st)
Qualitative Risk Assessment	60 (4th)	34 (=2nd)	34 (=2nd)	24 (1st)
Overall ranking	4	3	2	1

3.34 Option 8 is the preferred option and has the key characteristics:

- Recruitment for a commercial partner by March 2019;
- Purchase of the airport by March 2019;
- The attraction of 10 additional routes by 2022; of which:
  - **50% are chartered; and**
  - **50% are scheduled.**
- The attraction of a low cost carrier by 2022;
- The increase in freight tonnage up to 500 tonnes per annum by 2023;
- The tenfold increase in passenger numbers by 2023, of which:
  - **25% are business passengers**
  - **75% are recreational passengers**
- Increase the propensity of Tees Valley residents to fly to the national average of 3.41 flights per annum;

4. Commercial Case

Introduction

4.1 This section of the business case examines the commercial implications, actions and responsibilities associated with the purchase of the airport.

4.2 The Commercial Case sets out the main commercial activity that is required and assumes that final arrangements are concluded with the preferred operator. If this is not the case, the Commercial Case will need to be revised accordingly.

Commercial Strategy

4.3 This section of the Business Case sets out the negotiated arrangements which can be summarised as follows:

JOINT VENTURE STRUCTURE

4.4 The Combined Authority will acquire the 89% shareholding in Durham Tees Valley Airport Limited ("DTVAL") from Peel Investments (DTVA) Limited ("Peel").

4.5 Ideally at the same as the acquisition above takes place, or shortly thereafter, the Combined Authority and its preferred operator ('the Parties') will enter into a Shareholders' Agreement ("SHA") and the Combined Authority will:-

- transfer a maximum of 25% of its equity interest in DTVAL to the preferred operator; and
- establish a new company, which is a wholly owned subsidiary of the company in which the Combined Authority and the preferred operator hold shares ('Opco').

4.6 The preferred operator will have oversight of Opco activities on a fully transparent basis.

JOINT VENTURE FUNDING

4.7 The Combined Authority will fund the purchase the shareholding in DTVAL on a fully recoverable basis either through a loan or through a preferential dividend arrangement.

4.8 Working capital to fund DTVAL's operational requirements will be provided on a loan basis from the Combined Authority, and will be capitalised on a rolling 3 year basis with the preferred operator meeting its share of those losses at each 3 year point, in accordance with the provisions set out below.

AIRPORT OPERATIONS

4.9 The Parties will negotiate a transitional support agreement with Peel to ensure a smooth transition from the outgoing operator (Peel) to the preferred operator. Core operational requirements can continue to be met by DTVAL management team during this interim period with additional support from Peel under the transitional support agreement.

4.10 Opco will be granted a contract to manage the Airport (DTVAL) on its behalf. This contract will be for a ten year period initially, renewable with consent from both parties.

4.11 The fee to the preferred operator for those management services will be a fixed fee set at 10% of the year 1 base costs, which will be agreed through due diligence.

4.12 The parties will agree the following:-

- a Site Development Plan; and
- a 5 Year Business Plan reviewable annually.

4.13 To incentivise the preferred operator to manage the Airport efficiently and on the basis of reduced losses/increased profit it is envisaged that:-

- reductions achieved from the base costs at year 1 will be shared equally between the parties; and
- there will be a rolling 3 year review of losses – i.e. at the end of the 3 year period, the Preferred Operator will have the option to meet its share of any losses, or have its equity share at that time reduced by an equivalent percentage.

REQUIRED OUTCOMES

4.14 The key contractual outcomes required from this Project are the completion of:

- a Joint Venture Agreement;
- Loan Agreements to fund the operating costs and capex requirements for a ten year period (and to fund the purchase of Peel's shares where a preferential dividend approach is not taken);
- a Transitional Services Agreement, pursuant to which Peel agree to continue to provide certain support services until the preferred operator can put the necessary arrangements in place to take over service provision; and
- an Operating Contract pursuant to which the preferred operator agrees to operate the Airport on behalf of Holdco in accordance with an agreed 5 Year Business Plan.

AGREED RISK TRANSFER

4.15 The general principle is that risk is passed to 'the party best able to manage it', subject to value for money.

4.16 We intend to apportion risks under the contract as follows:

Risk Category	Comments	Potential allocation		
		Public	Private	Shared
1. Transition and implementation risk	• Peel to provide transitional services • Preferred operator (via Opco) to manage implementation as operator • Preferred operator experienced in handover from previous operator		✓	
2. Performance risk	• Preferred operator responsible for day to day operation and performance in accordance with business plan • Combined Authority and Preferred operator share responsibility for setting long term strategic business plan • Ultimately both JV partners share losses			✓
3. Operating risk	• Preferred operator responsible for day to day operation and performance • Operating losses are shared			✓
4. Variability of revenue risks	• Preferred operator receive the same operation fee regardless of level of revenue • Operating losses are shared			✓
5. Termination risks	• If Preferred operator were to terminate the operating agreement, the Combined Authority continued operations at the airport	✓		
6. Technology and obsolescence risks	• Preferred operator are responsible for operating the airport in accordance with the business plan for the agreed fee • Operating losses are shared			✓
7. Residual value risks	• The residual value of the land for mixed use exceeds the value of the land as an airport • Parties will share the losses under the joint venture arrangement			✓
8. Financing risks	• Combined Authority to fund operation through loans	✓		
9. Legislative risks	• Preferred operator are responsible for operating the airport in accordance with the business plan for the agreed fee • Operating losses are shared			✓

4.17 Project risks are set out in the risk register included in the Management Case.

AGREED PAYMENT MECHANISM FOR SERVICE PROVISION

4.18 The payment mechanism agreed with the Operator under the Operating Concession Contract is a monthly payment which represents 10% of the agreed base annual operating cost of the Airport.

4.19 The Operator will operate the Airport in accordance with an agreed 5 Year Business Plan.

4.20 Working capital to fund the joint venture's operational costs will be provided by loans from the Combined Authority. To incentivise the Operator to operate the Airport efficiently and on the basis of reduced losses/increased profit:

- reductions achieved from the base costs at year 1 will be shared equally between the parties; and
- there will be a rolling 3 year review of losses – i.e. at the end of the 3 year period, Preferred operator will have the option to meet its share of any losses, or have its equity share at that time reduced by an equivalent percentage.

4.21 In this way if Preferred operator fail to operate the Airport in a way which achieves the agreed annual income target over the course of the ten year operating concession contract their shareholding in the joint venture company shall be adjusted so as to make good the loss.

AGREED CONTRACT LENGTH

4.22 The agreed length of the operating concession contract is 10 years. This is considered to be the optimal contract length as it gives sufficient time for the Airport to start to turnaround its prospects and does not require the parties to be tied in for the medium to long term if the arrangement does not operate as successfully as anticipated by the agreed Business Plan.

KEY CONTRACTUAL CLAUSES

4.23 The key contractual clauses in each key contract are as follows:

SALE AND PURCHASE AGREEMENT

- 89% of issued share capital in DTVAL to be purchased by Holdco;
- Assumed all property assets within redline owned by DTVAL in 2003 continue to be owned by DTVAL including the residential development site;
- Appropriate warranties to provide to enable Holdco to understand the extent of its potential liability under the purchase;
- Sale on a no debt/ no cash basis with [x] operational income to be left in business accounts; and
- Completion on completion of due diligence and subject to no significant alterations to the known position.

LOAN AGREEMENT

- Loan to be made by the Combined Authority to fund ongoing operation and capex as required (and possibly the share acquisition);
- Loan to be made on state aid compliant terms; and
- Loans repayable through profits and to be paid out ahead of equity in any distribution on winding-up.

JOINT VENTURE AGREEMENT

- Powers to appoint directors and voting rights to reflect relative levels of shareholding (75%:25%);
- Parties to share profits and losses pro rata to shareholding (3 year reconciliation);
- Where share purchase is funded without a loan, the Agreement will include provisions for a preferential dividend to the Combined Authority to enable it to recovery its investment.

TRANSITIONAL SERVICES AGREEMENT

- To deliver agreed Specification of Services;
- Payment terms to be agreed; and
- Key performance indicators to be agreed.

OPERATING CONCESSION CONTRACT

- Operation strictly in accordance with the agreed 5 Year Business Plan (reviewable annually);
- Deviations from plan to be agreed by the Combined Authority;
- All operative services to be provided;
- Payment terms - 10% of agreed operating cost – after benchmarking process of Peel's current cost; and
- Key performance indicators to be agreed to include appropriate maintenance growth in passenger numbers and other targets set out in Agreed 5 Year Business Plan reviewable annually.

PERSONNEL IMPLICATIONS (INCLUDING TUPE)

4.24 It is not currently envisaged that TUPE – the Transfer of Undertakings (Protection of Employment) Regulations 1981 – will apply to this project as this is a share sale. Members of staff at the Airport before the share sale will continue to be employed by the Airport once it is completed.

4.25 There are however, a number of areas in which Peel companies provided support services to the Airport and these arrangements will come to an end at the end of the Transitional Services Agreement when the Operating Concession Contract comes into force in full. There is a potential that a small number of Peel members of staff could in theory transfer to The Operator when this transfer of support services to the Airport takes place but this is currently considered unlikely/minimal.

4.26 The current pension scheme for DTVA employees is a Peel scheme and arrangements need to be put in place to establish a new scheme for the benefit of these employees.

IMPLEMENTATION TIMESCALES

4.27 The implementation milestones agreed for the scheme are as follows:-

Milestone	Date
Enter Conditional Sale and Purchase Agreement with Peel	31st January 2019
Complete Sale and Purchase Agreement	As soon as possible after 31st January 2019 and no later than end March 2019
Interim Services Agreement with Peel comes to an end and full operation passes to The Operator	To be confirmed

FRS 5 ACCOUNTANCY TREATMENT

4.28 The assets underpinning delivery of service will be on the balance sheet of the Combined Authority.

5. Financial Case

Introduction

FINANCIAL CASE

5.1 The purpose of the financial case is to ascertain the funding requirement and affordability of the proposal.

FUNDING REQUIREMENT

5.2 In establishing the funding requirement consideration must be given to both known and potential costs. The known costs largely relate to the acquisition cost, with the Business Plan setting out the potential post-acquisition costs.

5.3 In presenting the financial case the objective is to present a prudent assessment of the funding requirement taking account of a number of assumptions and scenarios.

5.4 In setting out the funding requirement there are three specific areas to consider:

- Funding the acquisition;
- Aeronautical operations; and
- Funding land and property investment.

FUNDING THE ACQUISITION

5.5 The agreed acquisition price is £40m for an 89% shareholding in Durham Tees Valley Airport Limited. The acquisition of the shares will incur Stamp Duty at 0.5% which is £200k. Therefore the total acquisition cost is £40.2m.

5.6 As set out in the commercial case, the Combined Authority will fund the share purchase and shall recover this investment over a 40 year period either by way of loan or by way of a preferential dividend arrangement in the Joint Venture Agreement.

5.7 The £40.2m funds will be used to acquire the 89% majority shareholding in Durham Tees Valley Airport Limited currently held by Peel Investments (DTVA) Limited.

5.8 Based on the Business Plan forecast it is expected that returns on this investment will commence from 2026.

FUNDING AERONAUTICAL OPERATIONS

5.9 Based on detailed analysis, key assumptions, forecasts and scenario modelling the aviation Business Plan identifies an expected short-term need for operational funding. The funding requirement will be to meet both revenue operations and capital expenditure.

5.10 The detailed supporting information for the Business Plan is set out in the report 'Durham Tees Valley Airport Business Plan - prepared by ICF, 27 September 2018.

REVENUE OPERATIONS

5.11 The aviation Business Plan financial forecast over the 10 year period 2019 to 2028 is as follows:

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Revenue	5.76	5.82	10.76	16.69	17.00	17.05	17.28	17.38	17.57	17.84	143.15
Costs	(8.44)	(8.45)	(15.33)	(20.02)	(20.36)	(19.19)	(18.06)	(16.71)	(15.35)	(15.3)	(157.21)
Surplus/(Deficit)	(2.68)	(2.63)	(4.57)	(3.33)	(3.36)	(2.14)	(0.78)	0.67	2.22	2.54	(14.06)

5.12 The Business Plan financial forecast as set out above is based on Scenario 3 of the ICF report. Key assumptions within this plan are that passenger numbers will grow to 1.61m by 2028 on the basis that the airport will secure a low cost carrier and there will be an increase in seasonal and regional operator flights.

5.13 The Business Plan forecast is that losses will continue to 2025 at a total cost of £19.4m. After this point the airport will be in annual financial surplus, which will steadily increase from £0.65m in 2026 to £4.32m in 2037. In the total plan period to 2037 the outturn forecast is £17.8m surplus.

5.14 In assessing the financial risks should passenger growth not be achieved as forecast two further financial scenarios where considered. Firstly, that a low cost carrier not secured and secondly, that there is neither growth in seasonal / regional activity nor is a low cost carrier secured. The detail of both these scenarios have been set out as Scenario 1 and 2 in the ICF report.

5.15 If a low cost carrier is not secured but growth in seasonal and regional activity is achieved as planned then passenger numbers will increase to 379k by 2028 (as set out the Scenario 2 in the ICF report). Under this scenario losses will continue throughout the first 10 years, with a total loss of £16m. The level of losses will however decline on an annual basis from £2.7m in 2019 to £0.9m by 2028. By 2037 losses are forecast at £0.4m per annum.

5.16 In the worst case scenario with neither growth in seasonal / regional activity nor a low cost carrier secured then passenger numbers will only grow organically to 167k by 2028. The financial impact of this would be a £20.6m loss over the first 10 years. The level of losses will however decline on an annual basis from £2.7m in 2019 to £1.7m by 2028. By 2037 losses are forecast at £1.4m per annum.

5.17 Based on the Business Plan and potential risks (i.e. growth scenarios 1 and 2) the Combined Authority will need to set aside a contingent funding requirement to support aviation operations of up to £20.6m. The funding requirement will be determined at the end of each financial year and be limited to actual revenue shortfall.

5.18 The required funding will be provided as loans by the Combined Authority. To ensure state aid compliance an appropriate interest rate will be applied to any loan agreement. This will also ensure that the Combined Authority recovers any financing costs.

5.19 Repayment terms will be agreed as part of the loan agreement and will include a repayment trigger mechanism linked to financial performance.

5.20 Based on the Business Plan forecast it is expected that returns on the investment will commence from 2026.

AERONAUTICAL CAPITAL EXPENDITURE FUNDING REQUIREMENTS (CAPEX)

5.21 Additional capex requirements for the airport in the next 10 years are identified in the ICF report as between £5m and £15m dependent on the level of growth. If a low cost carrier is secured estimated capex requirements are identified as between £6m and £10m in the first 10 years. If a low cost carrier is not secured then estimated capex requirements are £5m each 15 years for the periodic maintenance of the runway.

5.22 It is important to note that these capex requirements are additional to ongoing repairs and maintenance costs that are already included in the revenue costs and equate to £6.8m to 2028. ICF note that this cost is higher than their expectation and likely includes elements of capex.

5.23 Based on the Business Plan and potential risks (i.e. growth scenarios 1 and 2) it is proposed that the Combined Authority set aside a contingent funding requirement to support capex of up to £15m in the first 10 years.

5.24 The required capex funding will be provided as loans by the Combined Authority. To ensure state aid compliance an appropriate interest rate will be applied to any loan agreement. This will also ensure that the Combined Authority recovers any financing costs.

5.25 Repayment terms will be agreed as part of the loan agreement and will include a repayment trigger mechanism linked to financial performance.

5.26 Based on the Business Plan forecast it is expected that returns on the investment will commence from 2026.

POTENTIAL INVESTMENT RETURNS FROM PROPERTY AND LAND

5.27 The acquisition also provides significant opportunities for property investment returns. In addition to 470 acres of land for aviation operations, DTVA Ltd also owns a further 350 acres of developable land (known as Northside and Southside).

5.28 This land has been the subject of previous masterplans which have indicated significant economic and financial opportunities, with the potential for developing over 4 million square feet of employment space over a 20 year period and generating a rental income in excess of £30m per annum.

5.29 As with all such development it is expected that the financing will be private sector led. However, as the landholder this presents significant opportunity for financial return. Based on a market valuation of £34k per acre the Northside and Southside land is currently worth £11.6m for commercial development. Taking a developer, investor and/or landlord role in the build out may provide opportunities for further financial returns.

TOTAL FUNDING REQUIREMENT

5.30 The total funding requirement for the Combined Authority comprises a combination of fixed costs and budget provision for contingencies. It is proposed to set aside sufficient funding to meet potential contingency costs for the first 10 years. This period also aligns with the appointment of the airport operator.

5.31 Under the commercial arrangements it is expected that the operator will be responsible for a 25% share of funding for losses and capex. Within this it is also expected that the operator will have the option to either provide a cash injection to cover is share of losses and capex. Alternatively, the operator will be able to take an equivalent in share dilution. For the purposes of setting a prudent funding requirement it has been assumed that the operator will opt for the latter option and dilute their shareholdings.

5.32 Total funding requirements are summarised as:

	Business Plan	Risk: No LCC (scenario 2)	Risk: No LCC or seasonal growth (scenario 1)
Acquisition	£40.2m	£40.2m	£40.2m
Contingency for aviation operations	Up to £19.4m	Up to £16.0m	Up to £20.6m
Capex	Up to £15.0m	Up to £5.0m	Up to £5.0m
Total funding	**Up to £74.6m**	**Up to £61.2m**	**Up to £65.8m**

5.33 The total funding requirement is therefore in the range of £61.2m to £74.6m.

MANAGING THE FINANCIAL RISK

5.34 Any loans provided will be on a first charge basis and therefore the Combined Authority will be able to recover any value in the residual assets. With a total landholding of 820 acres there is potential for significant financial recovery. The most significant value in this circumstance would be through promoting the site for housing. Independent valuation has set the valuation on this basis at £41.8m.

5.35 The Business Plan requires up to £74.6m to fund acquisition, operations and capex before the airport becomes profitable and begins to repay the investment. However, this level of funding will be under the assurance that delivery against the business plan growth targets are being achieved and the Combined Authority investment will be fully repaid.

5.36 If the Business Plan growth targets are not being achieved then whilst the £40.2m investment for the acquisition will be recovered through residual land values there is a risk that loans to fund revenue and capex will not be recovered. The extent of this will be dependent on how long the airport continues to be funded. For example, assuming the airport is fully funded for the first three years and growth targets are not achieved nor expected to be achieved then a decision to close would lead to a potential loss of £8.5m.

5.37 Arrangements will be in place to ensure that there is ongoing review of performance against an agreed Business Plan. Should at any time it become clear that the financial position is becoming much worse than expected then the Combined Authority, as majority shareholder, will be able to trigger airport closure and seek to its investment through land values.

AFFORDABILITY

5.38 To achieve the Business Plan aim of securing a low cost carrier and growth on seasonal and regional flights the Combined Authority will need to provide investment of up to £74.6m. According to the Business Plan forecast, this investment will be provided across seven years from 2019 to 2025.

5.39 The revised Combined Authority Investment Plan sets out priorities for investment in the next 10 years. Within this plan £74.6m has been set aside for the airport. Overall, the Investment Plan sets out total spending to 2029 of £1.4bn, which is funded through a combination of known income streams and prudential borrowing.

5.40 It is therefore concluded that the proposals as set out in this Business Case are affordable.

6. Management Case

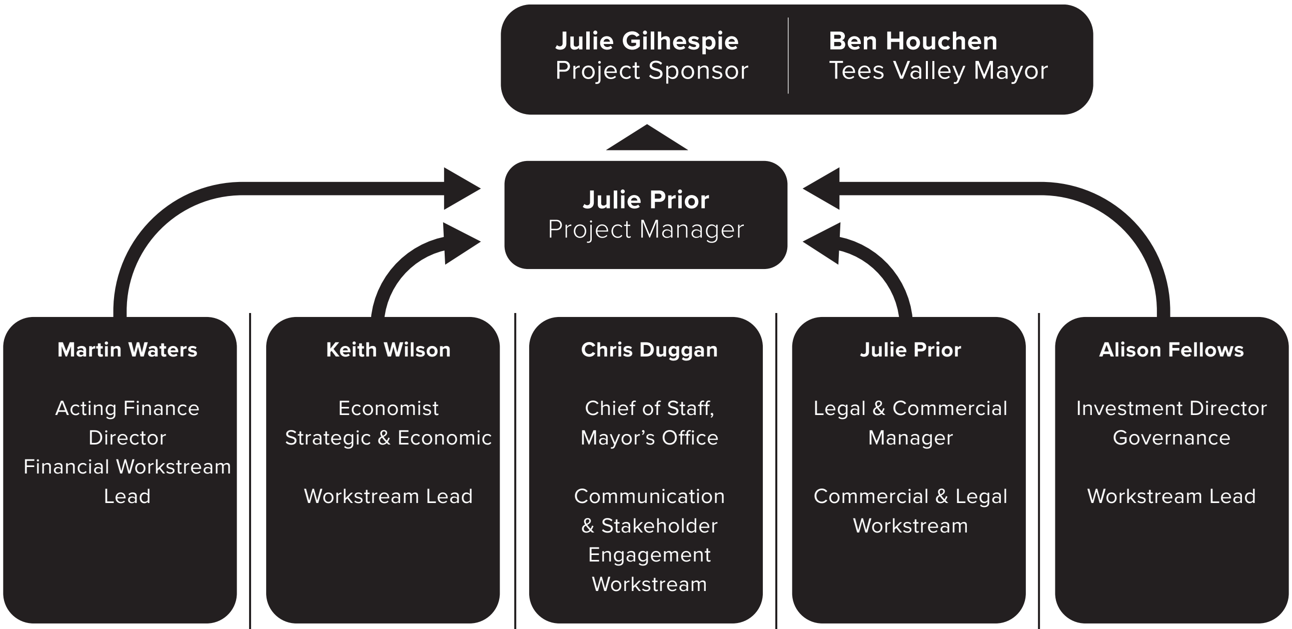
Introduction

6.1 This section of the Business Case addresses how the scheme will be delivered successfully. Part A covers the Airport Acquisition Project and Part B covers the ongoing operation of the Airport following that acquisition.

PART A: AIRPORT ACQUISITION

PROJECT REPORTING STRUCTURE

6.2 The diagram below sets out the formal arrangements for managing this element of the overall Project:



Financial Workstream

Task List

Financial and Property Advisor Appointment

Financial Due Diligence

Commercial Valuation

Business Plan
(10 & 35 year)

Financial Case

Financial Negotiations

Strategic & Economic Workstream

Task List

Public Sector Asset Valuation

Strategic Case

Economic Case

Benefits Realisations Plan

Communication & Stakeholder Engagement Workstream

Task List

Communications Plan

Reports for Stakeholders

Legal and Commercial Workstream

Task List

Legal Advisor Appointments

Commercial Case

Management Case

Sale & Purchase
Joint Venture Agreement

Operating Agreement

Commercial Negotiations

Governance Workstream

Task List

Cabinet Report

JV Governance Structure

AIRPORT ACQUISITION PROJECT - ROLES AND RESPONSIBILITIES

Role	Name	Job Title	Key Responsibilities
Project Sponsor	Julie Gilhespie	Chief Executive	Overall project delivery Sign off of all Project Documentation including key commercial decisions Any amendment to the scope of the Project as set out in the Project Initiation Document Officer lead on relationships with Peel and Preferred operator
Project Manager and Legal & Commercial Workstream Lead	Julie Prior	Legal and Commercial Manager	Day to day progress of the project in accordance with the Project Initiation Document Appointment and management of external legal advisers Preparation of Commercial Case Commercial Negotiations
Financial Workstream Lead	Martin Waters	Interim Finance Director	Preparation of Financial Case Appointment and management of external financial and property advisers Ensuring all supporting financial reports and other information are obtained Financial lead Preparation of Business Plans
Strategic & Economic Workstream Lead	Keith Wilson	Economist	Preparation of the Strategic and Economic Cases Oversight of the complete Business Case
Communication & Stakeholder Engagement Lead	Chris Duggan	Executive Officer to the Mayor	Ensuring project development is in line with political mandate Lead on communications plan Briefing stakeholders including local authority shareholders
Governance Workstream Lead	Alison Fellows	Investment Director	Preparation of Management Case Risk Register Cabinet Report

AIRPORT ACQUISITION PROJECT – PROJECT MANAGEMENT APPROACH

6.3 Comprehensive and transparent project management arrangements have been put in place as set out in the diagram above. The project will be managed in accordance with the Combined Authority's adopted project management methodology which is based on PRINCE 2 principles. The Project Manager is Julie Prior who is the Authority's Legal & Commercial Manager. The Project Team (which combines to report to the Mayor as the Project Board) meets frequently and the Project Manager maintains the Project Plan and action and issues logs, while the Governance & Workstream Lead (Investment Director) maintains the Project risk register - all these documents are reviewed at Project Team meetings. The Project Board maintains oversight of the Project, takes key decisions and resolves issues that cannot be resolved at Project Team level.

AIRPORT ACQUISITION PROJECT – PROJECT PLAN

6.4 A full project plan has been prepared for this element of the project up to Contract Close on the Sale and Purchase of the Airport. This key milestones to be achieved are as set out in the following table.

Milestone Activity	Target Date
Completion of Business Case	11th January 2019
Obtain Cabinet Approval for Business Case to Purchase Airport and to Appoint Airport Operator	24th January 2019
Enter Conditional Sale and Purchase Agreement with Peel	31st January 2019
Complete Sale and Purchase Agreement	1st March 2019
Interim Services Agreement with Peel comes to an end and operation passes to Preferred operator	1st September 2019

USE OF ADVISERS

6.5 Expert advisers have been appointed to support the Acquisition phase of the Project as follows.

Specialist Area	**Adviser**
Financial	Ernst & Young
Procurement and legal	Pinsent Masons
Property	Turner & Townsend (including work from JK Property Consultants and Lichfields)

RISK MANAGEMENT

6.6 A copy of the Acquisition Project risk register is attached at Appendix 3, and has been prepared in accordance with the Authority's Risk Management Strategy.

6.7 This lists key risks and sets out who is responsible for managing them, along with specified mitigations. The Investment Director leads on the management of the Acquisition risk register and risks are discussed at Project Team and Project Board meetings.

Benefits Realisation Plan

STAKEHOLDER MANAGEMENT

6.8 The Mayor gave a very visible manifesto pledge to take control of the Airport and it has remained a very high profile aim in the media. As well as consulting directly with the local authorities and the LEP Board, this coverage has generated a great deal of communication and discussion with many organisations, groups and individuals, including the following:

- Local MPs;
- Government (including Aviation Ministers and Secretary of State for Transport);
- Homes England;
- TfN, Network Rail, Northern Rail, TPE;
- Current Airport tenants;
- Landowners adjacent to Airport;
- Major businesses;
- SME Advisory Group;
- Tees Valley Business Club;
- CBI, NECC, Entrepreneurs Forum;
- North Yorkshire County Council;
- Teesside University;
- Tees & Hartlepool Port Users Association;
- Strategic Harbour Authority;
- M8 Metro Mayors;
- Other Airports; and
- Media.

6.9 A large volume of feedback has been generated by media coverage – via conventional communications and via social media.

6.10 Post-acquisition, airport stakeholder negotiations will be overseen by the Airport Board.

NON-ACQUISITION

6.11 In the event that the Airport Acquisition Project does not proceed for any reason, the Airport will continue to be operated by Peel under its existing governance and management arrangements.

PART B -AIRPORT MANAGEMENT POST ACQUISITION

AIRPORT MANAGEMENT ARRANGEMENTS

6.12 The parties will negotiate a transitional support agreement with Peel for a period of [x] months from the date of the DTVA Limited acquisition.

6.13 DTVA Limited will award Preferred operator a contract to manage the Airport on its behalf. This contract will be for a ten year period initially, renewable with consent from both parties.

6.14 An agreed fee will be paid to Preferred operator for those management services (see Financial Case for details).

6.15 The parties will indue course agree the following:

- an Airport Masterplan;
- a Turnaround Plan (which will include change management arrangements for the Airport's operation); and
- an annual operational Business Plan on a rolling basis.

AIRPORT GOVERNANCE ARRANGEMENTS

6.16 The Shareholders' Agreement to be entered into between DTVA and Preferred operator will be detailed and will include the usual provisions on shareholders' and directors' meetings including for managing any conflicts of interest, decision making and also dispute resolution. The Board of Directors will meet bi-monthly and will consist of [3] directors from the Combined Authority and [1] from Preferred operator, with the Board chair being one of the Combined Authority directors. The Board of Directors will have oversight of all matters relating to the operation of the Airport and the Company through normal management reporting, including (but not limited to):-

- Airport performance;
- Regulatory management;
- Business management including assets, contracts, marketing and other key business issues;
- Financial management;
- Risk management;
- HR management;
- Health & safety management;
- Property development matters; and
- Wider stakeholder engagement.

Combined Authority (as Shareholder) Governance Arrangements

6.17 The Senior Officers of the Combined Authority will be responsible for reporting on Airport management and activity in accordance with the Combined Authority's normal governance arrangements (as required in accordance with specific matters in each case), as follows:

- Transport Advisory Group;
- Tees Valley Management Group;
- Tees Valley Chief Executives' Group;
- Tees Valley Informal Cabinet;
- Tees Valley LEP Board; and
- Tees Valley Cabinet.

6.18 The following table provides a mechanism for capturing the anticipated benefits for the programme:

Benefit owner	Benefit description	Baseline	Target	How will it be measured	Dates/ Timing
Julie Gilhespie	Recruitment of a commercial partner	Output	March 2019	Signed contract	March 2019
Julie Gilhespie	Purchase of the airport	Output	March 2019	Signed contract	March 2019
Airport operator	Attraction of 10 additional routes by 2022, of which 50% are chartered; and 50% are scheduled.	2 existing scheduled routes	10 additional routes	Signed contracts	Dec 2022
Airport operator	Attraction of a low cost carrier by 2022	Output	Low cost carrier	Signed contracts	Dec 2023
Airport operator	Increase in freight tonnage up to 500 tonnes	1 tonne	500	Civil Aviation Authority records	Dec 2023
Airport operator	Tenfold increase in passenger numbers of which 25% are business passengers; and 75% are recreational passengers of whom 20% (15% of total incoming passengers do not originate from the Tees Valley)	130,000	1.3m	Civil Aviation Authority records	Dec 2022
Airport operator	Increase the propensity to fly of Tees Valley residents up to national average of 3.41 flights	1.9	3.41	Civil Aviation Authority records	Dec 2028

ARRANGEMENTS FOR ACQUISITION PROJECT REVIEW

6.19 This review will appraises how well the acquisition project itself was managed was managed and whether or not it delivered to expectations, and any lessons learned for future projects. It is timed to take place within 3 months of completion of the share acquisition.

AIRPORT OPERATION REVIEW

6.20 The Airport will be managed in accordance with the agreed Business Plan. The overall Airport Project will be evaluated after acquisition, once the agreed Business Plan has been agreed and implemented and has been running for a period of [1 year]. This evaluation will link back to the deliverables and outputs set out in this Business Case, and ascertain whether the anticipated benefits have been achieved by that point, and that arrangements are in place to make sure that longer term benefits are on track to be achieved.

Project:	**Acquisition of Durham Tees Valley Airport**		**Priority:** **Red = high** **Amber = medium** **Green = low**
Updated:	**January 2019**		
To identify matters that HAVE happened or COULD happen and which may materially impact upon the success of the project.			

	Risk Description	Risk Effects	Impact	Likelihood
1	Combined Authority is unable to reach commercially acceptable terms with Peel on sale terms	• Damage to reputation • Risk of airport closure remains	**4**	**2**
2	Delay - deal cannot be achieved by date Peel require	• Acquisition at risk • Reputational damage	**3**	**2**
3	Combined Authority strategy for managing negotiations isn’t agreed or clearly understood	• Negotiations sub-optimal • Delays to agreement • Price goes up or other terms less attractive	**3**	**2**
4	Combined Authority is unable to obtain Cabinet approval to a commercially acceptable deal to which delivers the Project:- • In the time required • At all	• Delay to acquisition • Acquisition not possible • Damage to Combined Authority reputation • Risk of airport closure remains • Abortive time and costs	**4**	**2**
5	Leak of commercial / negotiating strategy	• Negotiations sub-optimal • Delays to agreement • Price goes up or other terms less attractive	**4**	**2**
6	Communications not well managed	• Public buy-in more difficult • LA support more difficult • Reputational damage to Combined Authority	**3**	**2**
7	LA Shareholders do not waive pre-emption rights	• Delay to getting agreement to acquisition	**3**	**2**
8	Transaction cost overrun	• Increased costs – further approval required	**3**	**2**
9	Inadequate due diligence in advance of acquisition – eg level of losses, land values, turnaround plan deliverability	• Price paid turns out to have been unjustifiable • Combined Authority acquires specific risks that were unknown • Turnaround plan cannot be delivered without increased financial input • Reputational risk	**3**	**2**
10	State aid – risk of challenge	• Risk of challenge • Delays to project roll out • EU intervention • Airport operations affected • Reputational risk	**4**	**2**

IMPACT	**Critical**	**4**	🟧	🟧	🟥	🟥
	Significant	**3**	🟧	🟧	🟥	🟥
	Moderate	**2**	🟩	🟧	🟧	🟧
	Minor	**1**	🟩	🟩	🟧	🟧
Risk Rating Matrix **(RAG status)**			**1**	**2**	**3**	**4**
			Unlikely	**Possible**	**Likely**	**Almost certain**
			LIKELIHOOD			

Priority Rating	Mitigating Actions	Owner	Current RAG Status	Status (Closed)
8	• Appointing legal and financial advisers • Obtaining updated valuation • Aviation advisers already secured	**JG**	**Red**	**Open**
6	• Appointing legal and financial advisers • Obtaining updated valuation • Aviation advisers already secured	**AF**	**Red**	**Open**
6	• Restrict involvement in project • Internal team arrangements clear • Regular team meetings • Manage communications	**AF**	**Amber**	**Open**
8	• Ongoing briefings and discussions with all key stakeholders • Regular briefing of LEP Board	**JG**	**Red**	**Open**
8	• Restrict involvement in project • Manage communications	**AF**	**Amber**	**Open**
6	• Agree & implement comms strategy • Monitor comms closely	**NS**	**Amber**	**Open**
6	• Obtain advice from Legal Manager, Monitoring Officer and from external advisers • Seek to agree terms for ongoing participation in DTVAL	**JP**	**Amber**	**Open**
6	• Project plan in preparation, including project budget • Monitor estimates and spend closely	**MW**	**Amber**	**Open**
6	• Due diligence arrangements in train – advisers selected and appointed	**MW**	**Amber**	**Open**
8	• Take legal advice on purchase and JV/operational arrangements • Ensure structure is state aid compliant	**JP**	**Amber**	**Open**

TEES VALLEY
COMBINED
AUTHORITY

TEES VALLEY MAYOR

Cavendish House, Teesdale Business Park
Stockton-on-Tees, Tees Valley, TS17 6QY

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Durham Tees Valley Airport

Business Plan

27
September,
2018

Prepared for:

TEES VALLEY
COMBINED
AUTHORITY

ICF

SCOPE OF WORK

- ICF have been engaged by Tees Valley Combined Authority (TVCA, “the Combined Authority”) to provide an independent forecast for Durham Tees Valley Airport (DTVA). TVCA is considering the potential for greater involvement in the future management and/or ownership of DTVA.
- In conducting our analysis we have made use of the following:
  - Information provided by TVCA
  - UK Civil Aviation Authority (CAA) data
  - Public information
  - Industry publications and databases including OAG
  - Our own extensive experience within the sector

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Opportunities

Issue	Comment	Mitigation/Next Steps
Service summer seasonal holiday market	▪ Aside from a new entrant this summer, solely serving Bulgaria, Durham does not serve the summer holiday market, unlike its regional competitors where the summer forms a significant proportion of annual traffic at both Newcastle and Leeds Bradford.	▪ Start discussions with charter and LCCs to serve a summer holiday market
Secure an airline to base aircraft at Durham	▪ Newcastle and Leeds Bradford both benefit from significant aircraft based at the airports. Whilst Durham may not achieve the throughputs of either, a based airline would serve local demand effectively.	▪ flybe's deal at Doncaster Sheffield is, we understand, nearing the end of its initial term. flybe may, potentially, be attracted to Durham ▪ easyJet has seen its market share erode at Newcastle and may be attracted to Durham where it would not face direct competition either from Ryanair or Jet2
Lower staff cost	▪ DTVA employs over 75 FTEs at a high unit cost for the region. The distribution of staff does not also appear to be overly efficient between functions. Depending on political sensitivities, a reduction in FTEs may be possible.	▪ Determine an efficient and appropriate organisation structure and optimise staffing to the size of the operation
Higher commercial revenue	▪ Terminal concession revenue is currently low with potential in growth scenarios to approach an industry benchmark level of performance	▪ Introduce a specialist concession operator to optimise performance
Higher hotel revenue	▪ The hotel currently operates at a loss in most years. Moving to a third-party operated, concession fee earning model would improve performance.	▪ Introduce a specialist operator to optimise performance

Risks

Issue	Comment	Mitigation/Next Steps
Significance of car parking revenue	▪ Car parking currently represents 10% of non-aeronautical income, forecast to increase to 30-50% depending on scenario (given the assumption that certain other revenue streams are held constant). Revenue would therefore be sensitive to off site competition or shift in modal share away from private car.	▪ Ensure the on-site parking product is attractive, efficient and an attractive option ▪ Encourage planning policy to presume against off-site car parking developments
Reliance on land lease and tenant recharges revenue	▪ Property related revenues currently account for 50% of revenue. An increase has not been forecast as we understand the Combined Authority is consider property opportunities separately, but DTVA's over all profitability is sensitive to its property performance.	▪ Protect and develop property revenues
Reliance on fuel margin and therefore on Cobham	▪ Similarly, the fuel operation achieves a substantial margin, but is, we understand, reliant on a single principal operation.	▪ Diversify fuel clients
Reliance on Cobham	▪ Through its dominance of fuel revenue, plus its property revenues, Cobham contributes significantly to DTVA's profitability.	▪ Protect Cobham's operation
FTEs, albeit with changed functions, can handled 500,000 passengers per year	▪ We assume a reduction in head count immediately the airport is taken-over by the Combined Authority, and that the resulting FTEs can handle c 500,000 passenger per year. This assumes some redeployment of staff within the over all head count, but failure to achieve this would increase staff costs.	▪ Establish effective staff relations ▪ Provide necessary training

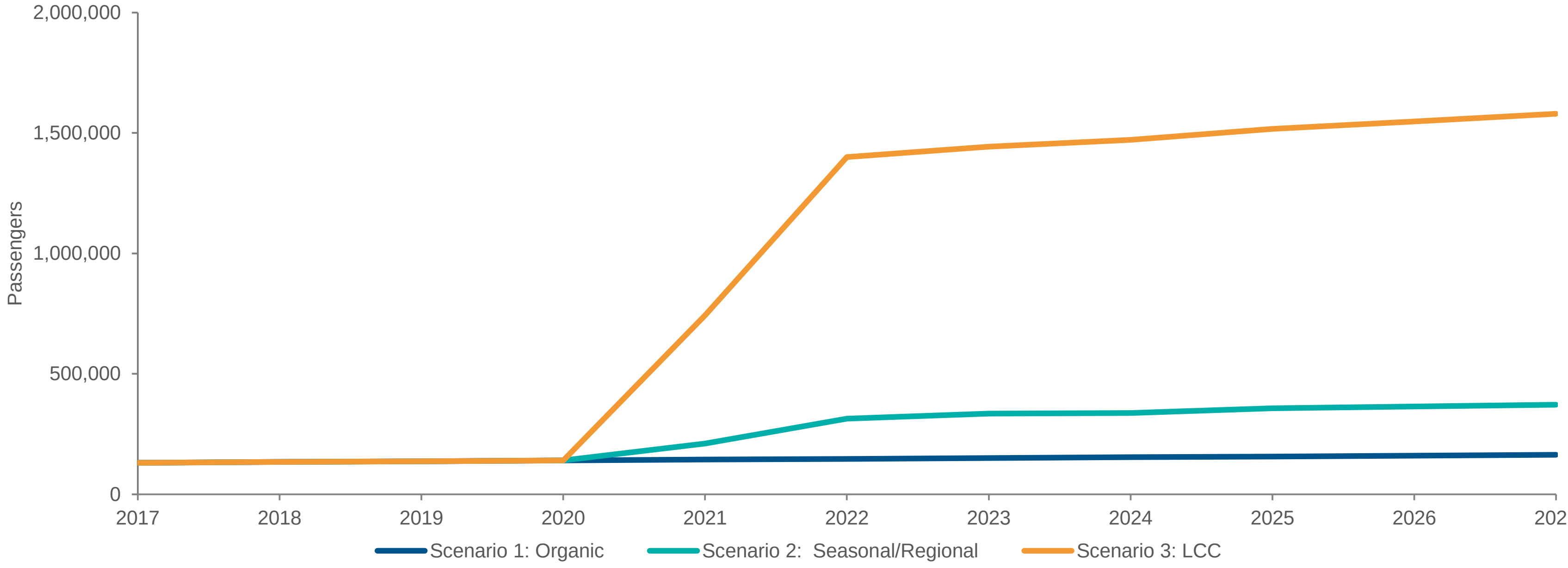
TRAFFIC

ICF Forecast Summary

SUMMARY

(Financial year ending March)

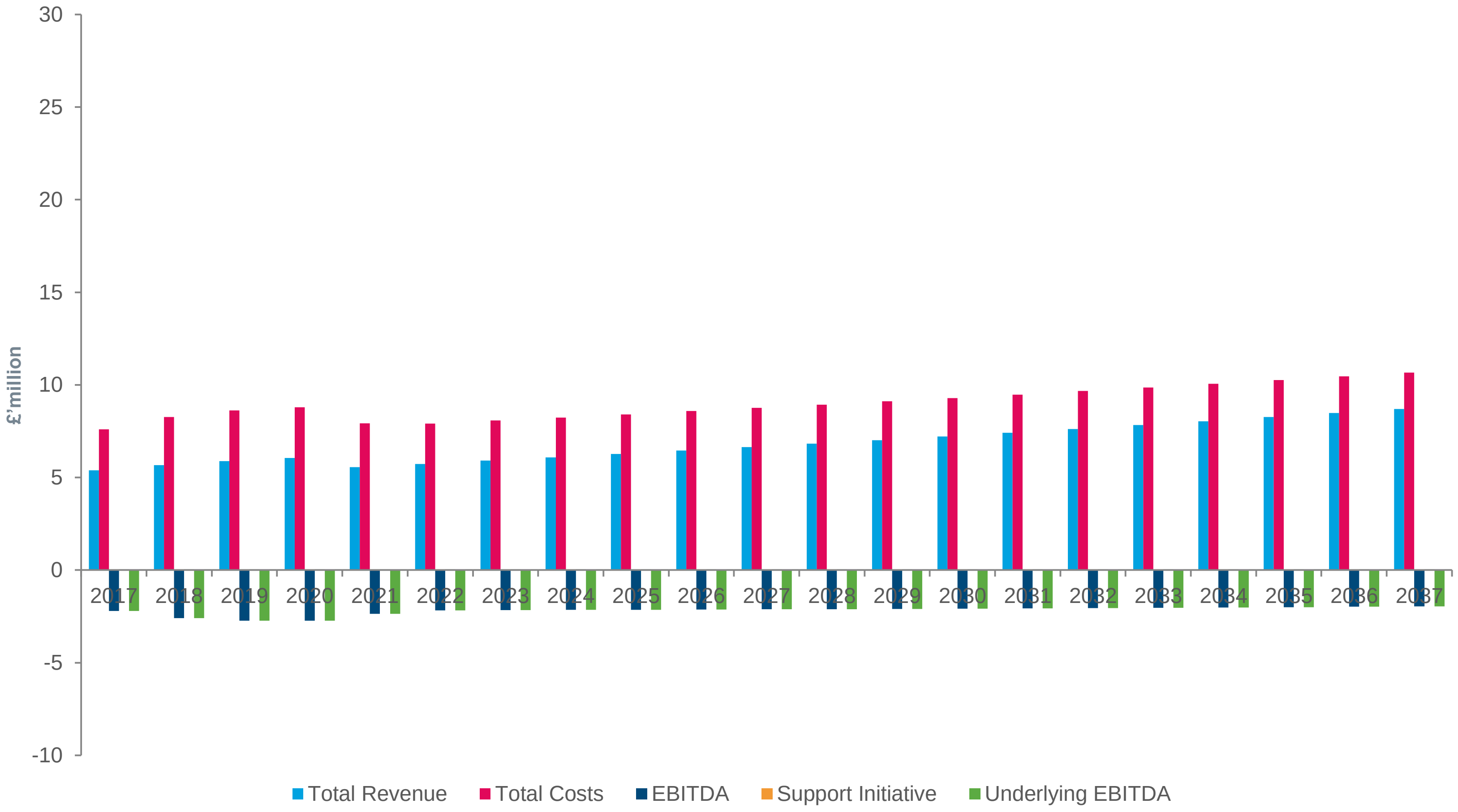
Total Passengers (000s)	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**CAGR 17-27**
Scenario 1: Organic	131	135	138	141	144	147	151	154	157	161	164	*2%*
Scenario 2: Seasonal/Regional	131	135	138	141	211	314	335	337	357	365	372	*11%*
Scenario 3: LCC	131	135	138	141	743	1,400	1,443	1,472	1,516	1,548	1,579	*28%*



Source: ICF analysis

Forecast Summary: Scenario 1 – Organic Growth

NOMINAL



Source: ICF analysis

Forecast Summary: Scenario 2 – Seasonal/Regional

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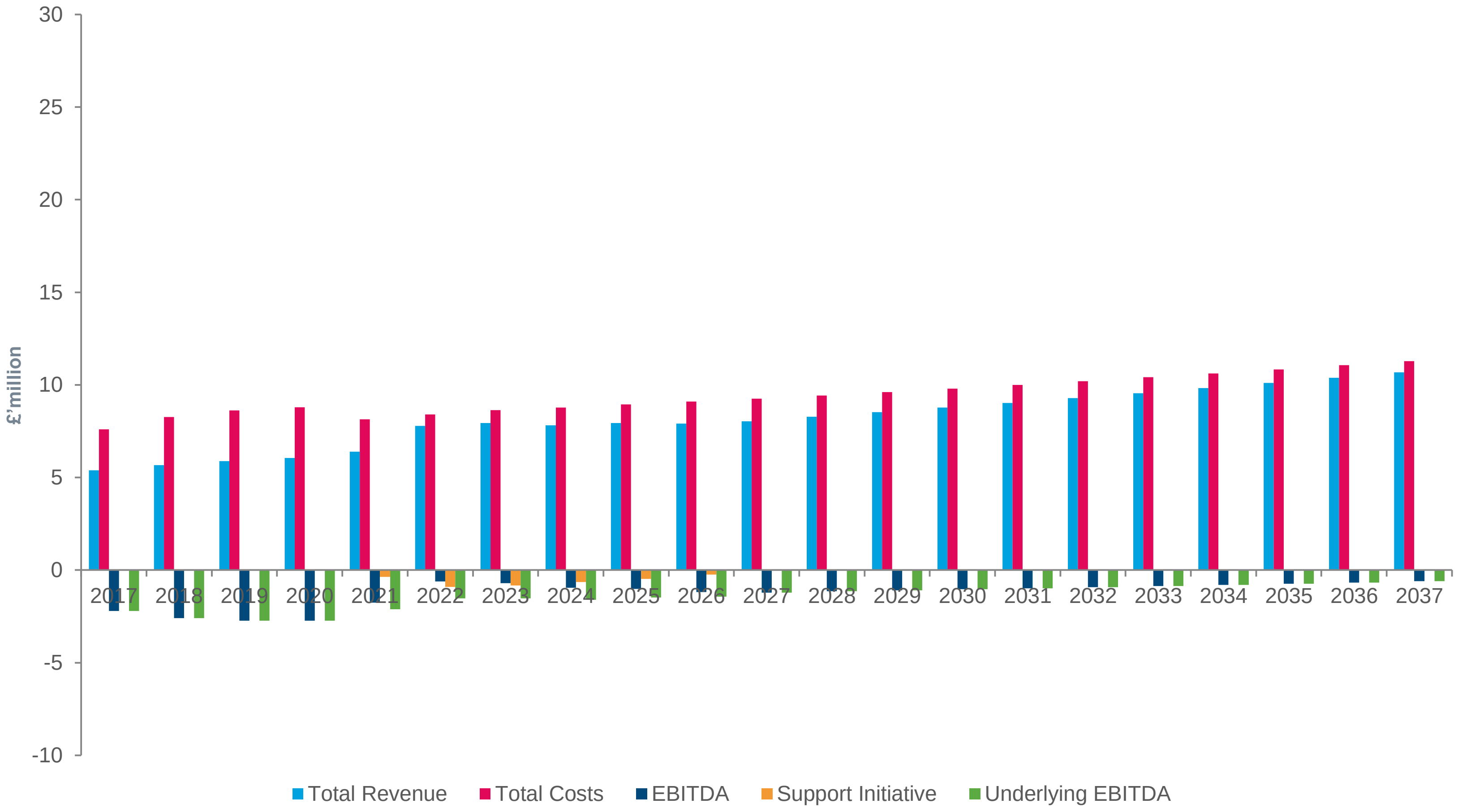
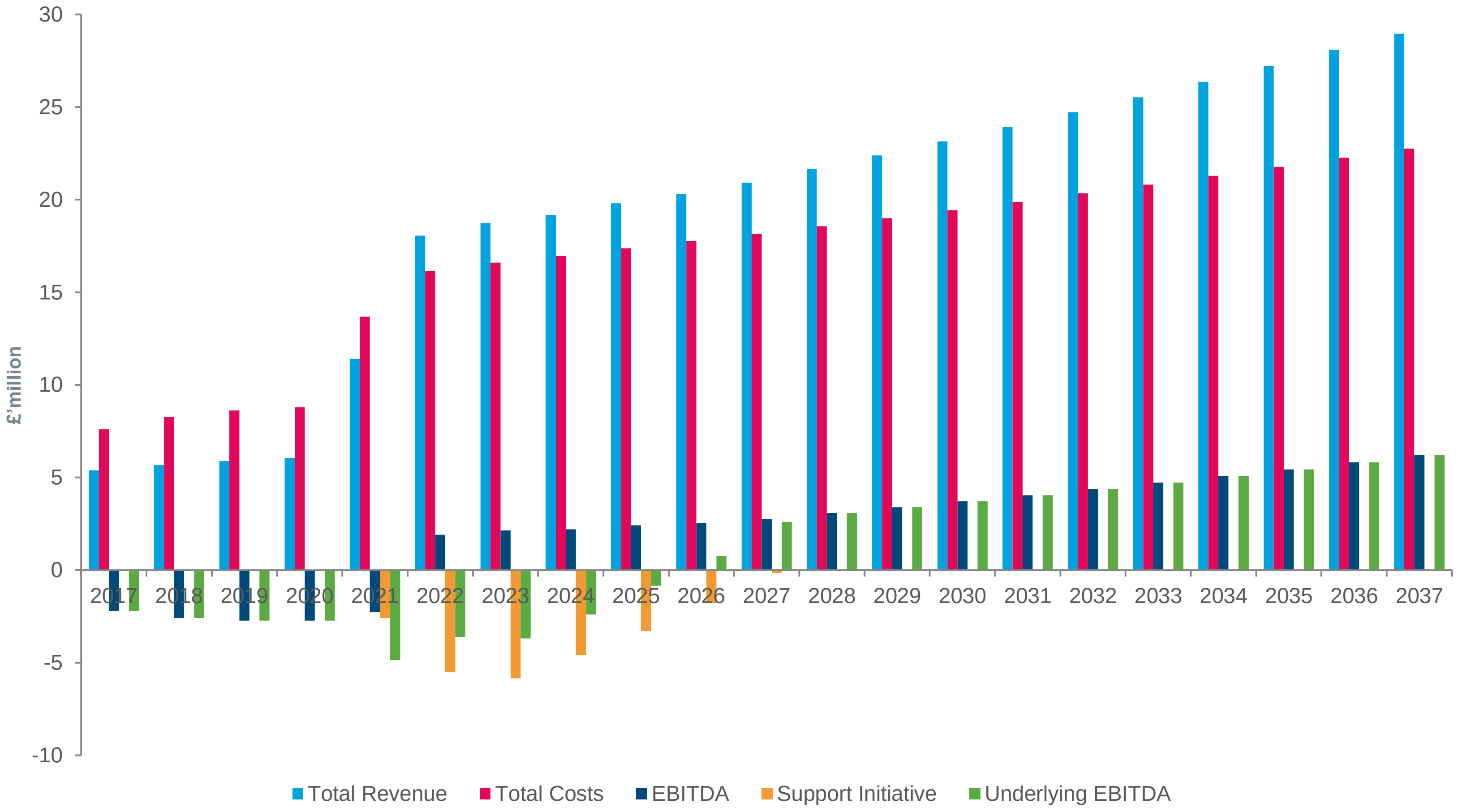


Source: ICF analysis

Forecast Summary: Scenario 3 – LCC

NOMINAL



Source: ICF analysis

Traffic

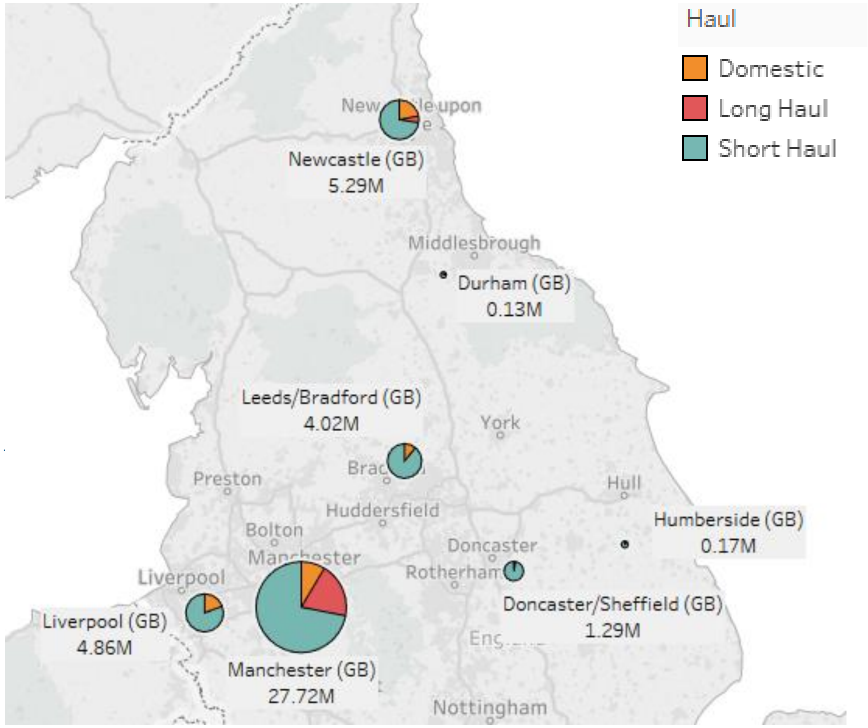
Regional Overview

Northern England provides seven airports handling circa 44m passengers, DTVA being the smallest

REGIONAL OVERVIEW

- The north of England delivers approximately 44 million annual passengers, served by seven airports ranging from Manchester with almost 30m passengers and long-haul services to the Middle East and U.S. to Durham Tees Valley and Humberside, with limited short-haul services.
- The primary airport within the region is Newcastle (NCL) which has a route network covering most European cities and summer destinations, domestic connectivity and increasing long-haul services. While Durham serves limited markets due to its lack of airline mix.
- The CAA’s 2017 Survey Data show that 450,000 passengers travelled from the North East (NE) to Manchester and 165,000 flew from Leeds Bradford, while a further 290,000 fly from London airports. i.e. Almost 1m passengers are spilled from the NE to other airports across the UK. Spilled demand is usually led by a mix of supply side factors such as pricing, route mix and service frequency.
- Newcastle’s passenger base is largely defined by the NE (93% of total passengers) while over 240k passengers travel from Scotland and almost 400k passengers come from the North West and the Yorkshire and Humber region.
- Durham is more conveniently located to serve the catchments south of Newcastle such as Middlesbrough, Darlington and Stockton, and could also attract passengers from north Yorkshire.

Northern England Airports, 2017



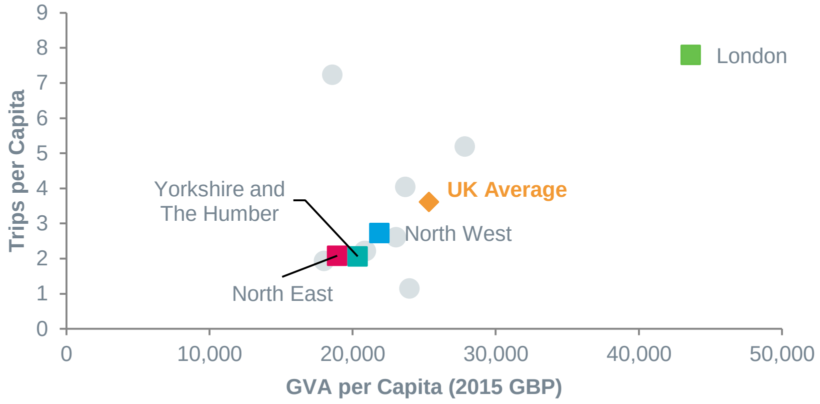
Source: CAA Passenger Data, CAA Survey Data 2017

The North East of England’s propensity to fly is amongst the lowest in the UK

REGIONAL OVERVIEW

- Between 2016 and 2017, the CAA and Department for Transport (DfT) estimate between 4.8 to 5.5m passengers originated their journey from the NE.
- Based on the UK’s ONS data for 2015, the North East’s population of 2.6m has a propensity to fly (P2F) of between 1.9 and 2.1 trips per capita.
- P2F is usually driven by a mix of factors such as disposable income, pricing and transport alternatives.
- The Gross Value Added (GVA) per capita, a proxy for income levels, in the North East is 25% below the national average and as a result we would expect the region’s P2F to be proportionately lower. The North East’s P2F is 40% below the national average of 3.61 trips per capita, albeit that average is influenced by London’s somewhat outlying P2F.

UK Regional Propensity to Fly



Regional GVA per Capita & Population

	GVA Per Capita	Population
North East	**£18,927**	**2,625,000**
County Durham	£15,475	520,000
Northumberland	£15,951	315,000
Newcastle upon Tyne	£26,232	293,000
Sunderland	£20,728	277,000
North Tyneside	£20,026	202,000
Gateshead	£21,661	201,000
Stockton-on-Tees	£20,257	195,000
South Tyneside	£14,341	149,000
Middlesbrough	£18,540	140,000
Redcar and Cleveland	£15,188	135,000
Darlington	£24,585	105,000
Hartlepool	£15,777	92,000
Yorkshire & The Humber	**£20,351**	**5,391,000**
North West	**£21,867**	**7,174,000**
UK Average	**£25,351**	**65,110,000**

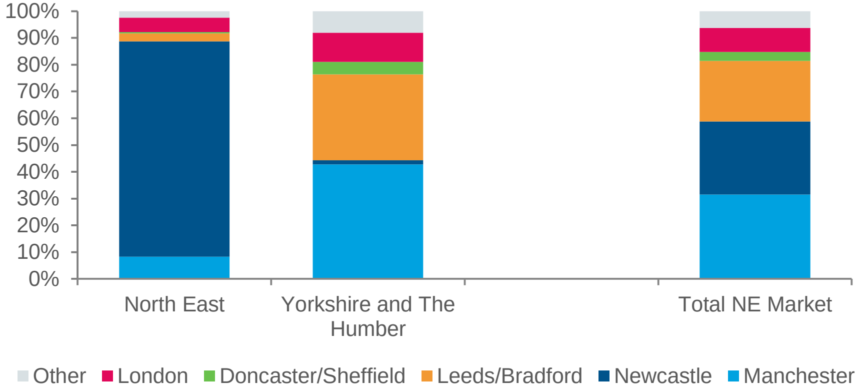
Source: DfT UK Aviation Forecasts, ONS Population 2015, CAA Surveys

Durham has an addressable market size of over 11m passengers which are heavily competed for

REGIONAL OVERVIEW

- In addition to the 5.5m passengers which originate from the North East, a further 11.3m originate from the Yorkshire and The Humber region. Removing passengers from South Yorkshire, which are unlikely to fly from Durham or Newcastle, creates a potentially addressable market of just over 11m passengers for Durham.
- Of this 11m, Newcastle captures circa 40%, Leeds Bradford 34% and Doncaster Sheffield 5%, leaving 21% which is mostly captured by other airports across the UK.
- The remaining demand, approx. 2m passengers, is largely captured by London (1.5m passengers), leaving circa 0.5m passengers to be shared between Durham, Humberside and other UK airports, highlighting the competitiveness in the region.
- In theory at least, the 1.5m passengers travelling to London could be captured by the NE, if adequate services could be provided. However, practically, this is unlikely in the near-term due to airlines' commitments to their London bases, London's far greater route network, and the evident willingness of passengers to travel to London. A regional service from Durham however could feed into the London system. For this to succeed, Durham would require a slot at Heathrow, or Gatwick, which is unlikely, given current capacity constraints at both airports.
- Therefore, growth at Durham is likely to be driven by capturing market share from passengers within the region at the expense of its competing regional airports.

Passengers by Originating Region and Airport Used, 2017



Distribution of NE Passengers by region & airport, 2017

Originating Passengers by Region	
North East	5.5m
Yorkshire/Humber	11.3m
Total Market	**16.8m**
Minus Yorkshire and Humber at EMA	-654k
Minus Yorkshire and Humber at MAN	-4.8m
Total Capturable Market	**11.3m**

Terminating NE Passengers* by Airport Used	
Newcastle	4.6m
Leeds Bradford	3.8m
Doncaster Sheffield	0.6m
Major Airports	**8.9m**
London	1.5m
Other UK	0.8m
Sub-Total	**2.4m**
Total	**11.3m**

*excludes transfers

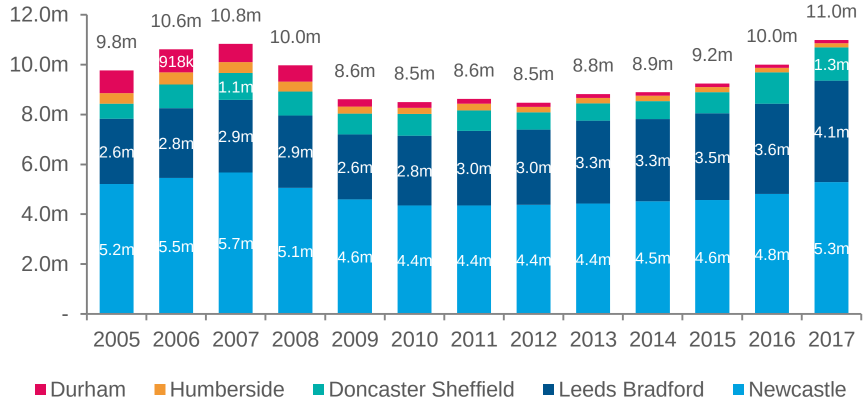
Source: CAA Passenger Data, CAA Survey Data 2009, 2015 and 2017

The NE region has seen traffic volumes remain flat over the past ten years with a changing airport mix

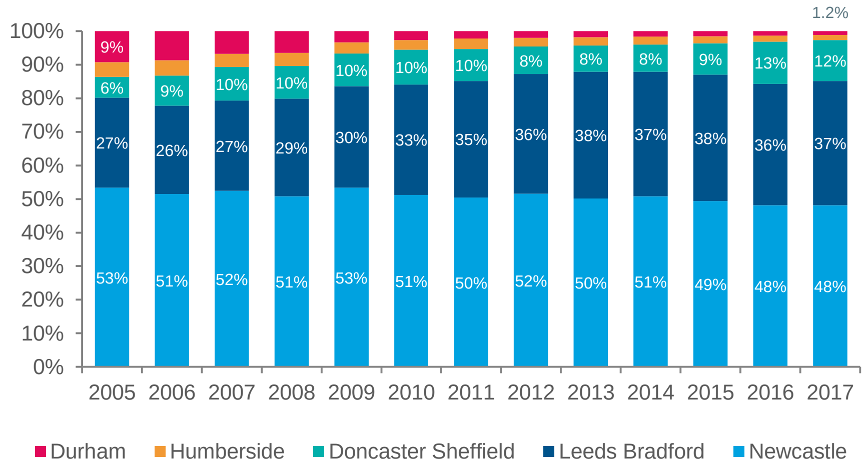
REGIONAL OVERVIEW

- For the purposes of understanding the local market, ICF has grouped Newcastle, Leeds Bradford, Doncaster Sheffield, Humberside and Durham into a collective ‘North Eastern’ region.
- The region’s traffic peaked in 2007 at 10.8m passengers, however in the aftermath of the Global Financial Crisis (‘GFC’) the market suffered as airlines restructured and economies fell into recession.
- The market has seen growth each year since 2013, with growth of 10% in 2017 reaching 11m, slightly above the 2007 peak.
- Newcastle is the largest airport in the region, accounting for 48% of North Eastern traffic with 5.3m passengers in 2017. Leeds Bradford is the second largest airport in the region with 4.1m passengers or 37% market share.
- Of the three main airports, NCL has seen its market share erode while LBA has seen strong growth over the last decade with its market share rising from 27% to 37%. Doncaster saw strong growth in 2006/2007 but has seen its market share remain stable at circa 10% thereafter.
- Durham and Humberside, the two smallest airports in the region, have seen passenger volumes fall over the past decade following the failure of BMI and several charter operators who exited the market.

North-Eastern Airports Volumes, mppa



North-Eastern Airports Market Mix



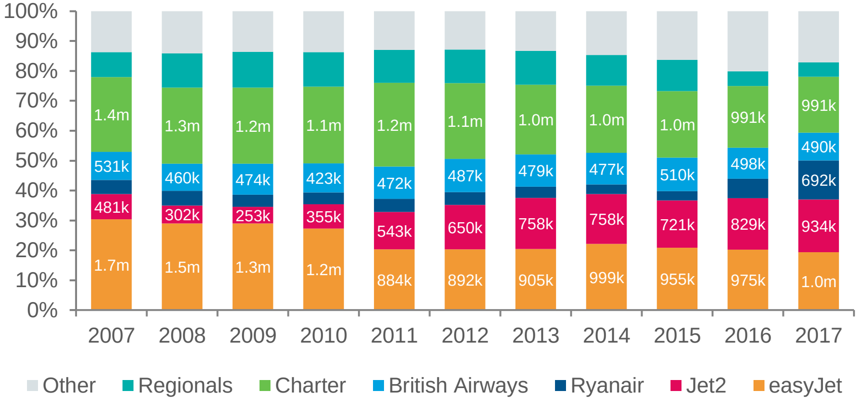
Source: CAA Passenger Data

Ryanair has aggressively gained market share at NCL from regionals and charters in the past two years

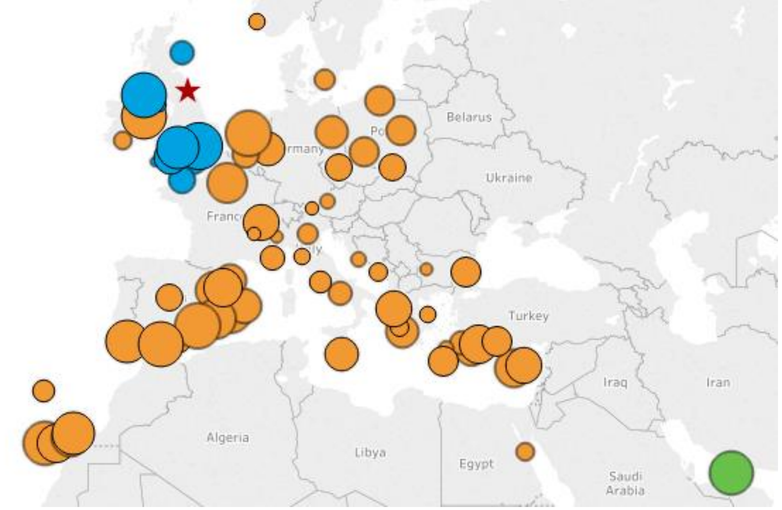
NEWCASTLE OVERVIEW

- While NCL’s traffic has remained largely flat over the past decade, the airport has seen some significant change in market mix.
- Historically, NCL has been a major stronghold for easyJet, who held 30% of the traffic until 2010. In 2011, Jet2 started to increase its network in the NE and began to compete with easyJet.
- More recently, Ryanair has identified NCL as a key growth market. Growing from 140,000 passengers in 2015 to almost 700,000 in 2017, gaining market share from other LCCs and charter operators.
- Regional airlines such as flybe and Eastern Airways have also come under pressure in recent years with passenger volumes halving in the space of 2 years.
- From a route perspective, Newcastle serves a wide range of domestic, short-haul and long-haul markets with the majority of frequencies bound for locations in Europe such as summer beach destinations in Spain, Greece and Portugal or capital cities/hubs such as Amsterdam, Paris and Dublin.
- Newcastle also has long-haul services to Dubai, Orlando, Cancun, New York and Barbados, reflecting its passenger and airline mix.

Newcastle Airline Mix



Newcastle Route Map, 2017[1]



Source: CAA Passenger Data

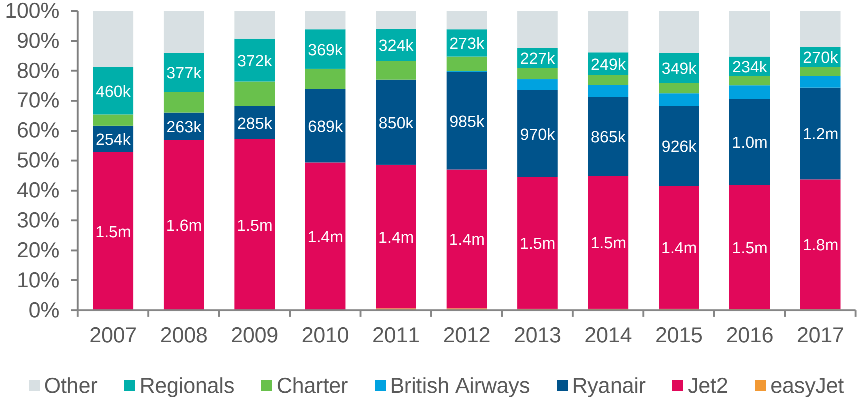
Note: 1. Blue: domestic, orange: European, green: international.

Ryanair has put pressure on Jet2 at LBA and has gained market share

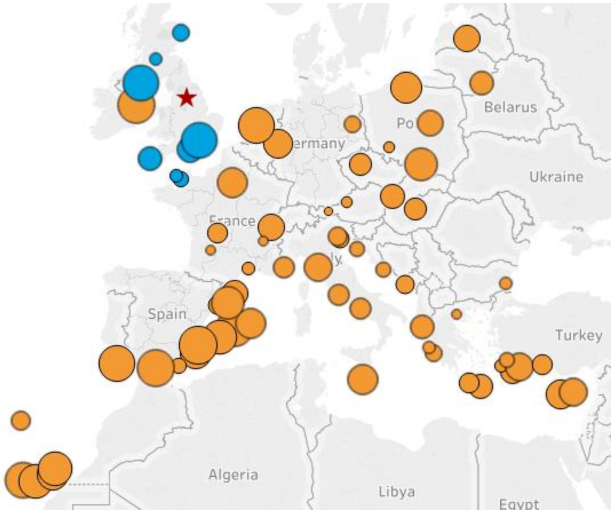
LEEDS BRADFORD OVERVIEW

- Jet2, which is based at Leeds Bradford, is the largest carrier at the airport, accounting for over 40% of the traffic. Ryanair began aggressively growing its presence at Leeds Bradford in 2010, growing from 11% to 25% market share in one year.
- Ryanair has continued its strong growth in recent years and now accounts for 31% of traffic, which has largely come at the cost of Jet2, charter and regional carriers.
- A notable exception from Leeds Bradford is any material presence of easyJet, which has a limited Geneva service in the winter. Regional services have lost market share as a result of BMI regional moving from to NCL and the collapse of Air Southwest.
- LBA's route map is comparable to most UK regional airports, with a strong focus on serving leisure destinations in Spain (Alicante, Malaga, Mallorca, etc), domestically (London, Belfast, South/South West England) and European cities/hubs such as Dublin and Amsterdam.

Leeds Bradford Airline Mix



Leeds Bradford Route Map, 2017



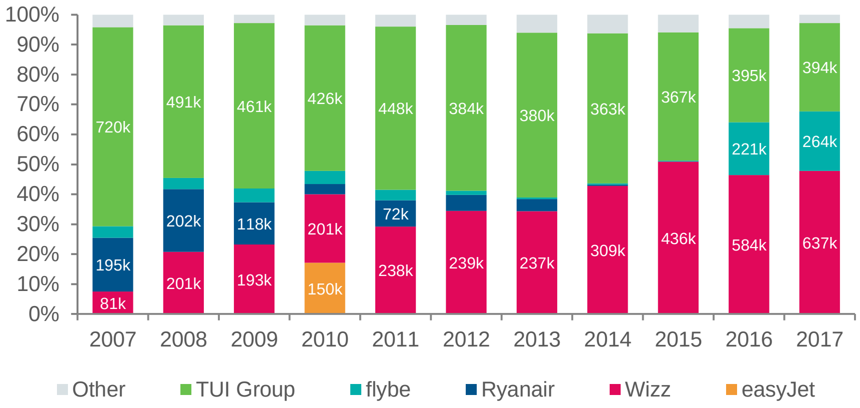
Source: CAA Passenger Data

Wizz has established a strong presence at DSA serving Eastern Europe

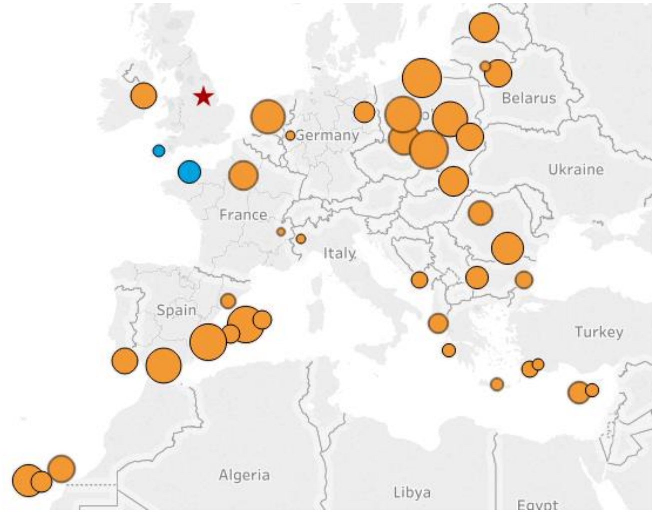
DONCASTER SHEFFIELD OVERVIEW

- Doncaster Sheffield's airline mix is less diverse than either of Leeds Bradford or Newcastle's, with three carriers accounting for 96% of the market.
- The largest carrier is Wizz, which serves the Eastern and Central European markets, serving city-breaks and the "visiting friends and relatives" (VFR) markets.
- easyJet served the airport briefly in 2010 but failed to maintain a presence, while Ryanair exited the airport in 2014. The rest of today's demand is served by flybe, which serves markets such as Amsterdam, Jersey, Paris and Dublin. While TUI group is the largest charter operator accounting for 30% of traffic, a significant step down from the 66% held in 2007.
- Unlike LBA or NCL, Doncaster Sheffield's routes have a much larger Eastern European component with significant services to countries such as Poland, Romania and Lithuania. Wizz, a Hungarian based carrier, is the primary driver of this, serving the region's VFR and leisure markets.
- Behind Poland, Spain is the second largest market reflecting the large demand for outbound leisure destinations, particularly in the summer holiday months.

Doncaster Sheffield Airline Mix



Doncaster Sheffield Route Map, 2017



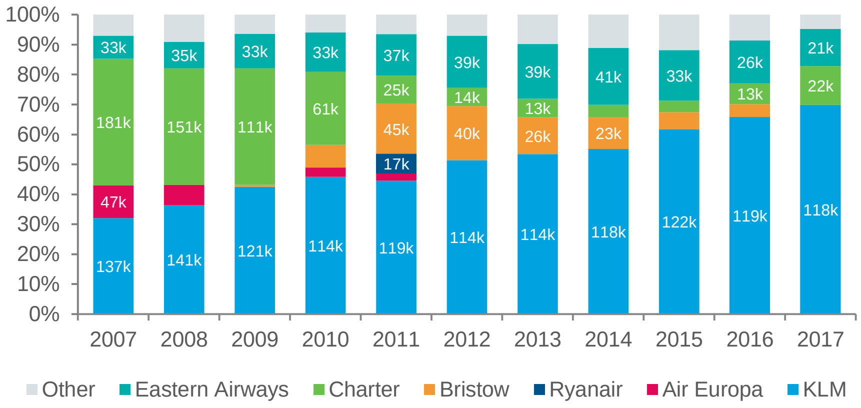
Source: CAA Passenger Data

KLM’s service to AMS makes up most of HUY’s traffic, while summer services exist to Spain and Bulgaria

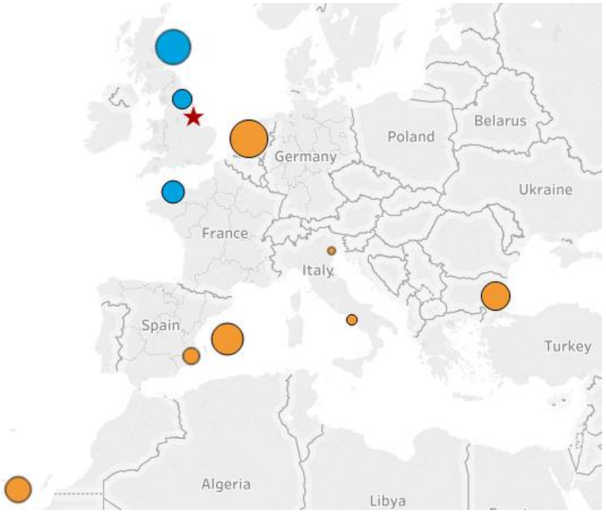
HUMBERSIDE OVERVIEW

- Humberside is the second smallest of the NE region’s airports, with a comparable passenger base to Durham. The majority of traffic is handled by KLM’s feeder service into Amsterdam (a trait shared with Durham). The rest of the traffic is handled by charters in the summer and regional operator Eastern Airways.
- Charter operations started to decline significantly from 2009 to 2015. There has been a recent uptick in 2016 and 2017 which have seen volumes grow from a low of 8,000 to 22,000 passengers.
- Most passengers using Humberside airport are bound for Amsterdam, reflecting the limited selection of year round routes. KLM’s Amsterdam service accounts for 70% of passengers, while the remaining traffic is largely bound for Aberdeen (oil industry) or outbound leisure destinations in Spain or Bulgaria.

Humberside Airline Mix



Humberside Route Map, 2017



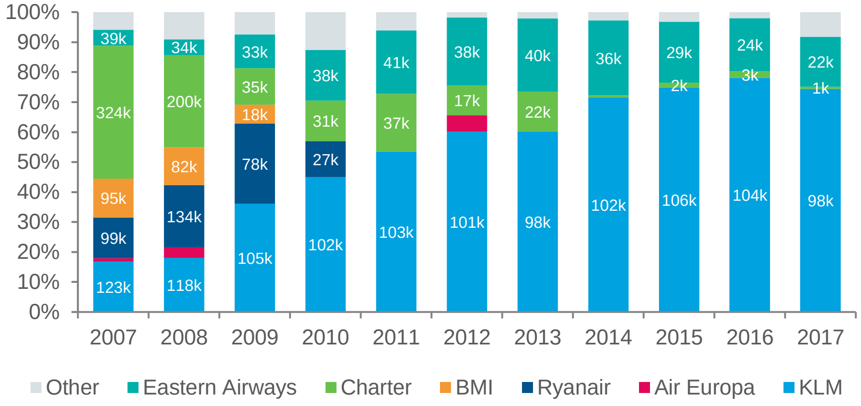
Source: CAA Passenger Data

Unlike its peers, Durham lacks services to summer seasonal destinations such as Spain

DURHAM OVERVIEW

- Durham is the smallest airport in the NE region, with 130,000 passengers handled in 2016 and 2017. The airport primarily serves as a feeder route into Amsterdam by KLM which accounts for 74% of traffic. Of that traffic, 40% of passengers are destined for Amsterdam, with 60% transferring worldwide through KLM's global route network.
- Over the past decade, several airlines have exited the airport reducing its customer base to only a handful of carriers. Eastern is the airport's second largest operator with 17% market share serving domestic routes such as Aberdeen and Jersey. In late 2017, Eastern and flybe entered into a five year franchise agreement, whereby Eastern will operate under the flybe banner. This agreement replaced the previous one held with Loganair.
- The most significant gap in Durham's route map is summer seasonal destinations, along with many other locations served from other NE airports. The summer seasonal market used to be served by charter operators and LCCs such as Ryanair but these routes have not been replaced following airline moves. Durham has a secured charter services to Bulgaria for Summer 2018, but continues to not serve the Spanish summer destinations.
- Durham also lacks domestic connectivity to London. While London can be reached within 2 to 3 hours by train, there is significant spill to the capital which could be served by air rather than rail or road if the right network and pricing were in place.

Durham Airline Mix



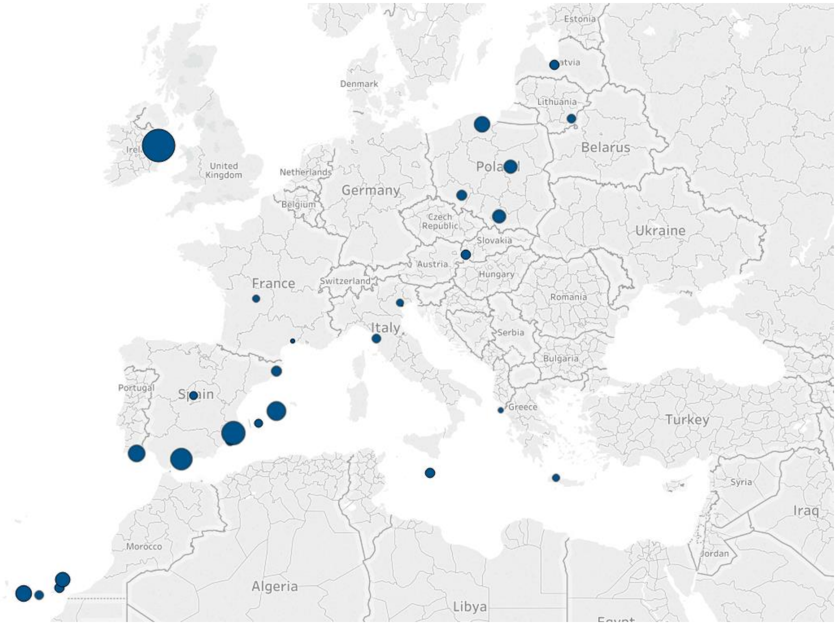
Durham Route Map

Source: CAA Passenger Data,

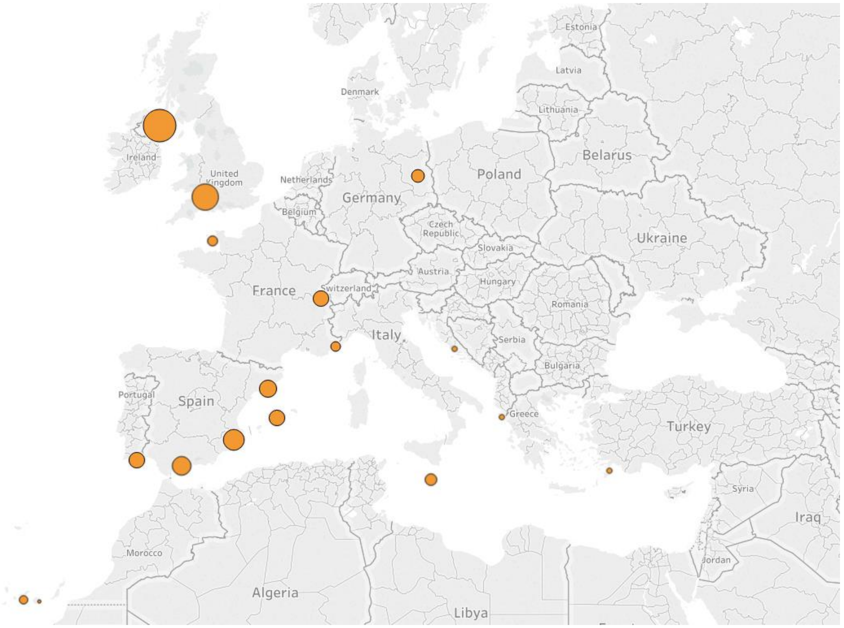
Ryanair’s network spans across Europe, easyJet’s is more focused on serving Western Europe and the UK

CARRIER ROUTE MAPS FROM THE NE, 2017

Ryanair Route Map from NCL and LBA



easyJet Route Map from NCL and LBA



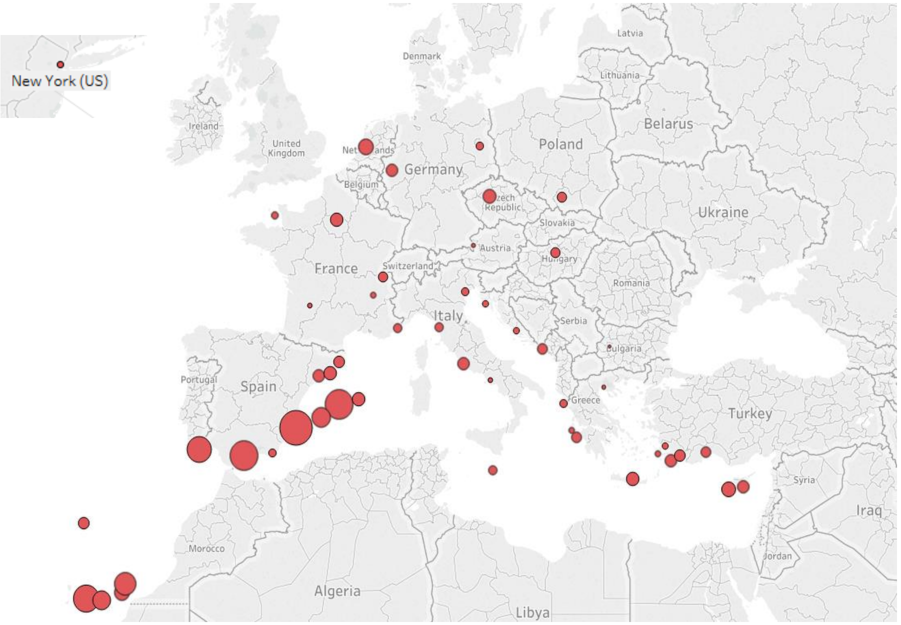
Source: CAA

TRAFFIC

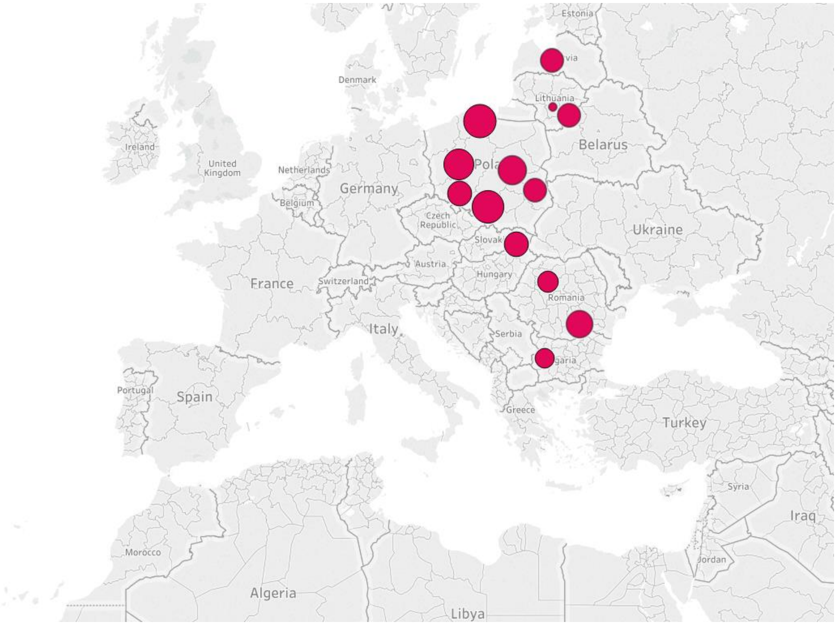
Jet2 has a broad network across Western and Southern Europe, Wizz's network is exclusively Eastern Europe

CARRIER ROUTE MAPS FROM THE NE, 2017

Jet2 Route Map from the NCL and LBA



Wizz Route Map from the DSA

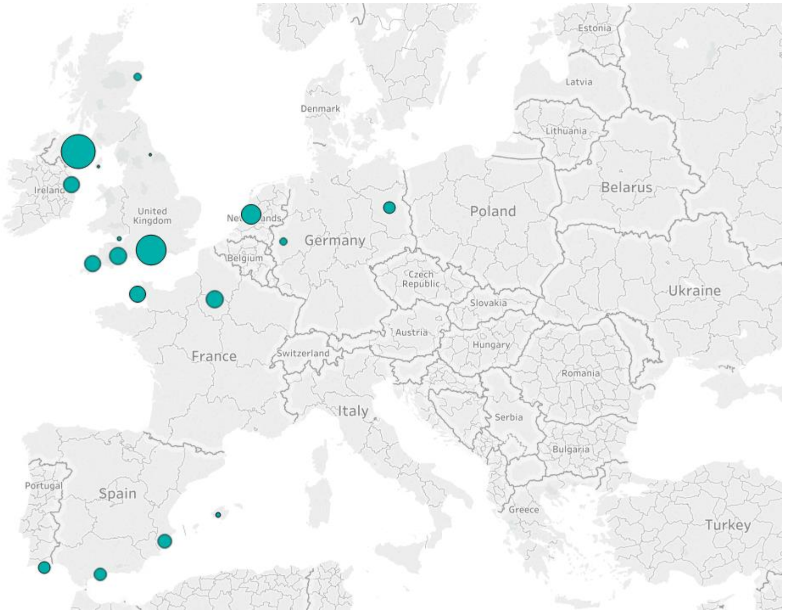


Source: CAA

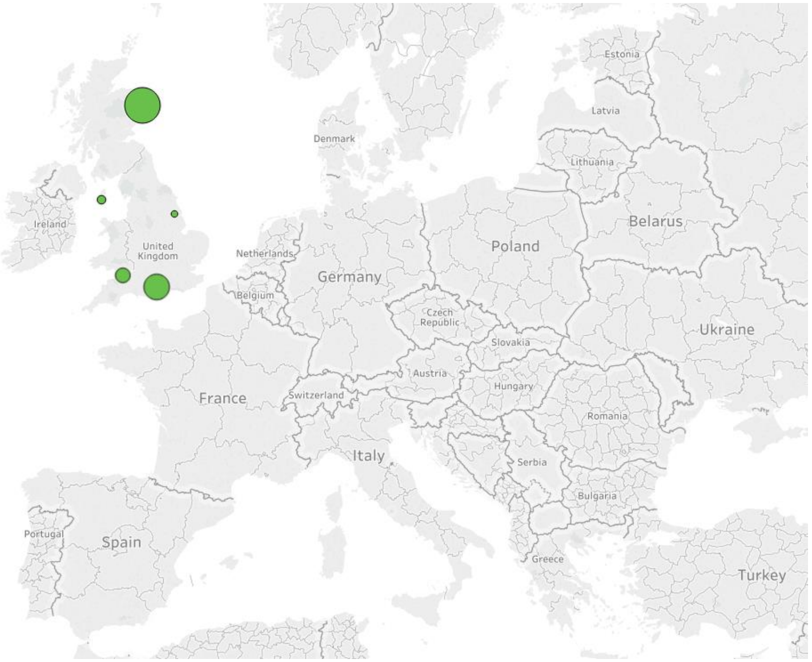
flybe’s network covers a range of domestic and international routes, Eastern exclusively serves the UK

CARRIER ROUTE MAPS FROM THE NE, 2017

flybe Route Map from the NE



Eastern Route Map from the NE



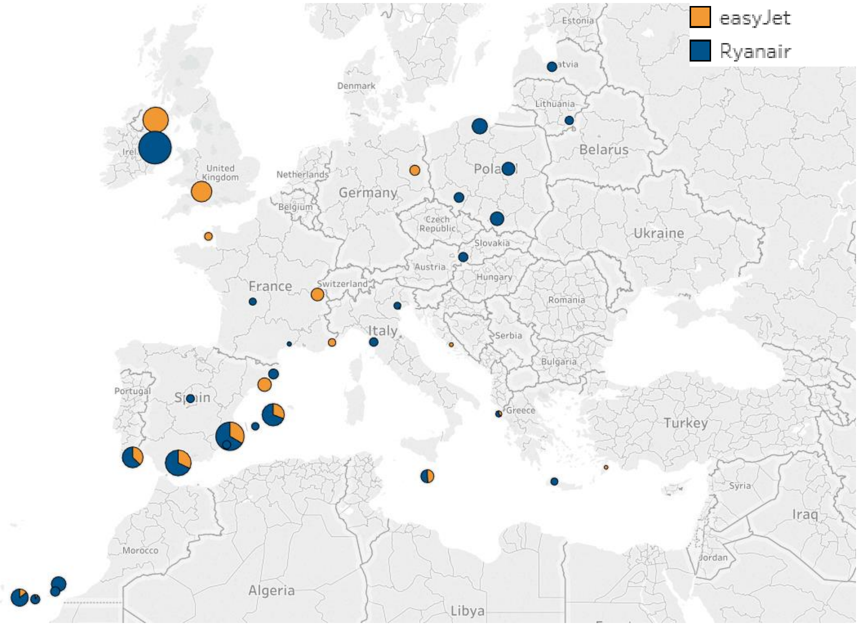
Source: CAA

easyJet’s route network is highly competed for, with Ryanair gaining market share from easyJet

RYANAIR AND EASYJET COMPETITION

- Ryanair’s route network from the North East covers 27 destinations to Ireland, Spain, Poland and several other countries scattered across Europe.
- easyJet’s network is smaller with 17 services in total to Spain, the UK and some minor services across Western Europe.
- The two carriers serve different markets for the most part, but are increasingly competing for the same passengers and now compete on nine city pairs.
- In eight out of the nine cities Ryanair is the dominant carrier. The one market where easyJet has a larger market share is Barcelona, which Ryanair serve from the secondary airport, Gerona, which is over 100km from Barcelona.
- Ryanair’s ability to enter Newcastle and Leeds Bradford and gain market share from the established LCC highlights the pressure felt by incumbents such as easyJet and Jet2.
- easyJet is likely to see more pressure on yields and load factors as Ryanair continues to gain market share. It is also a possibility that Ryanair enters more easyJet destinations, putting further pressure on easyJet.
- A possible solution for easyJet could be to relocate to Durham, where the airline is able to differentiate its service to Ryanair and better compete with passengers from the airport’s catchment. This however would allow Ryanair to backfill its presence at Newcastle, which may prove detrimental to easyJet.

easyJet and Ryanair Route Map



Source: CAA

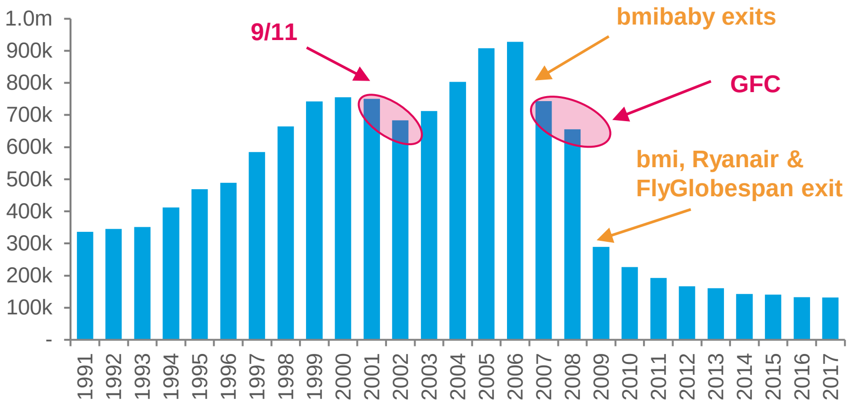
Durham Tees Valley Airport Overview

Durham’s traffic has fallen from over 900,000 to 130,000 since 2006 as a result of airline consolidation

DTVA OVERVIEW

- In 2017, DTVA handled 131,000 passengers, a 0.6% decrease on the previous year. Passenger traffic at DTVA grew rapidly during the 1990s, growing from 300,000 to over 700,000 in 1999/2000.
- Following 9/11 in 2001, the aviation industry suffered a global decline in demand, with DTVA suffering a 10% fall in passengers, comparable to many UK airports. Traffic recovered shortly after, with traffic peaking in 2006 at 930,000 passengers.
- In 2007, traffic fell by 20% following the GFC, proving the start of 11 years of consecutive traffic decline as airlines such as bmi, Thomas Cook and Ryanair exited the market.
- Since the exit of most carriers, the airport has only managed to maintain KLM’s triple daily service to Amsterdam and some regional flying. Load factors on the KLM route are below industry standards at 66%, while the airport’s Aberdeen service achieves load factors in the low 40% suggesting a lack of demand for both services.
- Routes to summer destinations such as Spain, Bulgaria, Turkey and Malta however all achieved high load factors when previously operated, suggesting demand exists for seasonal services.

Historical Passenger Growth – DTVA



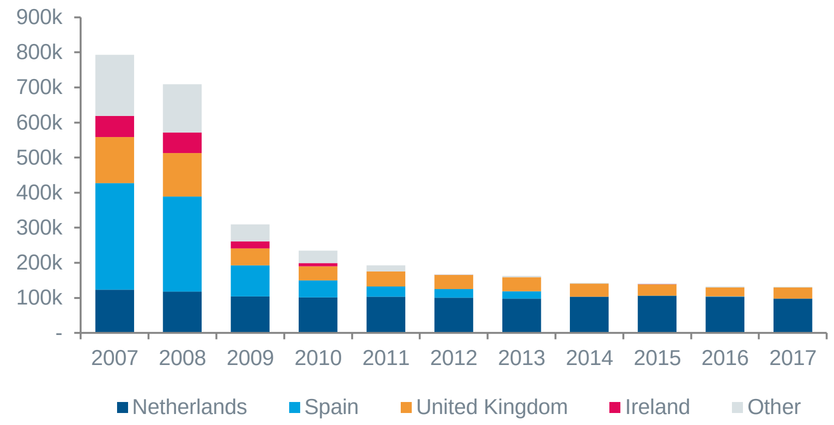
Source: CAA

Passenger choice at Durham is limited to a small selection of routes and airlines

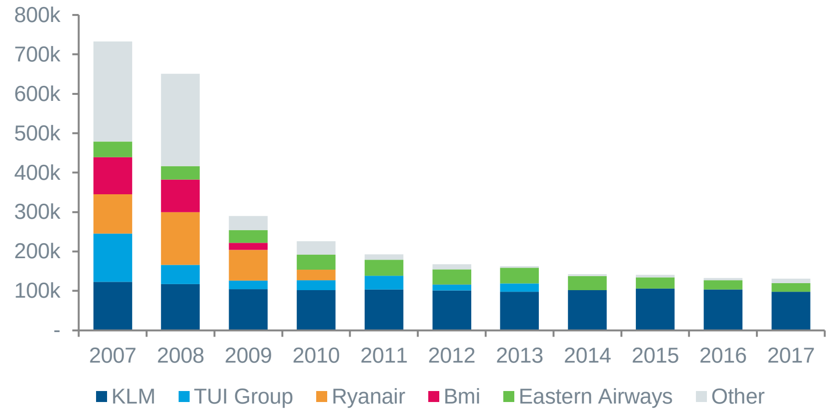
DTVA OVERVIEW

- Durham's passenger traffic is largely bound for Amsterdam or Aberdeen. Spain was once the largest market, achieving strong load factors and was served by several operators including TUI, Ryanair, BMI, Air Europa and other charter operators.
- Connectivity to other parts of the UK, and Ireland, have also largely been abandoned as Durham's airline mix fell. London once accounted for over 80,000 passengers while Newquay and Jersey accounted for almost 50,000 passengers collectively. Dublin has also not been served for a number of years despite almost 60,000 passengers in 2007 and 2008.
- The small selection of routes is driven by the lack of airlines serving Durham. KLM's model is to feed traffic through to its Amsterdam hub, while Eastern lacks the scale to develop a significant network without consolidating operations at other airports.
- The combination of few destinations and monopoly routes means that for many passengers Durham is not a viable airport to travel from. As such, passengers are travelling beyond Durham to Newcastle, Leeds Bradford, Doncaster Sheffield and further afield.

Passengers by Destination Country



Passengers by Airline



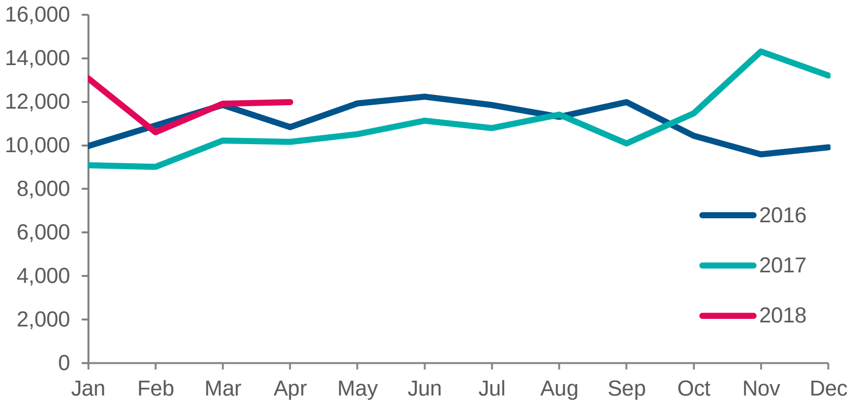
Source: CAA

Unlike other NE airports, DTVA has no summer seasonal service

SEASONALITY

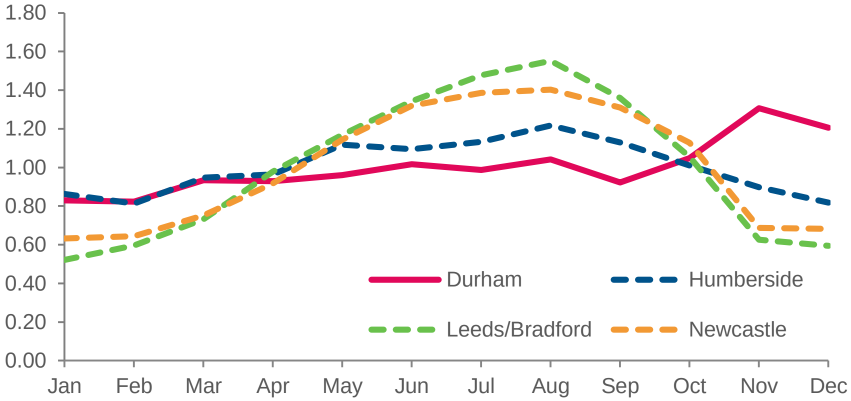
- Annual demand at DTVA has remained fairly flat since 2016, with no noticeable peak in traffic. This is a reflection of the airport's operations which lack meaningful seasonal services and mostly consists of KLM's year round service to Amsterdam.
- Other airports in the region have a much busier summer peak (April to October) than DTVA. The summer peak season accounts for over 70% of annual passenger throughput at Leeds Bradford and Newcastle.
- In late 2017, the Aberdeen route became competed by Loganair and flybe (previously operated under Eastern), which demonstrated that increased competition can have a significant impact on travel demand.

DTVA Monthly Passengers



Seasonality of Select Airports

(Monthly Passengers relative to annual average, 2017)



Source: CAA

Traffic Forecast Methodology

ICF have forecast three scenarios for DTVA’s future traffic flows

FORECAST METHODOLOGY

- ICF have analysed three scenarios for DTVA’s future traffic.
- We have prepared analysis on each airline type and summarised their likeliness to move to DTVA.

- **Scenario 1: Organic:** We assume that DTVA’s market share remains constant relative to its NE peers, and grows at the market rate. This scenario reflects no material change to how DTVA operates today with growth coming as a result of improvements to load factors on existing routes and marginal increases in capacity.
- **Scenario 2: Seasonal/Regional:** We assume that more active management allows DTVA to attract seasonal services, bringing its service levels to the standard seen at other UK regional airports. We also assume that DTVA attracts a regional operator to better serve the domestic and short-haul market. For this scenario, ICF have adopted a bottom-up approach at the route level based on regional demand and benchmarking to other UK airports.
- **Scenario 3: LCC:** We assume that driven management is able to attract an established LCC from a regional competitor airport to DTVA. We assume the carrier moves all operations to DTVA over a two year period, with minor disruption to its market share. We assume regional operations are established in addition to the LCC traffic, but at a lower throughput given the competition from the LCC operator. We assume that the LCC provides services to cater for the summer seasonal demand and that therefore only very a limited charter operation remains at Durham in this scenario serving remote destinations outside the LCC’s network.

In addition to summer services, regional operators could provide greater year-round connectivity

POTENTIAL AIRLINES: REGIONAL CARRIERS

- Regional carriers have been most adversely affected by LCC competition in the past few years. Carriers such as flybe, Eastern or Stobart have suffered but continue to operate across a range of UK regional airports with similar characteristics to Durham.
- Due to the business model of regional carriers, they do not require as much demand as an LCC to start flying inbound from one of their existing bases, and as such we believe that they could be attracted to Durham.
- The London market has seen capacity decline from the regions, but as indicated by the CAA surveys, a significant portion of NE passengers still travel from London, highlighting the potential for an operator to enter the market and recapture spilled demand.
- In addition to London, regional operators could also serve markets in the South and South West of the UK, where ground travel times can be long and unpredictable.
- Regional operators have also previously served international locations such as Paris, Brussels and Dublin and could potentially relaunch these markets if scheduled and priced to market.
- flybe’s current deal at Doncaster Sheffield is, we understand, coming to a close and flybe might be attracted to Durham.

Airline	NCL Pax Change (2014 - 2017)	LBA Pax Change (2014 - 2017)	Comments
Brit Air / Hop	150,000↓	-	Air France’s HOP! connecting Paris and Lyon to Europe
Aer Arann	54,000↓	-	Now operating as Stobart Air
Eastern	33,000↓	9,600↑	Cut service at NCL and grew SOU service at LBA
TUI Group	34,000↓	2,000↑	Reduced service to Turkey, Egypt, Portugal but has grown Spain and long-haul routes
Onur Air	18,000↓	-	Exited UK in 2014
Monarch	-	17,000↓	Ceased in 2017
Wideroe	16,000↓	-	Exited UK in 2016
Thomas Cook	11,000↓	-	Reduced capacity to Spain and Turkey and ceased Tunisia

Charters serving the summer market are a further option for DTVA’s growth plans

POTENTIAL AIRLINE TARGET LIST: CHARTERS AND FSC

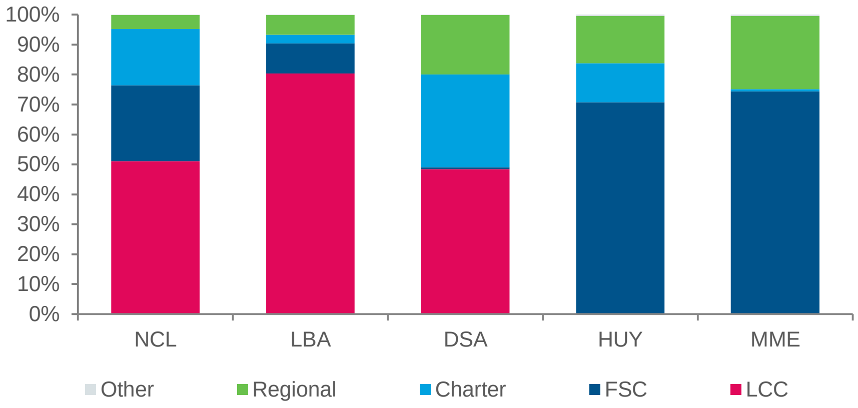
- Full service carriers (FSC), such as British Airways could be a target for Durham. However, FSCs typically focus on serving their hubs and are unlikely to serve destinations beyond that. KLM for instance, will likely only ever serve its hub in Amsterdam and BA will likely only serve Heathrow or Gatwick.
- Additionally, FSCs have largely been squeezed out of the regional market by LCCs and have not grown their services to the NE in the past decade.
- As such, we consider the opportunity to attract a FSC to be limited.
- Since the rise of LCCs, charter operations have declined into a small but profitable market. LCCs have largely substituted charters, particularly on short-haul routes, and this can been seen in the NE with TUI and Thomas Cook both suffering.
- However, Durham offers charters an opportunity to operate without the direct competition of an LCC, which could attract summer seasonal services to the Mediterranean.
- In addition to home-based carriers such as TUI and Thomas Cook, Durham could also attract foreign carriers in Turkey, Greece and Bulgaria.
- The lack of any summer service at Durham suggests that there is potential to attract a charter to fill this gap in the market. Humberside and other small regional airports have summer services, despite nearby competition, and we believe that Durham should be able to compete in this space based on its local catchment.

LCCs are established at competitor airports, but easyJet may be an option for DTVA

POTENTIAL AIRLINES: LOW COST CARRIERS

- If DTVA were able to attract an LCC, this would signify a significant step-change in the airport’s operations.
- However, carriers face the risk of cannibalising their existing market share were they to establish an additional operation at DTVA, or, alternatively, allow an incumbent competitor to back-fill their share should they exit a regional peer to operate from DTVA. However, relocating services to DTVA, would allow a carrier to dominate DTVA’s local demand which currently spills to other local airports.
- Although Jet2 has lost market share to Ryanair, LBA is it’s base, and it is unlikely to abandon its relatively strong market position.
- Wizz’s business model is to serve the Eastern and Central European markets with a focus on VFR. This works for DSA where there is a material expat community. While Wizz does not have a presence at LBA or NCL, limiting the risk of cannibalising existing traffic, the Eastern European community in the North East is less sizable, meaning the airline would have to compete directly with Ryanair, Jet2 and easyJet for passengers.
- Ryanair has previously served DTVA while also serving NCL and LBA, so is not against serving all three markets. The carrier however, has rapidly grown its presence and market share at both airports, and as such is unlikely to reallocate to an airport between two key markets where it is succeeding.
- easyJet is not materially present at LBA and has lost market share to Ryanair at NCL. It may be attracted by a dominant position at DTVA

Airline Mix, 2017



Source: CAA

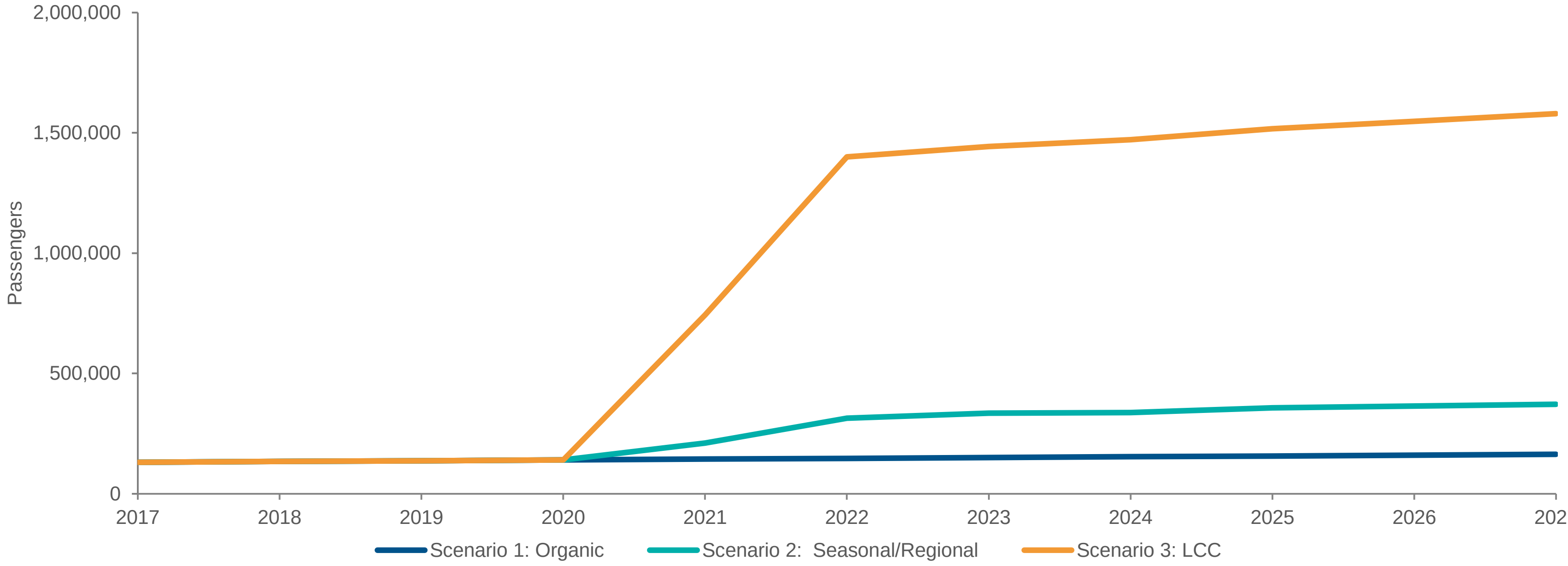
Traffic Forecast

ICF Forecast Summary

SUMMARY

(Financial year ending March)

Total Passengers (000s)	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	CAGR 17-27
Scenario 1: Organic	131	135	138	141	144	147	151	154	157	161	164	*2%*
Scenario 2: Seasonal/Regional	131	135	138	141	211	314	335	337	357	365	372	*11%*
Scenario 3: LCC	131	135	138	141	743	1,400	1,443	1,472	1,516	1,548	1,579	*28%*



Source: ICF analysis

Business Plan

Aeronautical Revenue

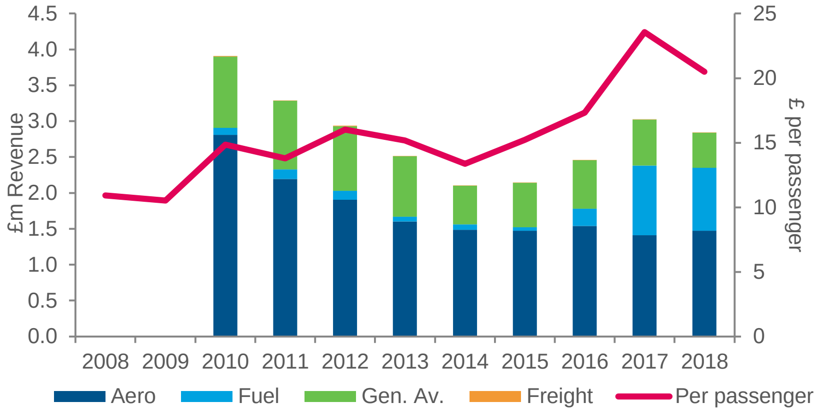
DTVA’s aeronautical revenues have fallen as a result of declining passenger volumes

HISTORICAL PERFORMANCE

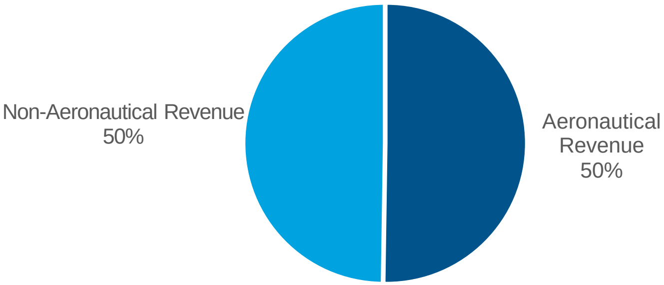
- 50% of DTVA’s revenue in FY18 was derived from aeronautical activities. These include:
  - Landing/Parking and Passenger charges;
  - Other ancillary charges
  - General Aviation and Freight handling charges
  - Fuel revenue
- In FY18, DTVA generated £2.84m of Aeronautical Revenue, or £20.50 per passenger.
- Over the period FY10 to FY18, real aeronautical revenue decreased from £3.9m by a CAGR of -3.9% per annum, driven by the drop in passenger volumes at the airport.
- Revenues experienced strong uplift in 2016 and 2017 as a result of DTVA bringing fuel farm activities in house, increasing revenues by over £800,000.
- Revenue generate from commercial flights (aero charges) have remained largely flat in real terms since 2014 and account for just over half of the airport’s total aeronautical revenue
- Regional airports in the UK are free to set airport tariffs as they desire. In practice, these are determined by market conditions such as airlines’ appetite to serve the market.
- Note that DTVA includes the Passenger Facility Fee as non-aeronautical, and the above analysis has been undertaken on that categorisation, however, we would ordinarily consider it to be aeronautical revenue.

Historical Aeronautical Revenue

(Year ending March, £m, Real 17/18)



Split of Aeronautical & Non-Aeronautical Revenue, FY18



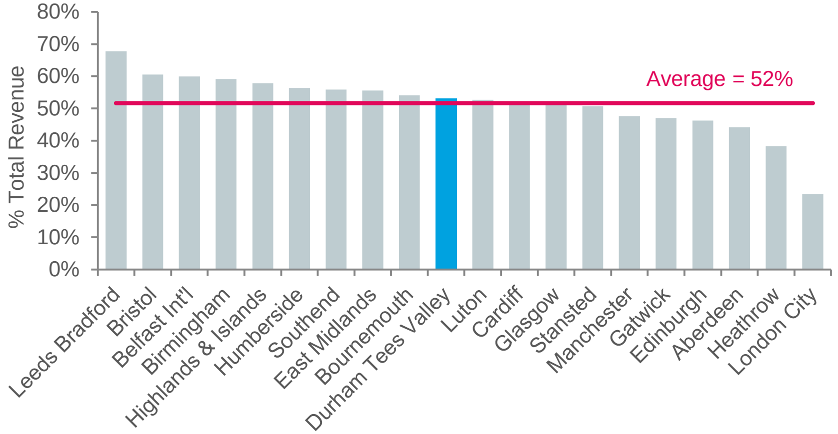
Source: DTVA

Although difficult to benchmark DTVA’s aeronautical revenue its yield is high by UK comparison

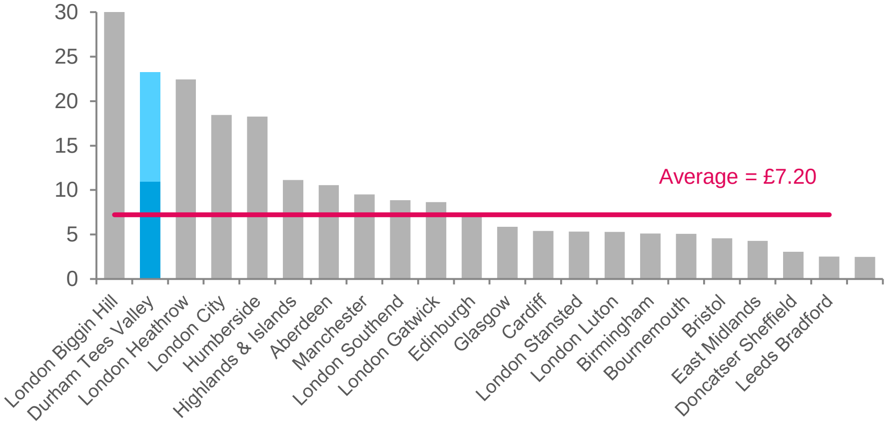
HISTORICAL PERFORMANCE

- Given the relatively low passenger throughput at DTVA, it is difficult to benchmark its aeronautical yield with accuracy. However the two charts opposite (taken from LeighFisher’s 2018 publication relating to financial year ending March 2017 and calendar year 2016), indicate that:
  1. DTVA’s share of aeronautical revenue is in line with UK norms
  2. Its per passenger yield is high
- Excluding the outlier of London Biggin Hill, and Heathrow, which serves a distinct market from the other airports, the remaining airports in LeighFisher’s sample average around £7 per passenger weighted by passengers, but with a significant number of airports earning less than that rate.
- Excluding DTVA’s freight, fuel and general aviation revenue, the underlying aeronautical charges yield averages around £11 per passenger (shown in total and excluding other aeronautical revenues in the shades the chart opposite).
- In a significant growth scenarios, therefore, it is unlikely that the airport will be able to sustain its current level of charges.

Aeronautical Revenue Share of Total Revenue (%)



Benchmarking of Aeronautical Yields



Source: LeighFisher UK Airports Performance Indicators 2016/17

ICF forecasts aero charges to reduce in real terms along with short-term incentives to attract airlines

ICF AERONAUTICAL FORECAST

- We forecast aero yield differently by scenario to reflect the competitive dynamics of each and to include the incentive that DTVA would have to offer to attract airlines in our different scenarios.
- In all scenarios we maintain fuel and general aviation revenues constant in real terms. We also remove the Passenger Facility charge in the first full year of operation by the Combined Authority (FY ending March 2021).
- For Scenario 1, we maintain aeronautical charges at the current rate per passenger (£10.9), on the assumption that KLM is willing to pay the current charge and that, absent growth, there is no need for the airport to lower charges, nor does the airport have the ability to raise charges.
- Scenarios 2 and 3 are summarised in the table opposite.

Aero Charge Yields Forecast Assumptions – Scenario 2

	Regional	**Charter**	**LCC**
Aero Charge	Reduced by 10% p.a. FY21 to FY26, from £10.9 to £5.8	Reduced by 10% p.a. FY21 to FY26, from £10.9 to £5.8	n/a
Support Initiative	£5 per passenger for 2 years, reducing to zero at £1 p.a.	£5 per passenger for 2 years, reducing to zero at £1 p.a.	n/a

Aero Charge Yields Forecast Assumptions – Scenario 3

	Regional	**Charter**	**LCC**
Aero Charges	Reduced by 10% p.a. FY21 to FY26, from £10.9 to £5.8	Reduced by 10% p.a. FY21 to FY26, from £10.9 to £5.8	Set at £5 constant in real terms
Support Initiative	£5 per passenger for 3 years, reducing to zero at £1 p.a.	£5 per passenger for 2 years, reducing to zero at £1 p.a.	£4 per passenger for 3 years, reducing to zero at £1 p.a.

Source: ICF analysis

ICF Forecast: Scenario 1

AERONAUTICAL REVENUE FORECAST

Nominal £ 000s	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Aeronautical Revenue Organic	1,363	1,472	1,535	1,601	1,670	1,742	1,816	1,893	1,971	2,051	2,133	2,216
Aeronautical Revenue Regional	-	-	-	-	-	-	-	-	-	-	-	-
Aeronautical Revenue Charter	-	-	-	-	-	-	-	-	-	-	-	-
Aeronautical Revenue LCC	-	-	-	-	-	-	-	-	-	-	-	-
Freight	5	5	5	5	5	5	5	5	5	6	6	6
Fuel	938	879	897	914	932	951	969	988	1,007	1,027	1,046	1,066
General Aviation	617	488	498	508	518	528	538	549	560	570	581	592
Passenger Facility Charge	302	316	329	343	-	-	-	-	-	-	-	-
Total Aeronautical Revenue	**3,224**	**3,159**	**3,265**	**3,371**	**3,125**	**3,225**	**3,328**	**3,435**	**3,544**	**3,654**	**3,766**	**3,880**
Total Aeronautical Revenue per Passenger	*24.5*	*23.5*	*23.7*	*24.0*	*21.7*	*21.9*	*22.1*	*22.3*	*22.5*	*22.8*	*23.0*	*23.2*

Nominal £ 000s	2029	2030	2031	2032	2033	2034	2035	2036	2037
Aeronautical Revenue Organic	2,216	2,301	2,388	2,477	2,568	2,661	2,756	2,854	2,955
Aeronautical Revenue Regional	-	-	-	-	-	-	-	-	-
Aeronautical Revenue Charter	-	-	-	-	-	-	-	-	-
Aeronautical Revenue LCC	-	-	-	-	-	-	-	-	-
Freight	6	6	6	6	6	6	6	7	7
Fuel	1,066	1,086	1,107	1,128	1,149	1,171	1,193	1,216	1,239
General Aviation	592	603	615	627	638	650	663	675	688
Passenger Facility Charge	-	-	-	-	-	-	-	-	-
Total Aeronautical Revenue	**3,880**	**3,996**	**4,115**	**4,237**	**4,362**	**4,489**	**4,619**	**4,752**	**4,888**
Total Aeronautical Revenue per Passenger	*23.5*	*23.7*	*24.0*	*24.3*	*24.6*	*24.9*	*25.2*	*25.5*	*25.8*

Source: ICF analysis

AERONAUTICAL REVENUE

ICF Forecast: Scenario 1

SUPPORT INITIATIVE FORECAST

Nominal £ 000s	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Support Initiative Organic	-	-	-	-	-	-	-	-	-	-	-	-
Support Initiative Regional	-	-	-	-	-	-	-	-	-	-	-	-
Support Initiative Charter	-	-	-	-	-	-	-	-	-	-	-	-
Support Initiative Based Airline	-	-	-	-	-	-	-	-	-	-	-	-
Total Support Initiative	-	-	-	-	-	-	-	-	-	-	-	-
Total Support Initiative per Passenger	-	-	-	-	-	-	-	-	-	-	-	-

Nominal £ 000s	2029	2030	2031	2032	2033	2034	2035	2036	2037
Support Initiative Organic	-	-	-	-	-	-	-	-	-
Support Initiative Regional	-	-	-	-	-	-	-	-	-
Support Initiative Charter	-	-	-	-	-	-	-	-	-
Support Initiative Based Airline	-	-	-	-	-	-	-	-	-
Total Support Initiative	-	-	-	-	-	-	-	-	-
Total Support Initiative per Passenger	-	-	-	-	-	-	-	-	-

Source: ICF analysis

ICF Forecast: Scenario 2

AERONAUTICAL REVENUE FORECAST

Nominal £ 000s	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Aeronautical Revenue Organic	1,363	1,472	1,535	1,601	1,503	1,411	1,293	1,186	1,111	1,041	974	1,012
Aeronautical Revenue Regional	-	-	-	-	328	768	853	800	843	789	820	852
Aeronautical Revenue Charter	-	-	-	-	374	829	801	735	689	645	671	697
Aeronautical Revenue LCC	-	-	-	-	-	-	-	-	-	-	-	-
Freight	5	5	5	5	5	5	5	5	5	6	6	6
Fuel	938	879	897	914	932	951	969	988	1,007	1,027	1,046	1,066
General Aviation	617	488	498	508	518	528	538	549	560	570	581	592
Passenger Facility Charge	302	316	329	343	-	-	-	-	-	-	-	-
Total Aeronautical Revenue	**3,224**	**3,159**	**3,265**	**3,371**	**3,660**	**4,491**	**4,459**	**4,263**	**4,215**	**4,077**	**4,098**	**4,225**
Total Aeronautical Revenue per Passenger	*24.5*	*23.5*	*23.7*	*24.0*	*17.3*	*14.3*	*13.3*	*12.6*	*11.8*	*11.2*	*11.0*	*11.1*

Nominal £ 000s	2029	2030	2031	2032	2033	2034	2035	2036	2037
Aeronautical Revenue Organic	1,051	1,090	1,131	1,173	1,215	1,259	1,303	1,349	1,395
Aeronautical Revenue Regional	885	918	953	988	1,023	1,060	1,098	1,136	1,175
Aeronautical Revenue Charter	724	751	779	807	837	867	898	929	961
Aeronautical Revenue LCC	-	-	-	-	-	-	-	-	-
Freight	6	6	6	6	6	6	7	7	7
Fuel	1,086	1,107	1,128	1,149	1,171	1,193	1,216	1,239	1,262
General Aviation	603	615	627	638	650	663	675	688	701
Passenger Facility Charge	-	-	-	-	-	-	-	-	-
Total Aeronautical Revenue	**4,355**	**4,487**	**4,623**	**4,761**	**4,903**	**5,048**	**5,196**	**5,348**	**5,501**
Total Aeronautical Revenue per Passenger	*11.3*	*11.4*	*11.5*	*11.7*	*11.8*	*12.0*	*12.1*	*12.3*	*12.4*

Source: ICF analysis

ICF Forecast: Scenario 2

SUPPORT INITIATIVE FORECAST

Nominal £ 000s	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Support Initiative Organic	-	-	-	-	-	-	-	-	-	-	-	-
Support Initiative Regional	-	-	-	-	(167)	(433)	(428)	(334)	(261)	(136)	-	-
Support Initiative Charter	-	-	-	-	(191)	(470)	(403)	(308)	(214)	(111)	-	-
Support Initiative Based Airline	-	-	-	-	-	-	-	-	-	-	-	-
Total Support Initiative	**-**	**-**	**-**	**-**	**(358)**	**(903)**	**(831)**	**(643)**	**(475)**	**(247)**	**-**	**-**
Total Support Initiative per Passenger	-	-	-	-	*(1.7)*	*(2.9)*	*(2.5)*	*(1.9)*	*(1.3)*	*(0.7)*	-	-

Nominal £ 000s	2029	2030	2031	2032	2033	2034	2035	2036	2037
Support Initiative Organic	-	-	-	-	-	-	-	-	-
Support Initiative Regional	-	-	-	-	-	-	-	-	-
Support Initiative Charter	-	-	-	-	-	-	-	-	-
Support Initiative Based Airline	-	-	-	-	-	-	-	-	-
Total Support Initiative	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total Support Initiative per Passenger	-	-	-	-	-	-	-	-	-

Source: ICF analysis

ICF Forecast: Scenario 3

AERONAUTICAL REVENUE FORECAST

Nominal £ 000s	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**
Aeronautical Revenue Organic	1,363	1,472	1,535	1,601	1,503	1,411	1,293	1,186	1,111	1,041	974	1,012
Aeronautical Revenue Regional	-	-	-	-	328	768	853	800	843	789	820	852
Aeronautical Revenue Charter	-	-	-	-	-	105	98	92	86	81	84	87
Aeronautical Revenue LCC	-	-	-	-	3,011	6,281	6,548	6,826	7,109	7,397	7,690	7,991
Freight	5	5	5	5	5	5	5	5	5	6	6	6
Fuel	938	879	897	914	932	951	969	988	1,007	1,027	1,046	1,066
General Aviation	617	488	498	508	518	528	538	549	560	570	581	592
Passenger Facility Charge	302	316	329	343	-	-	-	-	-	-	-	-
Total Aeronautical Revenue	**3,224**	**3,159**	**3,265**	**3,371**	**6,297**	**10,048**	**10,305**	**10,446**	**10,722**	**10,911**	**11,202**	**11,607**
Total Aeronautical Revenue per Passenger	*24.5*	*23.5*	*23.7*	*24.0*	*8.5*	*7.2*	*7.1*	*7.1*	*7.1*	*7.0*	*7.1*	*7.2*

Nominal £ 000s	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**	**2037**
Aeronautical Revenue Organic	1,051	1,090	1,131	1,173	1,215	1,259	1,303	1,349	1,395
Aeronautical Revenue Regional	885	918	953	988	1,023	1,060	1,098	1,136	1,175
Aeronautical Revenue Charter	91	94	98	101	105	109	112	116	120
Aeronautical Revenue LCC	8,297	8,611	8,932	9,260	9,596	9,940	10,293	10,655	11,019
Freight	6	6	6	6	6	6	7	7	7
Fuel	1,086	1,107	1,128	1,149	1,171	1,193	1,216	1,239	1,262
General Aviation	603	615	627	638	650	663	675	688	701
Passenger Facility Charge	-	-	-	-	-	-	-	-	-
Total Aeronautical Revenue	**12,019**	**12,441**	**12,874**	**13,315**	**13,767**	**14,230**	**14,704**	**15,190**	**15,680**
Total Aeronautical Revenue per Passenger	*7.3*	*7.4*	*7.6*	*7.7*	*7.8*	*8.0*	*8.1*	*8.2*	*8.4*

Source: ICF analysis

ICF Forecast: Scenario 3

SUPPORT INITIATIVE FORECAST

Nominal £ 000s	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Support Initiative Organic	-	-	-	-	-	-	-	-	-	-	-	-
Support Initiative Regional	-	-	-	-	(167)	(433)	(535)	(446)	(391)	(271)	(141)	-
Support Initiative Charter	-	-	-	-	-	(59)	(62)	(52)	(40)	(28)	(15)	-
Support Initiative Based Airline	-	-	-	-	(2,409)	(5,025)	(5,239)	(4,096)	(2,844)	(1,479)	-	-
Total Support Initiative	**-**	**-**	**-**	**-**	**(2,575)**	**(5,517)**	**(5,835)**	**(4,593)**	**(3,275)**	**(1,779)**	**(156)**	**-**
Total Support Initiative per Passenger	-	-	-	-	*(3.5)*	*(3.9)*	*(4.0)*	*(3.1)*	*(2.2)*	*(1.1)*	*(0.1)*	-

Nominal £ 000s	2029	2030	2031	2032	2033	2034	2035	2036	2037
Support Initiative Organic	-	-	-	-	-	-	-	-	-
Support Initiative Regional	-	-	-	-	-	-	-	-	-
Support Initiative Charter	-	-	-	-	-	-	-	-	-
Support Initiative Based Airline	-	-	-	-	-	-	-	-	-
Total Support Initiative	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total Support Initiative per Passenger	-	-	-	-	-	-	-	-	-

Source: ICF analysis

Non-Aeronautical Revenue

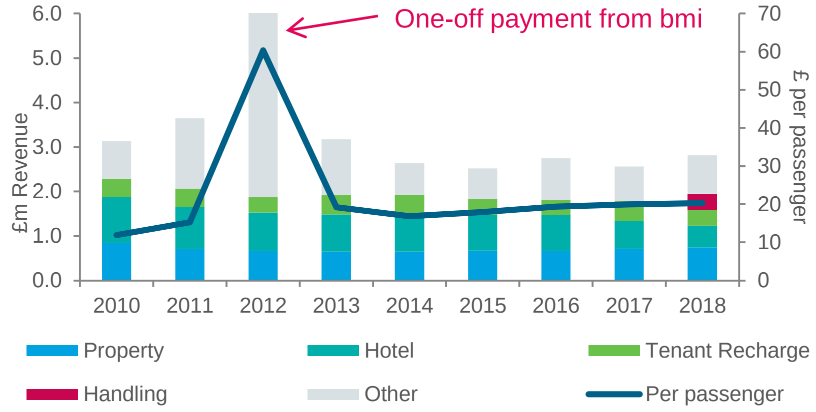
DTVA's non-aeronautical revenues have fallen as a result of declining passenger volumes

HISTORICAL PERFORMANCE

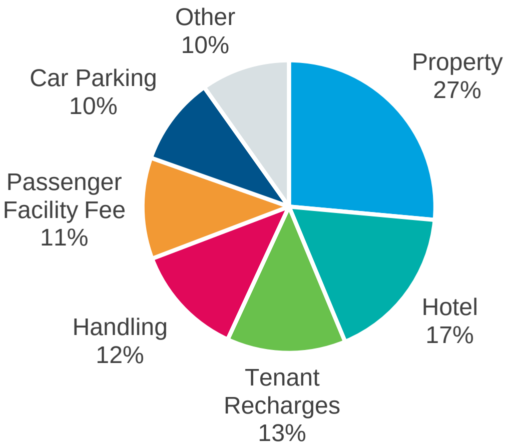
- In FY18, DTVA generated £2.82m in non-aeronautical revenue or 50% of total revenue, equating to £20.3 per passenger.
- Between 2010 and 2018 non-aeronautical revenues decreased from £3.1m to £2.8m, an average annual decrease of -1.3%. Revenue passenger increased from £11.9 to £20.3, a CAGR of 6.9%, as a result of the large non-passenger related share of non-aeronautical revenue which fell less severely than passenger volumes.
- The chart to the right shows the split of non-aeronautical revenue between the key activities. This shows that:
  - The airport has a diversified portfolio of income streams with a mix of passenger driven elements such as car parking and passenger fees, and other property related revenue.
  - The single largest commercial activity undertaken at the airport is property, generating £745,000 in 2018 or 27% of total non-aeronautical revenues.
  - The second largest source is the airport's on-site hotel, accounting for 17% of total non-aeronautical revenues, although this activity appears to generate an annual loss as the revenue has not covered the itemised cost in most years.
  - The in-sourcing of handling in FY2018 has added significantly to revenue, though it is not clear how the operational costs have fully reflected the additional revenue.
  - Excluding the passenger facility fee, which we treat at aeronautical revenue, car parking accounts of the largest passenger related non-aeronautical revenue at a revenue of consistently around £2 per passenger.

Historical Non-Aeronautical Revenue[1]

(Year ending March, £m, Real 17/18)



Commercial Revenues Category Split, FY18



Source: DTVA

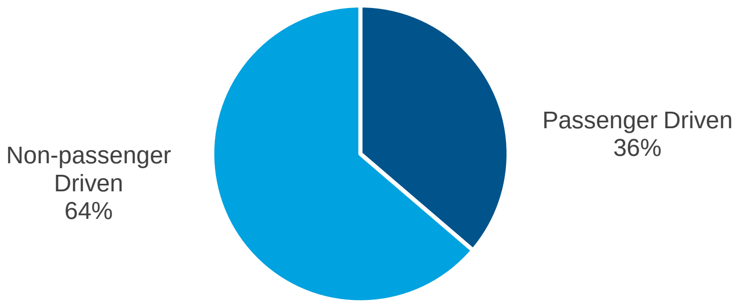
Note: 1. Includes the passenger facility fee.

Approximately 36% of DTVA's Non-Aeronautical Revenue comes from passenger driven services

OVERVIEW: KEY DRIVERS

- Airports generate non-aeronautical revenues from two key sources:
  - services provided to passengers
  - services provided to airlines and other business customers
- The key activities of each of these sources at the airport is shown to the right
- Overall, 36% of non-aeronautical revenues at DTVA are derived from passenger driven activities. This reflects the airport's low passenger volumes and reliance on non-passenger related revenue streams such as property and recharges to its tenants.

Split of Passenger & Non-Passenger Driven Revenue, FY18



Commercial Activities Drivers

Activity	Description
Passenger Driven	
Car parking	Revenue generated from ticket sales to customers parking in the airport's car parks
Passenger Facility Fee	Fees charged to the airline for each passenger's use of the airport's facilities
Other Concessions	Concession fees paid to the airport by retail, car rental, and other service operators
Non Passenger Driven	
Property	Rent and royalties earned from offices, check-in desks and other rentals
Hotel	Revenue from the airport owned on-site hotel
Tenant Recharges	Recharge of utility and service costs from airport tenants
Other	Advertising, Telecoms, and other miscellaneous revenue streams

Source: DTVA

ICF forecasts increasing revenue from car parking and terminal concessions

ICF NON-AERONAUTICAL FORECAST

- We forecast non-aeronautical revenue generally on a revenue per passenger basis, with a number of categories held constant in real terms as summarised in the table opposite.
- The airport generates a significant proportion of income from its property portfolio and consequential recharges. We hold these revenues constant in real terms as we understand that the Combined Authority is separately investigating the potential for property revenues associated with the airport.
- Our notable assumptions therefore relate to car parking, terminal concessions and the hotel.
- DTVA already earns around £2 per passenger from its car parking, which is a reasonably good performance and is unlikely to be significant exceeded, however we assume the introduction of a minimum £1 drop-off fee, resulting in a 15% real increase in FY21 thereafter at the higher rate per passenger.
- Terminal concessions under-perform and we assume a period of increase over the first three years of new ownership resulting the from negotiation of new F&B and retail concessions.
- We assume that the airport ends its loss-making hotel operation under new ownership, and replace the revenue with a concession fee from an third-party operator of the hotel.

Non-Aero Revenue Forecast Assumptions

	Assumptions
Car parking	15% increase in FY21 resulting from a minimum £1 drop-off charge. Constant in real terms thereafter.
Executive lounge	50% elasticity to organic growth passengers only
In-house handling	50% elasticity to growth in passengers
Concessions	10% increases to revenue per passenger in financial years 2021, 2022 and 2023
Ancillary	Constant in real terms
Land leases and tenant recharges	Constant in real terms
Hotel	Hotel out-sourced from FY21; concession fee revenue thereafter.
IT and telecoms	Constant in real terms
Advertising	Constant in real terms
Miscellaneous	Constant in real terms

Source: ICF analysis

ICF Forecast: Scenario 1

NOMINAL (1/2)

Nominal £ 000s	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Car Parking Revenue	253	275	287	299	359	374	390	407	424	441	458	476
Airports Executive Lounge	-	(2)	90	93	96	99	102	105	109	112	115	119
In-House Handling	-	347	358	370	381	393	405	418	431	444	457	470
Concession	37	74	77	80	92	105	121	126	131	137	142	148
Ancillary	16	12	12	12	12	12	13	13	13	13	14	14
Land Lease Income	692	745	761	775	790	806	822	838	854	871	887	904
Hotel Revenue	595	487	497	507	143	148	152	157	162	167	171	176
Tenant Recharges	436	370	378	385	393	400	408	416	424	433	441	449
IT & Telecoms Income	4	4	4	4	4	4	4	5	5	5	5	5
Advertising Revenue	3	5	5	5	5	5	5	5	5	5	6	6
Miscellaneous Revenue	136	148	151	154	157	160	163	166	169	173	176	179
Intercompany Revenue	-	-	-	-	-	-	-	-	-	-	-	-
Profit on Property Disposals	-	37	-	-	-	-	-	-	-	-	-	-
Total Non-Aeronautical Revenue	**2,171**	**2,501**	**2,620**	**2,684**	**2,432**	**2,508**	**2,586**	**2,656**	**2,727**	**2,799**	**2,871**	**2,946**
Total Non-Aeronautical Revenue per Passenger	*16.51*	*18.59*	*19.05*	*19.08*	*16.90*	*17.04*	*17.18*	*17.26*	*17.34*	*17.43*	*17.53*	*17.64*

Source: ICF analysis

ICF Forecast: Scenario 1

NOMINAL (2/2)

Nominal £ 000s	2029	2030	2031	2032	2033	2034	2035	2036	2037
Car Parking Revenue	494	513	532	552	572	592	613	635	657
Airports Executive Lounge	122	125	129	132	136	140	144	148	151
In-House Handling	483	497	511	525	540	554	569	585	600
Concession	153	159	165	171	177	184	190	197	203
Ancillary	14	15	15	15	15	16	16	16	17
Land Lease Income	921	939	956	974	993	1,012	1,031	1,050	1,070
Hotel Revenue	182	187	192	197	203	208	214	220	226
Tenant Recharges	458	466	475	484	493	503	512	522	532
IT & Telecoms Income	5	5	5	5	5	6	6	6	6
Advertising Revenue	6	6	6	6	6	6	6	7	7
Miscellaneous Revenue	183	186	190	193	197	201	204	208	212
Intercompany Revenue	-	-	-	-	-	-	-	-	-
Profit on Property Disposals	-	-	-	-	-	-	-	-	-
Total Non-Aeronautical Revenue	**3,021**	**3,097**	**3,176**	**3,256**	**3,337**	**3,421**	**3,506**	**3,593**	**3,680**
Total Non-Aeronautical Revenue per Passenger	*17.75*	*17.87*	*18.00*	*18.13*	*18.28*	*18.43*	*18.58*	*18.75*	*18.91*

Source: ICF analysis

ICF Forecast: Scenario 2

NOMINAL (1/2)

Nominal £ 000s	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Car Parking Revenue	253	275	287	299	527	799	870	892	963	1,002	1,041	1,082
Airports Executive Lounge	-	(2)	90	93	96	99	101	103	106	109	113	116
In-House Handling	-	347	358	370	471	601	631	645	677	697	717	738
Concession	37	74	77	80	135	225	269	276	298	310	323	335
Ancillary	16	12	12	12	12	12	13	13	13	13	14	14
Land Lease Income	692	745	761	775	790	806	822	838	854	871	887	904
Hotel Revenue	595	487	497	507	143	183	192	196	206	212	218	224
Tenant Recharges	436	370	378	385	393	400	408	416	424	433	441	449
IT & Telecoms Income	4	4	4	4	4	4	4	5	5	5	5	5
Advertising Revenue	3	5	5	5	5	5	5	5	5	5	6	6
Miscellaneous Revenue	136	148	151	154	157	160	163	166	169	173	176	179
Intercompany Revenue	-	-	-	-	-	-	-	-	-	-	-	-
Profit on Property Disposals	-	37	-	-	-	-	-	-	-	-	-	-
Total Non-Aeronautical Revenue	**2,171**	**2,501**	**2,620**	**2,684**	**2,734**	**3,295**	**3,477**	**3,555**	**3,720**	**3,829**	**3,940**	**4,053**
Total Non-Aeronautical Revenue per Passenger	*16.51*	*18.59*	*19.05*	*19.08*	*12.93*	*10.49*	*10.37*	*10.53*	*10.41*	*10.50*	*10.59*	*10.68*

Source: ICF analysis

ICF Forecast: Scenario 2

NOMINAL (2/2)

Nominal £ 000s	2029	2030	2031	2032	2033	2034	2035	2036	2037
Car Parking Revenue	1,124	1,166	1,210	1,254	1,299	1,346	1,394	1,443	1,492
Airports Executive Lounge	119	122	126	129	133	137	140	144	148
In-House Handling	759	781	803	825	848	871	895	919	943
Concession	348	361	375	389	403	417	432	447	462
Ancillary	14	15	15	15	15	16	16	16	17
Land Lease Income	921	939	956	974	993	1,012	1,031	1,050	1,070
Hotel Revenue	231	237	244	251	258	265	272	279	286
Tenant Recharges	458	466	475	484	493	503	512	522	532
IT & Telecoms Income	5	5	5	5	5	6	6	6	6
Advertising Revenue	6	6	6	6	6	6	6	7	7
Miscellaneous Revenue	183	186	190	193	197	201	204	208	212
Intercompany Revenue	-	-	-	-	-	-	-	-	-
Profit on Property Disposals	-	-	-	-	-	-	-	-	-
Total Non-Aeronautical Revenue	**4,167**	**4,284**	**4,404**	**4,526**	**4,650**	**4,778**	**4,908**	**5,041**	**5,175**
Total Non-Aeronautical Revenue per Passenger	*10.78*	*10.88*	*10.98*	*11.09*	*11.21*	*11.33*	*11.45*	*11.58*	*11.71*

Source: ICF analysis

ICF Forecast: Scenario 3

NOMINAL (1/2)

Nominal £ 000s	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Car Parking Revenue	253	275	287	299	1,853	3,559	3,740	3,890	4,085	4,250	4,419	4,592
Airports Executive Lounge	-	(2)	90	93	96	99	101	103	106	109	113	116
In-House Handling	-	347	358	370	1,183	1,741	1,802	1,855	1,920	1,977	2,035	2,095
Concession	37	74	77	80	474	1,002	1,159	1,205	1,266	1,317	1,369	1,423
Ancillary	16	12	12	12	12	12	13	13	13	13	14	14
Land Lease Income	692	745	761	775	790	806	822	838	854	871	887	904
Hotel Revenue	595	487	497	507	143	211	218	224	232	239	246	253
Tenant Recharges	436	370	378	385	393	400	408	416	424	433	441	449
IT & Telecoms Income	4	4	4	4	4	4	4	5	5	5	5	5
Advertising Revenue	3	5	5	5	5	5	5	5	5	5	6	6
Miscellaneous Revenue	136	148	151	154	157	160	163	166	169	173	176	179
Intercompany Revenue	-	-	-	-	-	-	-	-	-	-	-	-
Profit on Property Disposals	-	37	-	-	-	-	-	-	-	-	-	-
Total Non-Aeronautical Revenue	**2,171**	**2,501**	**2,620**	**2,684**	**5,111**	**8,000**	**8,435**	**8,721**	**9,080**	**9,393**	**9,710**	**10,035**
Total Non-Aeronautical Revenue per Passenger	*16.5*	*18.6*	*19.1*	*19.1*	*6.9*	*5.7*	*5.8*	*5.9*	*6.0*	*6.1*	*6.1*	*6.2*

Source: ICF analysis

ICF Forecast: Scenario 3

NOMINAL (2/2)

Nominal £ 000s	2029	2030	2031	2032	2033	2034	2035	2036	2037
Car Parking Revenue	4,767	4,948	5,132	5,321	5,514	5,712	5,914	6,122	6,332
Airports Executive Lounge	119	122	126	129	133	137	140	144	148
In-House Handling	2,154	2,215	2,278	2,341	2,406	2,472	2,539	2,608	2,677
Concession	1,477	1,533	1,590	1,649	1,708	1,770	1,832	1,897	1,962
Ancillary	14	15	15	15	15	16	16	16	17
Land Lease Income	921	939	956	974	993	1,012	1,031	1,050	1,070
Hotel Revenue	261	268	276	283	291	299	307	315	324
Tenant Recharges	458	466	475	484	493	503	512	522	532
IT & Telecoms Income	5	5	5	5	5	6	6	6	6
Advertising Revenue	6	6	6	6	6	6	6	7	7
Miscellaneous Revenue	183	186	190	193	197	201	204	208	212
Intercompany Revenue	-	-	-	-	-	-	-	-	-
Profit on Property Disposals	-	-	-	-	-	-	-	-	-
Total Non-Aeronautical Revenue	**10,365**	**10,703**	**11,049**	**11,401**	**11,762**	**12,131**	**12,509**	**12,895**	**13,284**
Total Non-Aeronautical Revenue per Passenger	*6.3*	*6.4*	*6.5*	*6.6*	*6.7*	*6.8*	*6.9*	*7.0*	*7.1*

Source: ICF analysis

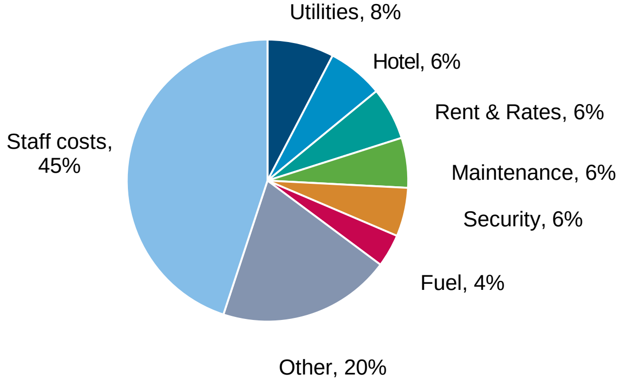
Operating Costs

The majority of DTVA's costs are fixed and dominated by expenditure on staff

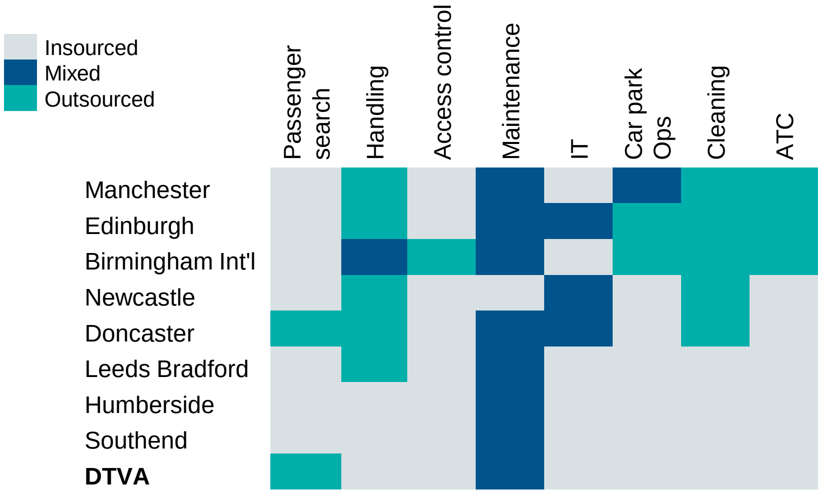
OVERVIEW

- In 2018, DTVA incurred £8.26m in operating costs.
- The chart to the right summarises the key breakdown of operating costs at the airport, showing that
- This shows that 45% of costs are related to staff costs.
- Of the remaining non-staff costs the largest items include:
  - Utilities costs for the provision of gas, electric and water. 59% of these costs are recharged to airport tenants.
  - Hotel costs associated with DTVA's running of its on-site airport.
- Most activities performed at DTVA are in-sourced, with airport employees responsible for cleaning, passenger handling, IT, and many other functions. Notably, security is outsourced.
- Further activities are provided by the Peel Group on behalf of the airport.

Breakdown of DTVA Operating Costs, FY18



Degree of Outsourcing, UK Airports



⬜ Insourced
🟦 Mixed
🟩 Outsourced

	Passenger search	Handling	Access control	Maintenance	IT	Car park Ops	Cleaning	ATC
Manchester	⬜	🟩	⬜	🟦	⬜	🟦	🟩	🟩
Edinburgh	⬜	🟩	⬜	🟦	🟦	🟩	🟩	🟩
Birmingham Int'l	⬜	🟦	🟩	🟦	⬜	🟩	🟩	🟩
Newcastle	⬜	🟩	⬜	⬜	🟦	⬜	🟩	⬜
Doncaster	🟩	🟩	⬜	🟦	🟦	⬜	🟩	⬜
Leeds Bradford	⬜	🟩	⬜	🟦	⬜	⬜	⬜	⬜
Humberside	⬜	⬜	⬜	🟦	⬜	⬜	⬜	⬜
Southend	⬜	⬜	⬜	🟦	⬜	⬜	⬜	⬜
DTVA	🟩	⬜	⬜	🟦	⬜	⬜	⬜	⬜

Note: Excludes depreciation & grants

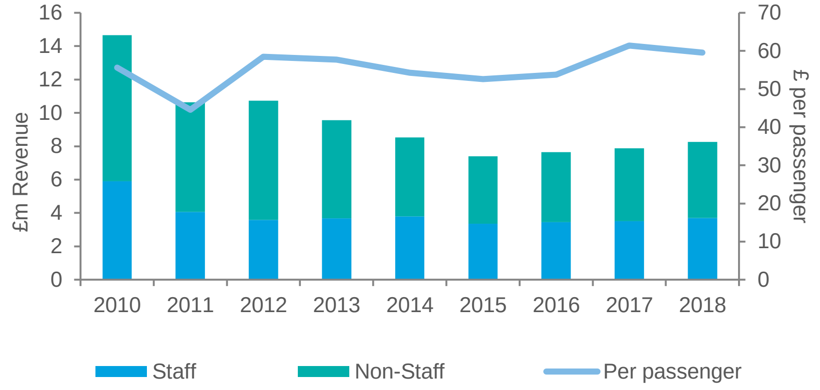
Source: DTVA, LeighFisher 2016/17 UK Airports Performance Indicators

Costs have fallen in line with passengers with major savings coming from reduced staff and security costs

HISTORICAL PERFORMANCE

- DTVA incurred £8.26m in operating costs in 2018, a 4.8% increase on the previous year. This translates to just under £60 per passenger, a -3.0% decrease on the previous year.
- Since 2010 total operating costs have increased at an average annual rate of 6.9%. Passenger throughput decreased at an average annual rate of -7.7%, resulting in costs per passenger increasing at an average annual rate of 0.8%.
- This change has primarily been driven by:
  - Reduction in staff costs between 2010 and 2012 resulting in a 40% cost saving. Further reductions were made in 2015 when staff costs fell by 12%.
  - Security costs fell as passenger volumes declined, with costs falling from £1.1m to £460,000.
  - Airline route and marketing support have also fallen from £1.9m in FY08 to £400,000 in FY08 and have totalled less than £50,000 per annum since FY14.
  - Costs associated with the airport’s hotel business fell from £1.1m to £529,000 from 2010 to 2018.
  - Professional fees reduced from ~£600,000 in FY10 and FY12 to an average £200,000 between FY13 and FY18.
  - The fuel operation was in-sourced in 2016 which saw the relevant costs increase notably.

Historical Operating Costs
(Year ending March, £m, Real 17/18)



Note: Excludes depreciation & grants

Source: DTVA

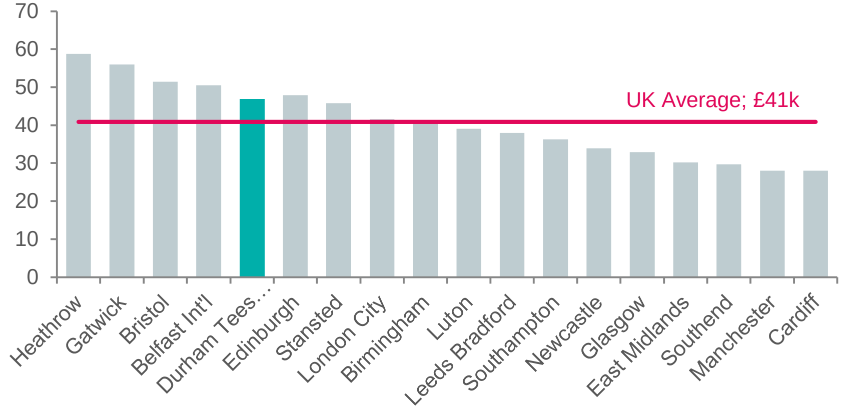
Inevitably, Durham’s opex cost rate per passenger is high, but so is its staff cost per FTE

HISTORICAL PERFORMANCE

- With so few passengers, benchmarking the total rate of operating costs per passenger is unreliable. However, it is relevant to observe that the unit staff cost exceeds the UK average as shown above opposite.
- In a region with lower than UK average salaries, shown below, this cost rate is unusual.

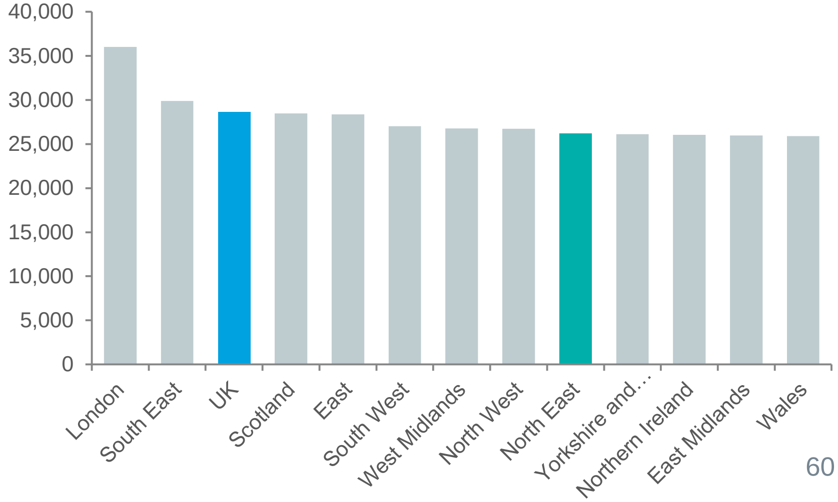
Benchmarking of Staff Costs at UK Airports

(£000s/FTE)



Median Full-Time Gross Annual Earnings

(£/FTE)



Sources: LeighFisher UK Airports Performance Indicators, Annual Survey of Hours and Earnings, 2017

ICF forecasts a number of costs to remain constant in real terms, but a number increase with passengers

ICF OPERATING COSTS FORECAST

- We forecast a number of costs to remain constant in real terms, they are:
  - Aerodrome
  - Fuel to align with the same assumption for corresponding revenue
  - Professional fees
  - Hotel costs until FY21 when the airport operation is ceased and the costs reduces to zero
  - Bank charges and commission
- We do not include a contingency in our forecast
- Other operating costs vary with passenger throughput, or other assumptions as set out on the following pages and highlighted opposite

- Our notable assumptions include:
  - 5% increase in FTEs in FY19 to service the handling operation brought in-house in FY18
  - 5% reduction in FTEs in FY21 in the first full year of operation by the Combined Authority
  - 5% reduction in cost per FTE in both FY21 and FY22
  - Intercompany costs remain constant with the implicit assumption that the parent company services provided by the Peel Group currently will be provided by the Combined Authority at the same cost to the airport

Source: ICF analysis

Operating costs forecast assumptions (1/2)

ICF OPERATING COSTS FORECAST

Business Area	Driver
Staff Costs	▪ One-off 5% increase in FY19 to add staff to service the in-house handling operation ▪ One-off 5% reduction to FTEs in FY21 ▪ Thereafter FTEs held constant until throughput reaches 500,000 passengers beyond which FTEs increase at 25% elasticity to passenger growth ▪ 5% reduction in cost per FTE forecast in each of FY21 and FY22, constant in real terms thereafter ▪ “Staff Costs other” forecast constant in real terms
Route and Marketing Support	▪ 10% elasticity to growth in passenger throughput
Security	▪ 50% elasticity to growth in passenger throughput
Cleaning	▪ On the assumption that the cost of staff is included within Staff Costs, Cleaning forecast to grow at a 10% elasticity to growth in passenger throughput and 30% to floor area growth
Training	▪ 5% elasticity to growth in passenger throughput
Utilities	▪ 10% elasticity to growth in passenger throughput and 50% to floor area growth
Rent and Rates	▪ 50% to floor area growth, zero elasticity to passenger throughput, no allowance for real increases at tri-annual rate reviews
Insurance	▪ 25% elasticity to floor area growth
Repairs & Maintenance	▪ 10% elasticity to growth in passenger throughput and 30% to floor area growth

Operating costs forecast assumptions (2/2)

ICF OPERATING COSTS FORECAST

Business Area	Driver
Equipment	▪ 10% elasticity to growth in passenger throughput
IT & telecoms	▪ 20% elasticity to growth in passenger throughput and 5% to growth in FTEs
Airport PR and marketing	▪ Constant in real terms in Scenario 1 ▪ For Scenarios 2 and 3, one-off increases of 10% in FYs 21, 22 and 23, followed by 10% reductions in each of FYs 24 to 28 inclusive. Constant in real terms thereafter.
Car Park	▪ 30% elasticity to growth in passenger throughput
Intercompany Costs	▪ Constant in real terms, but assumes that the cost currently paid to Peel replicates the same provision of services from the TVCA

OPERATING COSTS

ICF Forecast: Scenario 1

NOMINAL (1/2)

Nominal £ 000s	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Total Staff Costs	**3,355**	**3,628**	**3,882**	**3,957**	**3,652**	**3,545**	**3,614**	**3,685**	**3,756**	**3,829**	**3,902**	**3,976**
Aerodrome	311	288	294	299	305	311	317	324	330	336	343	349
Route and Marketing Support	21	46	47	48	49	50	51	52	54	55	56	57
Security	423	461	476	491	506	522	538	555	572	589	606	624
Cleaning	4	7	7	7	7	8	8	8	8	8	8	9
Training	23	82	84	86	88	89	91	93	95	97	99	101
Utility	609	632	647	661	675	690	705	721	736	752	768	784
Rent and Rates	466	498	508	518	528	539	549	560	571	582	593	604
Insurance	157	246	251	256	261	266	271	277	282	287	293	299
Repairs & Maintenance	319	472	483	494	505	516	527	538	550	562	574	586
Fuel	363	311	317	323	330	336	343	349	356	363	370	377
Equipment	71	83	85	87	89	91	93	95	97	99	101	103
IT & Telecoms	92	61	62	64	65	67	68	70	71	73	75	77
Airport PR and Marketing	198	260	265	270	275	281	286	292	298	303	309	315
Car Park	36	32	33	34	35	36	37	38	39	40	41	42
Professional	203	174	178	181	185	188	192	196	200	203	207	211
Administration	191	125	127	130	132	135	138	140	143	146	149	151
Hotel	566	529	540	551	-	-	-	-	-	-	-	-
Bank Charges & commission	-	10	10	10	10	10	11	11	11	11	11	12
Intercompany Costs	199	212	216	221	225	229	234	238	243	248	252	257
Total Operating Costs	**7,607**	**8,258**	**8,617**	**8,792**	**7,923**	**7,909**	**8,073**	**8,242**	**8,411**	**8,583**	**8,757**	**8,934**
Total Operating Costs per Passenger	*57.9*	*61.4*	*62.7*	*62.5*	*55.0*	*53.7*	*53.6*	*53.5*	*53.5*	*53.5*	*53.5*	*53.5*

Source: ICF analysis

ICF Forecast: Scenario 1

NOMINAL (2/2)

Nominal £ 000s	2029	2030	2031	2032	2033	2034	2035	2036	2037
Total Staff Costs	**4,051**	**4,128**	**4,206**	**4,285**	**4,366**	**4,449**	**4,533**	**4,619**	**4,705**
Aerodrome	356	363	369	376	384	391	398	406	413
Route and Marketing Support	58	59	61	62	63	65	66	67	69
Security	642	660	678	697	717	736	756	777	797
Cleaning	9	9	9	9	10	10	10	10	10
Training	103	105	107	109	111	114	116	118	120
Utility	801	817	834	851	869	887	905	924	943
Rent and Rates	616	627	639	651	664	676	689	702	715
Insurance	304	310	316	322	328	334	340	347	353
Repairs & Maintenance	598	610	623	636	649	663	676	690	704
Fuel	384	391	399	406	414	422	430	438	446
Equipment	105	107	110	112	114	116	119	121	124
IT & Telecoms	78	80	82	84	86	87	89	91	93
Airport PR and Marketing	321	327	333	339	346	352	359	366	373
Car Park	43	44	45	46	47	48	49	51	52
Professional	215	219	223	228	232	236	241	245	250
Administration	154	157	160	163	166	170	173	176	179
Hotel	-	-	-	-	-	-	-	-	-
Bank Charges & commission	12	12	12	13	13	13	13	13	14
Intercompany Costs	262	267	272	277	282	288	293	299	304
Total Operating Costs	**9,112**	**9,293**	**9,479**	**9,668**	**9,861**	**10,057**	**10,257**	**10,461**	**10,666**
Total Operating Costs per Passenger	*53.5*	*53.6*	*53.7*	*53.8*	*54.0*	*54.2*	*54.4*	*54.6*	*54.8*

Source: ICF analysis

ICF Forecast: Scenario 2

NOMINAL (1/2)

Nominal £ 000s	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Total Staff Costs	**3,355**	**3,628**	**3,882**	**3,957**	**3,652**	**3,545**	**3,614**	**3,685**	**3,756**	**3,829**	**3,902**	**3,976**
Aerodrome	311	288	294	299	305	311	317	324	330	336	343	349
Route and Marketing Support	21	46	47	48	52	55	57	58	59	60	62	63
Security	423	461	476	491	626	798	838	856	899	925	953	980
Cleaning	4	7	7	7	8	8	9	9	9	9	9	9
Training	23	82	84	86	90	94	96	98	100	102	104	106
Utility	609	632	647	661	708	758	777	793	813	830	848	866
Rent and Rates	466	498	508	518	528	539	549	560	571	582	593	604
Insurance	157	246	251	256	261	266	271	277	282	287	293	299
Repairs & Maintenance	319	472	483	494	529	566	581	592	607	620	633	647
Fuel	363	311	317	323	330	336	343	349	356	363	370	377
Equipment	71	83	85	87	93	100	102	104	107	109	111	114
IT & Telecoms	92	61	62	64	71	80	82	84	87	89	91	93
Airport PR and Marketing	198	260	265	270	303	340	381	350	321	294	270	248
Car Park	36	32	33	34	40	47	48	50	51	53	54	55
Professional	203	174	178	181	185	188	192	196	200	203	207	211
Administration	191	125	127	130	132	135	138	140	143	146	149	151
Hotel	566	529	540	551	-	-	-	-	-	-	-	-
Bank Charges & commission	-	10	10	10	10	10	11	11	11	11	11	12
Intercompany Costs	199	212	216	221	225	229	234	238	243	248	252	257
Total Operating Costs	**7,607**	**8,258**	**8,617**	**8,792**	**8,147**	**8,405**	**8,638**	**8,772**	**8,944**	**9,098**	**9,255**	**9,418**
Total Operating Costs per Passenger	*57.9*	*61.4*	*62.7*	*62.5*	*38.5*	*26.8*	*25.8*	*26.0*	*25.0*	*24.9*	*24.9*	*24.8*

Source: ICF analysis

ICF Forecast: Scenario 2

NOMINAL (2/2)

Nominal £ 000s	2029	2030	2031	2032	2033	2034	2035	2036	2037
Total Staff Costs	**4,051**	**4,128**	**4,206**	**4,285**	**4,366**	**4,449**	**4,533**	**4,619**	**4,705**
Aerodrome	356	363	369	376	384	391	398	406	413
Route and Marketing Support	64	66	67	68	70	71	73	74	76
Security	1,008	1,037	1,066	1,096	1,126	1,157	1,188	1,220	1,253
Cleaning	10	10	10	10	11	11	11	11	11
Training	108	110	113	115	117	119	122	124	127
Utility	884	902	921	940	959	979	999	1,020	1,040
Rent and Rates	616	627	639	651	664	676	689	702	715
Insurance	304	310	316	322	328	334	340	347	353
Repairs & Maintenance	660	674	688	702	717	731	746	762	777
Fuel	384	391	399	406	414	422	430	438	446
Equipment	116	118	121	123	126	129	131	134	137
IT & Telecoms	95	97	99	102	104	106	108	111	113
Airport PR and Marketing	252	257	262	267	272	277	282	288	293
Car Park	57	58	60	61	62	64	66	67	69
Professional	215	219	223	228	232	236	241	245	250
Administration	154	157	160	163	166	170	173	176	179
Hotel	-	-	-	-	-	-	-	-	-
Bank Charges & commission	12	12	12	13	13	13	13	13	14
Intercompany Costs	262	267	272	277	282	288	293	299	304
Total Operating Costs	**9,609**	**9,804**	**10,003**	**10,206**	**10,412**	**10,623**	**10,838**	**11,057**	**11,276**
Total Operating Costs per Passenger	*24.9*	*24.9*	*24.9*	*25.0*	*25.1*	*25.2*	*25.3*	*25.4*	*25.5*

Source: ICF analysis

ICF Forecast: Scenario 3

NOMINAL (1/2)

Nominal £ 000s	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Total Staff Costs	**3,355**	**3,628**	**3,882**	**3,957**	**7,632**	**9,012**	**9,255**	**9,483**	**9,739**	**9,978**	**10,218**	**10,464**
Aerodrome	311	288	294	299	305	311	317	324	330	336	343	349
Route and Marketing Support	21	46	47	48	70	78	80	81	83	85	87	88
Security	423	461	476	491	1,572	2,312	2,393	2,464	2,550	2,626	2,703	2,782
Cleaning	4	7	7	7	11	12	12	12	13	13	13	13
Training	23	82	84	86	106	113	116	118	120	123	125	128
Utility	609	632	647	661	962	1,068	1,092	1,116	1,141	1,166	1,190	1,215
Rent and Rates	466	498	508	518	528	539	549	560	571	582	593	604
Insurance	157	246	251	256	261	266	271	277	282	287	293	299
Repairs & Maintenance	319	472	483	494	719	798	816	834	852	871	889	908
Fuel	363	311	317	323	330	336	343	349	356	363	370	377
Equipment	71	83	85	87	126	140	143	147	150	153	156	160
IT & Telecoms	92	61	62	64	124	150	154	157	161	165	169	173
Airport PR and Marketing	198	260	265	270	303	340	381	350	321	294	270	248
Car Park	36	32	33	34	79	102	105	108	111	114	117	119
Professional	203	174	178	181	185	188	192	196	200	203	207	211
Administration	191	125	127	130	132	135	138	140	143	146	149	151
Hotel	566	529	540	551	-	-	-	-	-	-	-	-
Bank Charges & commission	-	10	10	10	10	10	11	11	11	11	11	12
Intercompany Costs	199	212	216	221	225	229	234	238	243	248	252	257
Total Operating Costs	**7,607**	**8,258**	**8,617**	**8,792**	**13,680**	**16,141**	**16,601**	**16,964**	**17,376**	**17,763**	**18,156**	**18,559**
Total Operating Costs per Passenger	*57.9*	*61.4*	*62.7*	*62.5*	*18.4*	*11.5*	*11.5*	*11.5*	*11.5*	*11.5*	*11.5*	*11.5*

Source: ICF analysis

ICF Forecast: Scenario 3

NOMINAL (2/2)

Nominal £ 000s	2029	2030	2031	2032	2033	2034	2035	2036	2037
Total Staff Costs	**10,711**	**10,964**	**11,221**	**11,482**	**11,749**	**12,021**	**12,298**	**12,580**	**12,862**
Aerodrome	356	363	369	376	384	391	398	406	413
Route and Marketing Support	90	92	94	96	98	100	102	104	106
Security	2,861	2,942	3,025	3,109	3,195	3,282	3,372	3,463	3,554
Cleaning	14	14	14	14	15	15	15	16	16
Training	130	133	136	138	141	144	147	150	152
Utility	1,241	1,266	1,293	1,319	1,347	1,374	1,403	1,432	1,461
Rent and Rates	616	627	639	651	664	676	689	702	715
Insurance	304	310	316	322	328	334	340	347	353
Repairs & Maintenance	927	946	966	986	1,006	1,027	1,048	1,069	1,091
Fuel	384	391	399	406	414	422	430	438	446
Equipment	163	166	170	173	177	181	184	188	192
IT & Telecoms	177	181	185	189	194	198	203	207	212
Airport PR and Marketing	252	257	262	267	272	277	282	288	293
Car Park	122	125	128	132	135	138	141	145	148
Professional	215	219	223	228	232	236	241	245	250
Administration	154	157	160	163	166	170	173	176	179
Hotel	-	-	-	-	-	-	-	-	-
Bank Charges & commission	12	12	12	13	13	13	13	13	14
Intercompany Costs	262	267	272	277	282	288	293	299	304
Total Operating Costs	**18,991**	**19,434**	**19,884**	**20,343**	**20,810**	**21,286**	**21,772**	**22,267**	**22,763**
Total Operating Costs per Passenger	*11.6*	*11.6*	*11.7*	*11.8*	*11.8*	*11.9*	*12.0*	*12.1*	*12.1*

Source: ICF analysis

Business Plan Forecast

EBITDA Summary: Scenario 1

NOMINAL (1/2)

Nominal £ 000s	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**
Total Passengers (000s)	131	135	138	141	144	147	151	154	157	161	164	167
Total Aeronautical Revenue	3,224	3,159	3,265	3,371	3,125	3,225	3,328	3,435	3,544	3,654	3,766	3,880
Total Non-Aeronautical Revenue	2,171	2,501	2,620	2,684	2,432	2,508	2,586	2,656	2,727	2,799	2,871	2,946
Total Revenue	**5,395**	**5,661**	**5,884**	**6,055**	**5,557**	**5,733**	**5,915**	**6,091**	**6,270**	**6,453**	**6,637**	**6,826**
Total Staff Costs	3,355	3,628	3,882	3,957	3,652	3,545	3,614	3,685	3,756	3,829	3,902	3,976
Non-Staff Costs	4,252	4,630	4,735	4,835	4,270	4,365	4,459	4,557	4,655	4,755	4,855	4,958
Total Costs	**7,607**	**8,258**	**8,617**	**8,792**	**7,923**	**7,909**	**8,073**	**8,242**	**8,411**	**8,583**	**8,757**	**8,934**
EBITDA	**(2,213)**	**(2,597)**	**(2,733)**	**(2,737)**	**(2,366)**	**(2,176)**	**(2,158)**	**(2,150)**	**(2,141)**	**(2,131)**	**(2,120)**	**(2,108)**
EBITDA Margin	*(41.0%)*	*(45.9%)*	*(46.4%)*	*(45.2%)*	*(42.6%)*	*(38.0%)*	*(36.5%)*	*(35.3%)*	*(34.1%)*	*(33.0%)*	*(31.9%)*	*(30.9%)*
Total Support Initiative	-	-	-	-	-	-	-	-	-	-	-	-
Underlying EBITDA	**(2,213)**	**(2,597)**	**(2,733)**	**(2,737)**	**(2,366)**	**(2,176)**	**(2,158)**	**(2,150)**	**(2,141)**	**(2,131)**	**(2,120)**	**(2,108)**
Underlying EBITDA Margin	*(41.0%)*	*(45.9%)*	*(46.4%)*	*(45.2%)*	*(42.6%)*	*(38.0%)*	*(36.5%)*	*(35.3%)*	*(34.1%)*	*(33.0%)*	*(31.9%)*	*(30.9%)*

Source: ICF analysis

EBITDA Summary: Scenario 1

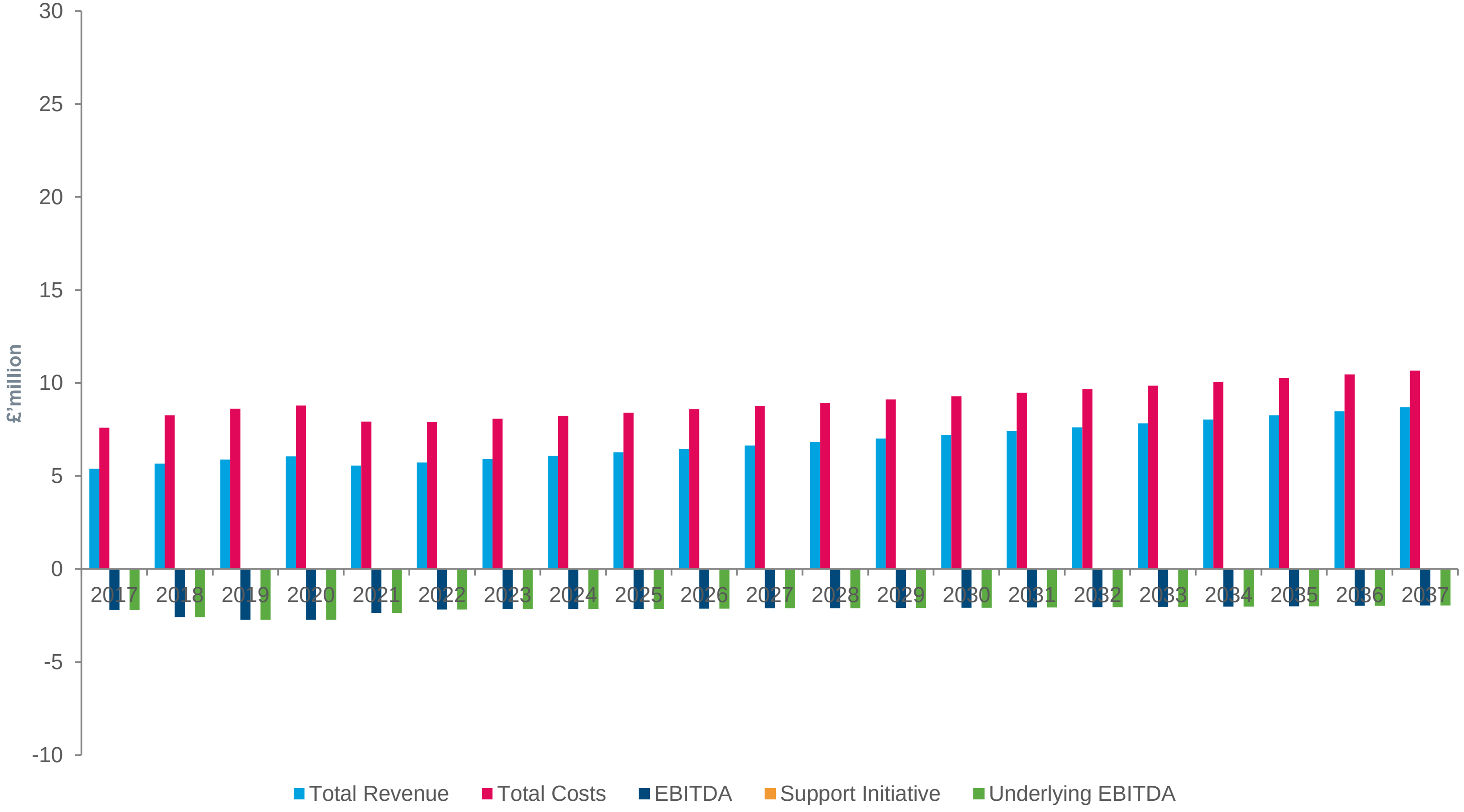
NOMINAL (2/2)

Nominal £ 000s	2029	2030	2031	2032	2033	2034	2035	2036	2037
Total Passengers (000s)	170	173	176	180	183	186	189	192	195
Total Aeronautical Revenue	3,996	4,115	4,237	4,362	4,489	4,619	4,752	4,888	5,025
Total Non-Aeronautical Revenue	3,021	3,097	3,176	3,256	3,337	3,421	3,506	3,593	3,680
Total Revenue	**7,017**	**7,213**	**7,413**	**7,617**	**7,826**	**8,040**	**8,258**	**8,481**	**8,705**
Total Staff Costs	4,051	4,128	4,206	4,285	4,366	4,449	4,533	4,619	4,705
Non-Staff Costs	5,061	5,166	5,273	5,383	5,494	5,608	5,724	5,842	5,960
Total Costs	**9,112**	**9,293**	**9,479**	**9,668**	**9,861**	**10,057**	**10,257**	**10,461**	**10,666**
EBITDA	**(2,095)**	**(2,081)**	**(2,066)**	**(2,051)**	**(2,035)**	**(2,018)**	**(1,999)**	**(1,980)**	**(1,960)**
EBITDA Margin	*(29.8%)*	*(28.8%)*	*(27.9%)*	*(26.9%)*	*(26.0%)*	*(25.1%)*	*(24.2%)*	*(23.4%)*	*(22.5%)*
Total Support Initiative	-	-	-	-	-	-	-	-	-
Underlying EBITDA	**(2,095)**	**(2,081)**	**(2,066)**	**(2,051)**	**(2,035)**	**(2,018)**	**(1,999)**	**(1,980)**	**(1,960)**
Underlying EBITDA Margin	*(29.8%)*	*(28.8%)*	*(27.9%)*	*(26.9%)*	*(26.0%)*	*(25.1%)*	*(24.2%)*	*(23.4%)*	*(22.5%)*

Source: ICF analysis

EBITDA Summary: Scenario 1

NOMINAL



Source: ICF analysis

EBITDA Summary: Scenario 1

REAL (1/2)

Nominal £ 000s	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Total Passengers (000s)	131	135	138	141	144	147	151	154	157	161	164	167
Total Aeronautical Revenue	3,306	3,159	3,198	3,240	2,946	2,982	3,018	3,055	3,092	3,128	3,163	3,198
Total Non-Aeronautical Revenue	2,226	2,501	2,566	2,580	2,293	2,319	2,345	2,362	2,379	2,396	2,412	2,428
Total Revenue	**5,532**	**5,661**	**5,764**	**5,820**	**5,239**	**5,300**	**5,364**	**5,418**	**5,471**	**5,523**	**5,575**	**5,626**
Total Staff Costs	3,441	3,628	3,803	3,803	3,444	3,277	3,277	3,277	3,277	3,277	3,277	3,277
Non-Staff Costs	4,360	4,630	4,638	4,647	4,026	4,035	4,044	4,053	4,062	4,070	4,078	4,086
Total Costs	**7,800**	**8,258**	**8,442**	**8,451**	**7,470**	**7,312**	**7,321**	**7,330**	**7,339**	**7,347**	**7,355**	**7,363**
EBITDA	**(2,269)**	**(2,597)**	**(2,677)**	**(2,631)**	**(2,230)**	**(2,012)**	**(1,957)**	**(1,912)**	**(1,868)**	**(1,824)**	**(1,780)**	**(1,737)**
EBITDA Margin	*(41.0%)*	*(45.9%)*	*(46.4%)*	*(45.2%)*	*(42.6%)*	*(38.0%)*	*(36.5%)*	*(35.3%)*	*(34.1%)*	*(33.0%)*	*(31.9%)*	*(30.9%)*
Total Support Initiative	-	-	-	-	-	-	-	-	-	-	-	-
Underlying EBITDA	**(2,269)**	**(2,597)**	**(2,677)**	**(2,631)**	**(2,230)**	**(2,012)**	**(1,957)**	**(1,912)**	**(1,868)**	**(1,824)**	**(1,780)**	**(1,737)**
Underlying EBITDA Margin	*(41.0%)*	*(45.9%)*	*(46.4%)*	*(45.2%)*	*(42.6%)*	*(38.0%)*	*(36.5%)*	*(35.3%)*	*(34.1%)*	*(33.0%)*	*(31.9%)*	*(30.9%)*

Source: ICF analysis

EBITDA Summary: Scenario 1

REAL (2/2)

Nominal £ 000s	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**	**2037**
Total Passengers (000s)	170	173	176	180	183	186	189	192	195
Total Aeronautical Revenue	3,233	3,268	3,302	3,335	3,369	3,402	3,435	3,468	3,500
Total Non-Aeronautical Revenue	2,444	2,459	2,475	2,490	2,505	2,520	2,534	2,549	2,563
Total Revenue	**5,677**	**5,727**	**5,777**	**5,825**	**5,874**	**5,922**	**5,969**	**6,017**	**6,063**
Total Staff Costs	3,277	3,277	3,277	3,277	3,277	3,277	3,277	3,277	3,277
Non-Staff Costs	4,094	4,102	4,109	4,116	4,124	4,131	4,138	4,144	4,151
Total Costs	**7,371**	**7,379**	**7,386**	**7,394**	**7,401**	**7,408**	**7,415**	**7,422**	**7,428**
EBITDA	**(1,694)**	**(1,652)**	**(1,610)**	**(1,568)**	**(1,527)**	**(1,486)**	**(1,445)**	**(1,405)**	**(1,365)**
EBITDA Margin	*(29.8%)*	*(28.8%)*	*(27.9%)*	*(26.9%)*	*(26.0%)*	*(25.1%)*	*(24.2%)*	*(23.4%)*	*(22.5%)*
Total Support Initiative	-	-	-	-	-	-	-	-	-
Underlying EBITDA	**(1,694)**	**(1,652)**	**(1,610)**	**(1,568)**	**(1,527)**	**(1,486)**	**(1,445)**	**(1,405)**	**(1,365)**
Underlying EBITDA Margin	*(29.8%)*	*(28.8%)*	*(27.9%)*	*(26.9%)*	*(26.0%)*	*(25.1%)*	*(24.2%)*	*(23.4%)*	*(22.5%)*

Source: ICF analysis

EBITDA Summary: Scenario 2

NOMINAL (1/2)

Nominal £ 000s	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**
Total Passengers (000s)	131	135	138	141	211	314	335	337	357	365	372	379
Total Aeronautical Revenue	3,224	3,159	3,265	3,371	3,660	4,491	4,459	4,263	4,215	4,077	4,098	4,225
Total Non-Aeronautical Revenue	2,171	2,501	2,620	2,684	2,734	3,295	3,477	3,555	3,720	3,829	3,940	4,053
Total Revenue	**5,395**	**5,661**	**5,884**	**6,055**	**6,394**	**7,786**	**7,937**	**7,818**	**7,935**	**7,907**	**8,037**	**8,278**
Total Staff Costs	3,355	3,628	3,882	3,957	3,652	3,545	3,614	3,685	3,756	3,829	3,902	3,976
Non-Staff Costs	4,252	4,630	4,735	4,835	4,494	4,861	5,025	5,088	5,188	5,269	5,353	5,442
Total Costs	**7,607**	**8,258**	**8,617**	**8,792**	**8,147**	**8,405**	**8,638**	**8,772**	**8,944**	**9,098**	**9,255**	**9,418**
EBITDA	**(2,213)**	**(2,597)**	**(2,733)**	**(2,737)**	**(1,752)**	**(619)**	**(701)**	**(955)**	**(1,009)**	**(1,191)**	**(1,217)**	**(1,140)**
EBITDA Margin	*(41.0%)*	*(45.9%)*	*(46.4%)*	*(45.2%)*	*(27.4%)*	*(8.0%)*	*(8.8%)*	*(12.2%)*	*(12.7%)*	*(15.1%)*	*(15.1%)*	*(13.8%)*
Total Support Initiative	-	-	-	-	(358)	(903)	(831)	(643)	(475)	(247)	-	-
Underlying EBITDA	**(2,213)**	**(2,597)**	**(2,733)**	**(2,737)**	**(2,110)**	**(1,522)**	**(1,532)**	**(1,597)**	**(1,484)**	**(1,438)**	**(1,217)**	**(1,140)**
Underlying EBITDA Margin	*(41.0%)*	*(45.9%)*	*(46.4%)*	*(45.2%)*	*(33.0%)*	*(19.5%)*	*(19.3%)*	*(20.4%)*	*(18.7%)*	*(18.2%)*	*(15.1%)*	*(13.8%)*

Source: ICF analysis

EBITDA Summary: Scenario 2

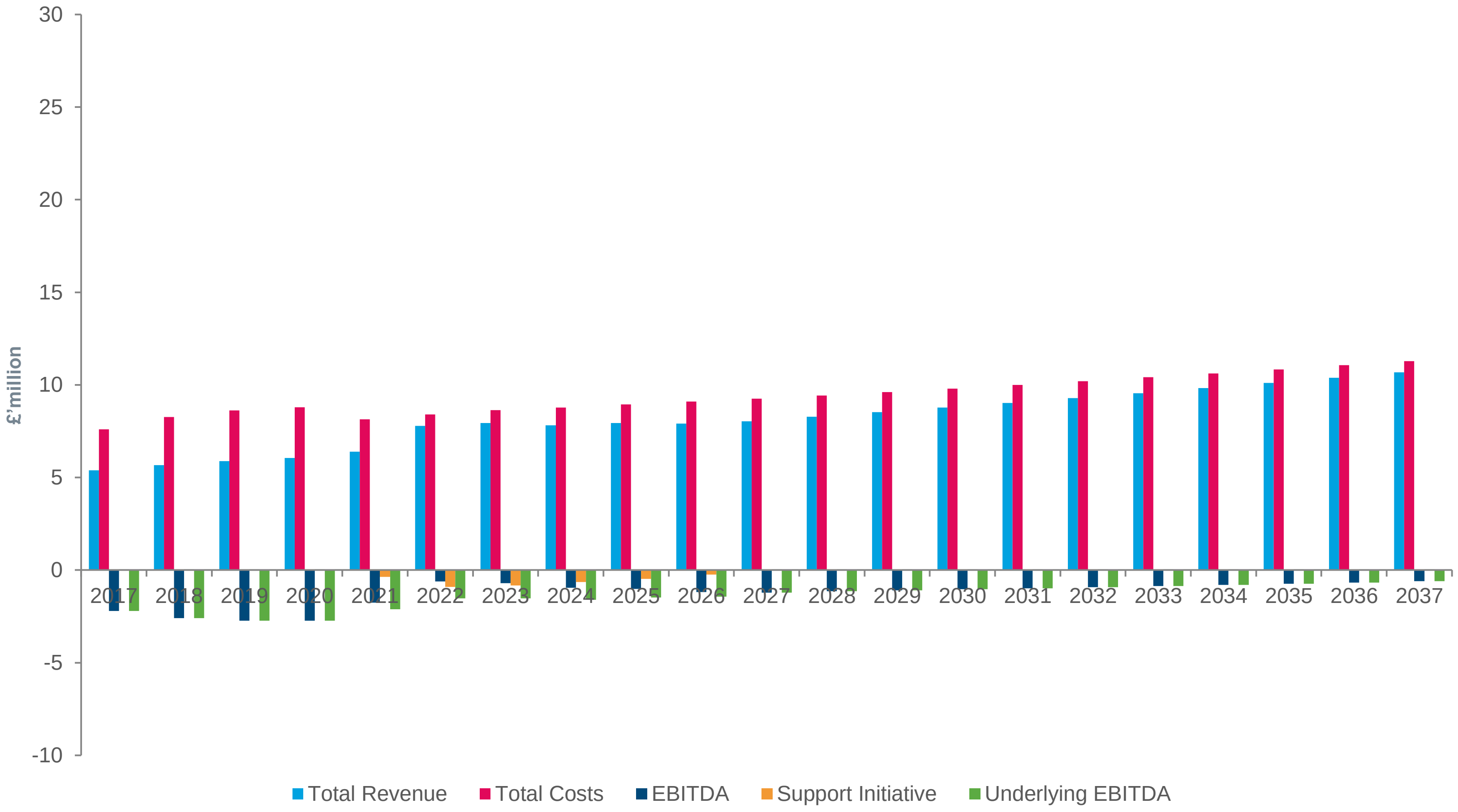
NOMINAL (2/2)

Nominal £ 000s	2029	2030	2031	2032	2033	2034	2035	2036	2037
Total Passengers (000s)	387	394	401	408	415	422	429	435	442
Total Aeronautical Revenue	4,355	4,487	4,623	4,761	4,903	5,048	5,196	5,348	5,501
Total Non-Aeronautical Revenue	4,167	4,284	4,404	4,526	4,650	4,778	4,908	5,041	5,175
Total Revenue	**8,522**	**8,771**	**9,027**	**9,287**	**9,553**	**9,826**	**10,104**	**10,389**	**10,676**
Total Staff Costs	4,051	4,128	4,206	4,285	4,366	4,449	4,533	4,619	4,705
Non-Staff Costs	5,558	5,676	5,797	5,920	6,046	6,174	6,305	6,438	6,571
Total Costs	**9,609**	**9,804**	**10,003**	**10,206**	**10,412**	**10,623**	**10,838**	**11,057**	**11,276**
EBITDA	**(1,087)**	**(1,032)**	**(976)**	**(919)**	**(859)**	**(798)**	**(734)**	**(668)**	**(600)**
EBITDA Margin	*(12.8%)*	*(11.8%)*	*(10.8%)*	*(9.9%)*	*(9.0%)*	*(8.1%)*	*(7.3%)*	*(6.4%)*	*(5.6%)*
Total Support Initiative	-	-	-	-	-	-	-	-	-
Underlying EBITDA	**(1,087)**	**(1,032)**	**(976)**	**(919)**	**(859)**	**(798)**	**(734)**	**(668)**	**(600)**
Underlying EBITDA Margin	*(12.8%)*	*(11.8%)*	*(10.8%)*	*(9.9%)*	*(9.0%)*	*(8.1%)*	*(7.3%)*	*(6.4%)*	*(5.6%)*

Source: ICF analysis

EBITDA Summary: Scenario 2

NOMINAL



Source: ICF analysis

EBITDA Summary: Scenario 2

REAL (1/2)

Nominal £ 000s	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Total Passengers (000s)	131	135	138	141	211	314	335	337	357	365	372	379
Total Aeronautical Revenue	3,306	3,159	3,198	3,240	3,451	4,152	4,044	3,791	3,678	3,490	3,442	3,483
Total Non-Aeronautical Revenue	2,226	2,501	2,566	2,580	2,578	3,046	3,154	3,162	3,246	3,278	3,309	3,340
Total Revenue	**5,532**	**5,661**	**5,764**	**5,820**	**6,029**	**7,198**	**7,198**	**6,953**	**6,924**	**6,768**	**6,751**	**6,823**
Total Staff Costs	3,441	3,628	3,803	3,803	3,444	3,277	3,277	3,277	3,277	3,277	3,277	3,277
Non-Staff Costs	4,360	4,630	4,638	4,647	4,238	4,494	4,557	4,525	4,527	4,510	4,496	4,485
Total Costs	**7,800**	**8,258**	**8,442**	**8,451**	**7,681**	**7,771**	**7,834**	**7,802**	**7,804**	**7,787**	**7,774**	**7,762**
EBITDA	**(2,269)**	**(2,597)**	**(2,677)**	**(2,631)**	**(1,652)**	**(573)**	**(636)**	**(849)**	**(880)**	**(1,020)**	**(1,023)**	**(939)**
EBITDA Margin	*(41.0%)*	*(45.9%)*	*(46.4%)*	*(45.2%)*	*(27.4%)*	*(8.0%)*	*(8.8%)*	*(12.2%)*	*(12.7%)*	*(15.1%)*	*(15.1%)*	*(13.8%)*
Total Support Initiative	-	-	-	-	(337)	(835)	(753)	(572)	(414)	(211)	-	-
Underlying EBITDA	**(2,269)**	**(2,597)**	**(2,677)**	**(2,631)**	**(1,989)**	**(1,407)**	**(1,390)**	**(1,421)**	**(1,295)**	**(1,231)**	**(1,023)**	**(939)**
Underlying EBITDA Margin	*(41.0%)*	*(45.9%)*	*(46.4%)*	*(45.2%)*	*(33.0%)*	*(19.5%)*	*(19.3%)*	*(20.4%)*	*(18.7%)*	*(18.2%)*	*(15.1%)*	*(13.8%)*

Source: ICF analysis

EBITDA Summary: Scenario 2

REAL (2/2)

Nominal £ 000s	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**	**2037**
Total Passengers (000s)	387	394	401	408	415	422	429	435	442
Total Aeronautical Revenue	3,523	3,563	3,602	3,641	3,680	3,718	3,756	3,794	3,831
Total Non-Aeronautical Revenue	3,371	3,401	3,432	3,461	3,490	3,519	3,548	3,576	3,604
Total Revenue	**6,894**	**6,964**	**7,034**	**7,102**	**7,170**	**7,237**	**7,304**	**7,370**	**7,435**
Total Staff Costs	3,277	3,277	3,277	3,277	3,277	3,277	3,277	3,277	3,277
Non-Staff Costs	4,496	4,507	4,517	4,528	4,538	4,548	4,557	4,567	4,576
Total Costs	**7,773**	**7,784**	**7,795**	**7,805**	**7,815**	**7,825**	**7,835**	**7,844**	**7,854**
EBITDA	**(879)**	**(820)**	**(761)**	**(703)**	**(645)**	**(587)**	**(530)**	**(474)**	**(418)**
EBITDA Margin	*(12.8%)*	*(11.8%)*	*(10.8%)*	*(9.9%)*	*(9.0%)*	*(8.1%)*	*(7.3%)*	*(6.4%)*	*(5.6%)*
Total Support Initiative	-	-	-	-	-	-	-	-	-
Underlying EBITDA	**(879)**	**(820)**	**(761)**	**(703)**	**(645)**	**(587)**	**(530)**	**(474)**	**(418)**
Underlying EBITDA Margin	*(12.8%)*	*(11.8%)*	*(10.8%)*	*(9.9%)*	*(9.0%)*	*(8.1%)*	*(7.3%)*	*(6.4%)*	*(5.6%)*

Source: ICF analysis

EBITDA Summary: Scenario 3

NOMINAL (1/2)

Nominal £ 000s	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Total Passengers (000s)	131	135	138	141	743	1,400	1,443	1,472	1,516	1,548	1,579	1,610
Total Aeronautical Revenue	3,224	3,159	3,265	3,371	6,297	10,048	10,305	10,446	10,722	10,911	11,202	11,607
Total Non-Aeronautical Revenue	2,171	2,501	2,620	2,684	5,111	8,000	8,435	8,721	9,080	9,393	9,710	10,035
Total Revenue	**5,395**	**5,661**	**5,884**	**6,055**	**11,408**	**18,048**	**18,740**	**19,167**	**19,802**	**20,303**	**20,912**	**21,642**
Total Staff Costs	3,355	3,628	3,882	3,957	7,632	9,012	9,255	9,483	9,739	9,978	10,218	10,464
Non-Staff Costs	4,252	4,630	4,735	4,835	6,048	7,129	7,346	7,481	7,638	7,786	7,937	8,095
Total Costs	**7,607**	**8,258**	**8,617**	**8,792**	**13,680**	**16,141**	**16,601**	**16,964**	**17,376**	**17,763**	**18,156**	**18,559**
EBITDA	**(2,213)**	**(2,597)**	**(2,733)**	**(2,737)**	**(2,272)**	**1,907**	**2,139**	**2,203**	**2,426**	**2,540**	**2,756**	**3,083**
EBITDA Margin	*(41.0%)*	*(45.9%)*	*(46.4%)*	*(45.2%)*	*(19.9%)*	*10.6%*	*11.4%*	*11.5%*	*12.2%*	*12.5%*	*13.2%*	*14.2%*
Total Support Initiative	-	-	-	-	(2,575)	(5,517)	(5,835)	(4,593)	(3,275)	(1,779)	(156)	-
Underlying EBITDA	**(2,213)**	**(2,597)**	**(2,733)**	**(2,737)**	**(4,848)**	**(3,610)**	**(3,696)**	**(2,390)**	**(850)**	**761**	**2,600**	**3,083**
Underlying EBITDA Margin	*(41.0%)*	*(45.9%)*	*(46.4%)*	*(45.2%)*	*(42.5%)*	*(20.0%)*	*(19.7%)*	*(12.5%)*	*(4.3%)*	*3.7%*	*12.4%*	*14.2%*

Source: ICF analysis

EBITDA Summary: Scenario 3

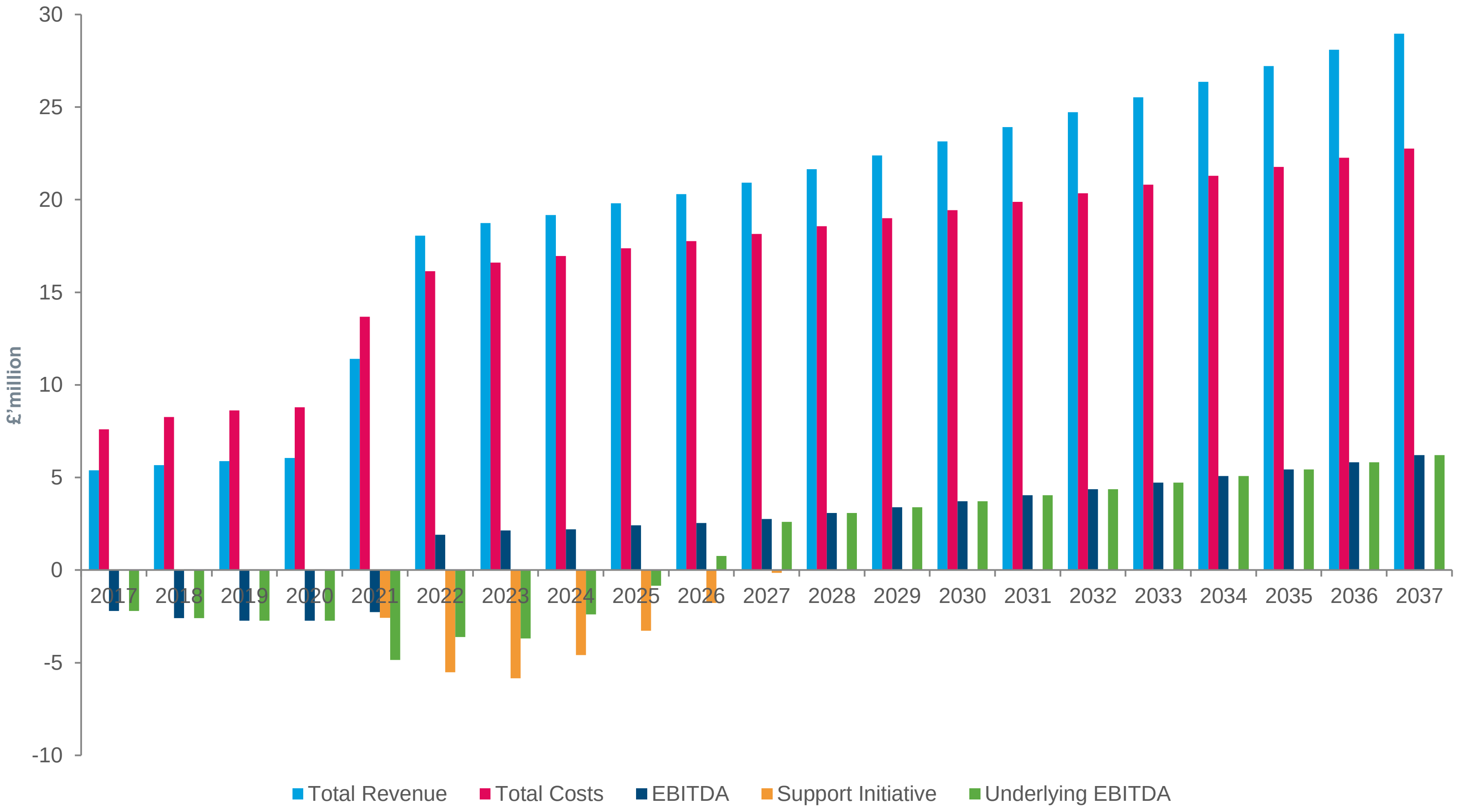
NOMINAL (2/2)

Nominal £ 000s	2029	2030	2031	2032	2033	2034	2035	2036	2037
Total Passengers (000s)	1,641	1,671	1,701	1,731	1,761	1,790	1,819	1,848	1,876
Total Aeronautical Revenue	12,019	12,441	12,874	13,315	13,767	14,230	14,704	15,190	15,680
Total Non-Aeronautical Revenue	10,365	10,703	11,049	11,401	11,762	12,131	12,509	12,895	13,284
Total Revenue	**22,384**	**23,144**	**23,922**	**24,716**	**25,529**	**26,361**	**27,213**	**28,085**	**28,964**
Total Staff Costs	10,711	10,964	11,221	11,482	11,749	12,021	12,298	12,580	12,862
Non-Staff Costs	8,280	8,470	8,663	8,860	9,061	9,266	9,474	9,687	9,901
Total Costs	**18,991**	**19,434**	**19,884**	**20,343**	**20,810**	**21,286**	**21,772**	**22,267**	**22,763**
EBITDA	**3,392**	**3,711**	**4,038**	**4,374**	**4,719**	**5,075**	**5,441**	**5,818**	**6,201**
EBITDA Margin	*15.2%*	*16.0%*	*16.9%*	*17.7%*	*18.5%*	*19.3%*	*20.0%*	*20.7%*	*21.4%*
Total Support Initiative	-	-	-	-	-	-	-	-	-
Underlying EBITDA	**3,392**	**3,711**	**4,038**	**4,374**	**4,719**	**5,075**	**5,441**	**5,818**	**6,201**
Underlying EBITDA Margin	*15.2%*	*16.0%*	*16.9%*	*17.7%*	*18.5%*	*19.3%*	*20.0%*	*20.7%*	*21.4%*

Source: ICF analysis

EBITDA Summary: Scenario 3

NOMINAL



Source: ICF analysis

ICF proprietary and confidential. Do not copy, distribute, or disclose.

EBITDA Summary: Scenario 3

REAL (1/2)

Nominal £ 000s	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Total Passengers (000s)	131	135	138	141	743	1,400	1,443	1,472	1,516	1,548	1,579	1,610
Total Aeronautical Revenue	3,306	3,159	3,198	3,240	5,937	9,289	9,345	9,291	9,355	9,339	9,409	9,566
Total Non-Aeronautical Revenue	2,226	2,501	2,566	2,580	4,819	7,396	7,649	7,756	7,922	8,040	8,156	8,271
Total Revenue	**5,532**	**5,661**	**5,764**	**5,820**	**10,756**	**16,685**	**16,995**	**17,047**	**17,277**	**17,379**	**17,565**	**17,837**
Total Staff Costs	3,441	3,628	3,803	3,803	7,196	8,331	8,393	8,434	8,497	8,540	8,583	8,624
Non-Staff Costs	4,360	4,630	4,638	4,647	5,702	6,591	6,662	6,654	6,664	6,664	6,667	6,672
Total Costs	**7,800**	**8,258**	**8,442**	**8,451**	**12,898**	**14,922**	**15,055**	**15,088**	**15,161**	**15,205**	**15,250**	**15,296**
EBITDA	**(2,269)**	**(2,597)**	**(2,677)**	**(2,631)**	**(2,142)**	**1,763**	**1,940**	**1,959**	**2,116**	**2,174**	**2,315**	**2,541**
EBITDA Margin	*(41.0%)*	*(45.9%)*	*(46.4%)*	*(45.2%)*	*(19.9%)*	*10.6%*	*11.4%*	*11.5%*	*12.2%*	*12.5%*	*13.2%*	*14.2%*
Total Support Initiative	-	-	-	-	(2,428)	(5,101)	(5,292)	(4,085)	(2,858)	(1,523)	(131)	-
Underlying EBITDA	**(2,269)**	**(2,597)**	**(2,677)**	**(2,631)**	**(4,571)**	**(3,337)**	**(3,351)**	**(2,126)**	**(741)**	**651**	**2,184**	**2,541**
Underlying EBITDA Margin	*(41.0%)*	*(45.9%)*	*(46.4%)*	*(45.2%)*	*(42.5%)*	*(20.0%)*	*(19.7%)*	*(12.5%)*	*(4.3%)*	*3.7%*	*12.4%*	*14.2%*

Source: ICF analysis

EBITDA Summary: Scenario 3

REAL (2/2)

Nominal £ 000s	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**	**2037**
Total Passengers (000s)	1,641	1,671	1,701	1,731	1,761	1,790	1,819	1,848	1,876
Total Aeronautical Revenue	9,723	9,878	10,032	10,183	10,333	10,482	10,629	10,776	10,920
Total Non-Aeronautical Revenue	8,385	8,498	8,609	8,719	8,828	8,935	9,042	9,148	9,252
Total Revenue	**18,108**	**18,376**	**18,641**	**18,902**	**19,161**	**19,417**	**19,672**	**19,925**	**20,172**
Total Staff Costs	8,665	8,705	8,743	8,781	8,818	8,854	8,890	8,924	8,958
Non-Staff Costs	6,698	6,725	6,751	6,776	6,801	6,825	6,849	6,872	6,895
Total Costs	**15,363**	**15,430**	**15,494**	**15,557**	**15,619**	**15,679**	**15,738**	**15,797**	**15,853**
EBITDA	**2,744**	**2,946**	**3,147**	**3,345**	**3,542**	**3,738**	**3,933**	**4,128**	**4,319**
EBITDA Margin	*15.2%*	*16.0%*	*16.9%*	*17.7%*	*18.5%*	*19.3%*	*20.0%*	*20.7%*	*21.4%*
Total Support Initiative	-	-	-	-	-	-	-	-	-
Underlying EBITDA	**2,744**	**2,946**	**3,147**	**3,345**	**3,542**	**3,738**	**3,933**	**4,128**	**4,319**
Underlying EBITDA Margin	*15.2%*	*16.0%*	*16.9%*	*17.7%*	*18.5%*	*19.3%*	*20.0%*	*20.7%*	*21.4%*

Source: ICF analysis

Capital Expenditure

Scenarios 1 and 2 can be handled within existing infrastructure, but Scenario 3 will require investment

SCENARIO REQUIREMENTS OVERVIEW

- Public information sufficient to form a definitive view of the requirements for capital expenditure, is somewhat limited, however, it is possible to make three observations:
  - Firstly, that the airport once handled close to 1 mppa and therefore it seems reasonable to assume that it could handle similar volumes without significant investment in additional capacity.
    - The 2014 DTVA Master Plan observes[1] that the existing terminal can accommodate “at least 900,000 passengers (with minor internal alterations)”.
    - Therefore, Scenarios 1 and 2 should not require significant capacity investment, only maintenance of the existing assets.
  - Secondly, DTVA spends around £500,000 in real terms per year on the operational cost “Repairs & Maintenance Costs”. Whilst there is a degree of fixity to this type of cost, it appears high against our expectation for purely operational maintenance expenditure.
    - Although we cannot be certain, we would assume that, with limited need for capacity/capital expenditure, Peel accounts for most, if not all, routine capital expenditure under this cost line.
    - Again, therefore, Scenarios 1 and 2 should not require significant increase in this operational cost item.
  - Thirdly, Scenario 3, increasing throughput above capacity and handling larger aircraft, will require investment in additional capacity and greater operational capability. Scenario 3 will also require higher routine maintenance expenditure as reflected in the previous operational expenditure forecasts.
- A few aspects of the existing infrastructure require investment to enable DTVA to facilitate Scenario 3, as discussed on the following pages.

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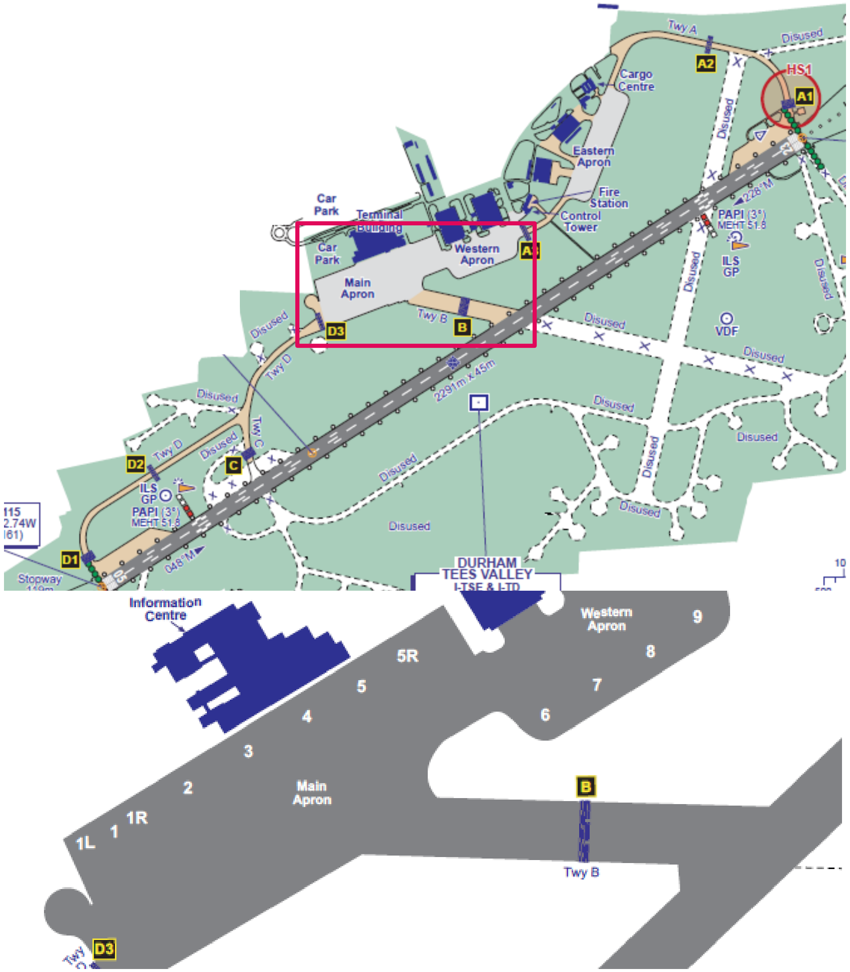
[1] Durham Tees Valley Airport Master Plan to 2020 and Beyond, paragraph 7.8, page 58.

The runway and main apron provide capacity for Scenario 3, but strengthening of Taxiway B is required

AIRFIELD

- The runway is 45m wide with declared take off runs of 2,291m. The width is standard and the length is similar to, or greater than, comparable airports, for example:
  - Newcastle: 2,329m
  - Leeds Bradford: 2,190m (longest declared[1])
  - Doncaster Sheffield: 2,893m
  - London Luton: 2,162m
- The runway has a declared strength (pavement classification number, PCN) of 70, allowing it to handle all narrow bodied aircraft. However, the main apron has a PCN of 47, which, although sufficient for most narrow bodied aircraft, limits the heaviest movements. Taxiway Bravo only has a PCN of 30, which will present an operational constraint to all significant Code C aircraft (including A320 and B737). The strength of Taxiway Bravo is a constraint and would require strengthening works under Scenario 3.
- Taxiway Alpha is only 10.5m wide and therefore unable to be used by most aircraft, which are required to use the 35m^2 wide Taxiway Bravo and back-track the runway. Back-tracking limits capacity, but is not a material constraint to the throughput forecast under Scenario 3.
- The main apron has capacity to accommodate 5 (and potentially up to 7) Code C aircraft, sufficient to handle Scenario 3 demand.
- DTVA operates with RFFS category 6, sufficient for most Code C aircraft, though notably not the B737-900.

Main Apron and Taxiway Bravo



Source: NATS

Notes: 1. Leeds Bradford's runway is 2,250m long.
2. Bravo exceeds the minimum required width of 23m.

Scenario 3 will likely require investment to expand the existing passenger terminal

PASSENGER TERMINAL

- Detailed information of the passenger terminal is not publicly available. An accurate assessment of its capacity cannot therefore be made with certainty. However, an inspection of Google Earth suggests that the plan area of the terminal is around 10,000m^2.
- The DTVA master plan stats that the terminal could handle around 900,000 annual passengers. This capacity is broadly consistent with the plan area, but effective use of space may be able to accommodate more demand.
- Careful scheduling – subject to market demands – would also deliver greater capacity if flights are able to be scheduled to operate in sequence rather than simultaneously.
- Nonetheless, the demand forecast under Scenario 3 will at least require reconfiguration of the existing terminal and will likely require a modest extension. Subject to more detailed assessment, an expansion of around 2,000m^2 may be required.

Scenario 3 will require investment of £5-£10m to increase capacity and capability

CAPITAL COST ESTIMATE

- Expansion:
  - Scenarios 1 and 2 do not require expansion with forecast demand below historical capacity.
  - Scenario 3 notably requires strengthening of Taxiway Bravo and expansion of the passenger terminal.
  - We estimate that these works would cost around £6m, but it would be prudent to budget up to £10m to allow for other costs required to accommodate the growth (e.g. self-service kiosks, additional security lanes, expanded car parking, etc).
  - This cost would be incurred in financial year ending March 2021 to accommodate the increased demand in summer 2021.
- Maintenance:
  - As discussed previously, the current and forecast operational Repairs & Maintenance Costs” is greater than our expectation for purely operational maintenance and likely includes elements of capital maintenance also. No additional routine maintenance costs are therefore forecast to be required in any scenario.
  - Each scenario does require periodic maintenance of the runway and airfield pavements, likely to be around £5m every 15 years.

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Durham Tees Valley Airport,
Darlington,
County Durham,
DL2 1LU

A report prepared by JK Property Consultants LLP
on behalf of

Tees Valley Combined Authority

14 January 2019

Contents

Appendices

1.0 Terms of Reference

1.1 **Addressee**:

Tees Valley Combined Authority**,**
Cavendish House,
Teesdale Business Park,
Stockton-on-Tees,
TS17 6QY
For the attention of: Julie Gilhespie

1.2 **Property Address**:

Durham Tees Valley Airport, Darlington, County Durham, DL2 1 LU (‘the Property’).

1.3 **Reliance**:

This report is confidential to the parties to whom it is addressed.

Our written consent will be required if at any stage it is intended to include the valuation report, or any reference thereto, in any prospectus, or circular, or other public document.

1.4 **Tenure**:

The property is understood to be held freehold.

1.5 **Valuation Date**:

14 January 2019

1.6 **Instruction Date**:

19 December 2018

1.7 **Purpose of Valuation**:

In accordance with our meeting, telephone discussions and subsequent emails a brief has been prepared and is attached at Appendix 1. We are instructed to provide you with a Report and Valuation as detailed in Appendix 1.

1.8 **Basis of Valuation**:

This valuation has been prepared in accordance with the Royal Institution of Chartered Surveyors Valuation – Global Standards 2017 (the 'Red Book') on the basis of Market Value and to the General Principles Applying to all valuations undertaken by JK Property Consultants LLP set out in Appendix 2.

Our total liability in respect of this Report shall not exceed £1,000,000 and in accordance with the exclusions and limitations of liability in our General Terms and Conditions of Business, or pre-agreed terms of engagement, or service agreement agreed between us.

No allowances have been made for any expense of realisation, for taxation (including VAT), which might arise in the event of a disposal and the property has been considered free and clear of all mortgages, or other charges which may be secured thereon.

1.9 **Inspection**:

Parts of the Property are inaccessible as airside of an operational airport and as green field land to the south of the airport. Other parts are let to third parties and access is not quickly arranged for the purpose of this report. You have also instructed that we do not make an inspection that would alert the present owners and whilst this has probably been superseded by the agreement on purchase price, a full and measured inspection is not appropriate until a basis of value has been agreed with the accountants to be appointed on the valuation of the ongoing business of the DTVA.

A drive by inspection of the 'land side' areas of the airport and a visit to a number of occupiers has been carried out on the 15, 17 and 21 August 2018.

Weather conditions were generally sunny and dry.

1.10 **Personnel**:

1.10.1 The valuation has been prepared by Kevan Carrick, B.Sc. (Est. Man.), FRICS. Member, JK Property Consultants LLP, RICS Membership Number 0049685.

1.10.2 We confirm that Kevan Carrick, the person responsible for this valuation is qualified in accordance with the RICS Valuation – Professional Standards and is an RICS Registered Valuer.

1.10.3 Support and information required to carryout this valuation has been provided by:

- Chris Coles, Director, Project Management, Turner & Townsend Project Management Limited;
- Geoff Brown, Area Manager, Turner & Townsend Project Management Limited;
- Mark Cullen, Associate Director, Turner & Townsend Cost Management Limited;
- Harvey Emms, Senior Director, Nathaniel Lichfield & Partners Limited;
- Phil Jones, Planning Director, Nathaniel Lichfield & Partners Limited;
- Andy Burge, Economic Strategy Assistant, Economic Strategy and Spatial Planning, Stockton-on-Tees Borough Council;
- David Grant, Managing Director, Durham Tees Valley Airport Limited; and
- Martin Waters, Head of Finance, Resources and Housing, Tees Valley Combined Authority.

1.11 **Status**:

We have acted as External Valuers, subject to any disclosure, in preparing this valuation.

1.12 **Disclosure**:

1.12.1 We are currently advising the Tees Valley Combined Authority future development options for the formulation of a Master Plan for the development of DTVA as an operational airport and transport hub. We are also in the process of advising on an exit if over the proposed 10 year period it is not possible to make the DTVA successful.

1.12.2 We have previously advised Darlington Council and the Tees Valley Combined Authority in the formulation of a strategic Master Plan for the development of another transport hub.

1.13 **Assumptions:**

1.13.1 Our Market Value as at today's date has been prepared on the Special Assumptions for each of the basis of value that are set out in our report, existing use value, development value and alternative use value. In addition, there are the following Special Assumptions that apply to all basis of value:

- We have not seen any title deeds, or reports on title in time to prepare this report and assume that the interest to be valued is freehold, without encumbrances that would materially affect value, but subject to the tenancies listed in the tenancy schedule;
- The Special Assumptions relating to condition of buildings, services, planning and environmental are set out in detail in the body of this report, but overall no tests or investigations have been carried out and the assumption is made that there are no material defects or costs to be incurred in support of our opinions of market value;
- There are planning restrictions of use that limit use to airport related uses for part of the DVTA area. A Special Assumption is made that local authorities will review these restrictions in the light of future growth opportunities on the airport site;
- There are circumstances where full information can not be made available in the time required in which to prepare this valuation and report. A Special Assumption is made that further and better information will be made available during the carrying out of due diligence for this purchase pre-contract and which confirms the assumptions made in arriving at our opinion of values;
- It has been noted that in a current development case finance is becoming challenging as banks withdraw offers of finance during the current period of the Brexit negotiations. This is affecting the confidence on which valuations are made but there is so far no tangible evidence as to how this will affect the prices payable. This disruption on financial, macro-economic, legal and political events makes the formation of opinions challenging. But the Special Assumption has been made that since this purchase is for a long-term investment to improve the economic performance of the area and to increase jobs that cyclical economic factors over the long-

term will not materially affect values on which our opinions are based. If an onward sale of the property is contemplated in the short to medium-terms the sale price might be difficult to achieve;

- We have excluded the assessment of any below ground abnormal and/or contamination costs/programme implications;
- We have assumed that services connections will be available at the boundary of the site at the capacity required for the proposed developments;
- We have excluded the assessment of any consequential works outside of the red line site boundary for. S278, S38 highway improvements and improvements in relation to any works secured through a S106 agreement;
- We have excluded the assessment of any noise abatement measures that may be required;
- We have excluded the assessment of any measures that may be required to address any environmental issues i.e. archaeology, landscape, ecology, air quality etc.;
- We have excluded the assessment of any upgrades that may be required to downstream facilities i.e. sewerage treatment plants;
- We have assumed the development will be delivered on a day one basis, in one continuous phase and no provision has been made overtime for either increased development costs, or for inflation in values;
- We have assumed the airport becomes viable and vibrant as a profitable ongoing business; and
- That no disclosure of our report will be provided to any third party without first seeking approval from us.

1.13.2 As the detailed investigation for purchase is carried out, some assumptions may be removed and further assumptions might need to be added to the above list, and thus the valuation adjusted according to the new facts discovered.

1.14 **Sources of Information**:

1.14.1 We have made investigations necessary to carryout our valuations in regard to values, planning and other matters.

1.14.2 We have not carried out building surveys, environmental risk assessments, site and building services investigations, planning or highway enquiries.

1.14.3 Site plans, which are not to scale, have been provided by DVTA Limited, Tees Valley Combined Authority and Stockton Council and from which stated site areas have been taken as read and no checks have been carries out. We have relied upon these plans and those stated areas in our valuations.

1.14.4 We have been provided with a Planning Context Report, shown at Appendix 3, for this valuation by Lichfields on which we have relied upon in our valuation.

1.14.5 We have been provided with high level approximate construction cost estimates by Turner & Townsend Cost Management Limited and which is provided at Appendix 4 and on which we have relied for this valuation.

1.14.6 We have been provided by George F White LLP with comparable sales and lettings particulars, provided in Appendix 9 and on which we have relied in arriving at our opinions of value.

1.14.7 We have been provided by DTVA limited a tenancy Schedule at October 2018 and which is provided at Appendix 8.

1.15 **Economic Overview**:

1.15.1 A copy of the most recent RICS UK Commercial Property Market Survey Q3 2018 report is provided at Appendix 5.

1.15.2 The North East Region of England of which the Tees Valley region forms part is a net exporter and the impact of uncertainty in the conclusion of a satisfactory Brexit agreement will adversely impact on confidence and thus demand for accommodation and investment.

2.0 Location

2.1 DTVA is within the Tees Valley conurbation and is located some 248 miles to the north of the City of London, and 159 miles to the south of the City of Edinburgh. The City of Newcastle upon Tyne is 41 miles to the north with the City of Durham about 25 miles and the City of Sunderland 37 miles also to the North, with the City of York some 47 miles to the south. The market town of Darlington is about 5.4 miles to the west with the town of Stockton about 7.4 miles to the north-east and Middlesbrough approximately 11.4 miles to the north east and is shown in the Location Plan at Appendix 6.

2.2 DTVA is well served by the road infrastructure with good accessibility to local, regional and national trunk roads. Access to DTVA terminal is from the road junction of the A67 with the A66 providing good connectivity to primary north/south links serving the region with the A1M some 18 miles to the west giving access to the national road infrastructure and 10 miles to east the A19 with regional access by trunk road to Tyneside and Wearside to the north and through North Yorkshire to the south.

2.3 There is an excellent national rail, East Coast mainline Inter City service from London to Edinburgh calling at Darlington Bank Top station some 5.4 miles to the west, but there is a very poor rail service stopping at DTVA Halt, some 1 mile to the west the Allens West station provides a stop on the Bishop Auckland to Saltburn rail line.

2.4 Tees Port Docks provide sea connectivity approximately 17 miles to the east.

2.5 There are limited facilities in the surrounding area with the village of Middleton St George being about 2 miles to the west.

3.0 The Property

3.1 The overall site comprises some 817 acres and is shown verged red on the plan at Appendix 7.

3.2 The site is relatively level with the operational area comprising some 817 acres and laid out with runway, apron circulation areas and standing areas with operational buildings, including the terminal and control tower.

3.3 The area to the south of the runway is predominantly green field comprising an area of approximately 236 acres.

3.4 The area to the north of the runway comprises much of the ancillary buildings and other occupiers of airport use and none airport use, including office, manufacturing, hotels playing fields, motor homes sales area and playing fields with a total site are of around 145 acres, of which about 23.33 acres has received planning consent on which to develop 350 homes.

4.0 Economic Growth

4.1 The economic regeneration of a region linked with the drive for economic growth requires excellent infrastructure to get to, to move around within, and to exit the region with European and global connections.

4.2 The strategic economic plan for the region of Tees Valley has the benefit of the three existing transport gateway nodes, with future development plans:

4.2.1 Tees Port Gateway;

4.2.2 Darlington Station connecting to the East Coast Main Rail Line, to be made HS2 ready; and

4.2.3 Tees Valley Airport, to create a hub for inward investment.

4.3 It is understood that there is an intention to invest in DTVA and which is to establish a business growth and transport hub over a 10 year period. The economic development plan for the area around DTVA includes:

4.3.1 Support inward investment onto the airport site;

4.3.2 Improve public transport links;

4.3.3 Improved road links to expand the one hour catchment area for the DTVA;

4.3.4 Link DTVA into local economic opportunities such as the South Tees Development Corporation;

4.3.5 Simplify and streamline planning arrangements;

4.3.6 Secure and develop the necessary local skills;

4.3.7 Seek to establish a Higher Education Partnership with Teesside University;

4.3.8 Seek to establish with the MoD a joint military-civilian airport hub; and

4.3.9 Seek the provision of infrastructure funding and share commercial risk to open up new business sites around the airport.

4.4 This strategy requires a Master Plan to ensure delivery of the objectives within a realistic time, and land ownership control is essential.

5.0 Planning

5.1 To assist this valuation report, Lichfields has provided a report on the planning context for the DTVA land and which is provided at Appendix 3.

5.2 The report deals with two options. The first is the development of a viable and successful airport. The second addresses the exit route should efforts not succeed to make the airport successful, and consideration is then given to the probability of creating a Garden Village for the sustainable and comprehensive development of the airport land for residential and ancillary uses in the long-term.

5.3 The first option of development for economic growth and job creation is supported by the national and local planning policies. There are businesses located at DTVA that are not directly airport related uses and further occupiers will find the location of the airport more favourable because of the infrastructure and accessibility. It is assumed for this valuation and report that the changes in planning policy will be implemented in the short-term to allow airport and non-airport uses and further economic development to happen more quickly. The Lichfield report demonstrates the national and regional polices that support the planned development of DTVA to achieve the desired success for economic growth and job creation.

5.4 The second option is based on the need for housing in the national context and government policy to create Garden Towns and Villages.

It will assist also in the provision of housing as the economic prosperity of the Tees Valley region improves overtime. The present owners have made the decision to close the DTVA by 2021 in any event. By their recent successful application for housing development on the 23.33 acres on the Northside of the airport they have set the precedent for further housing development on the DTVA land. The Lichfield report goes on to outline a framework for the development of the DTVA land as a strategic housing development location as a Garden Village in the longer term. And which has been adopted as the basis of an alternative use of the DTVA land for the purpose of this valuation.

6.0 Opportunities & Constraints

6.1 The Master Plan in preparation will consider the sustainability and environmental opportunities and constraints generated to carryout substantial investment in the growth of the economy and the creation of jobs in the region, including the impact on highways, services, site & ground conditions and environmental issues as set out below. This is considered against the baseline position taken from the previous work undertaken in 2004 when DTVA was significantly busier than at present.

7.0 Proposed Development

7.1 On purchase of the DTVA it is the intention of the Client to create a viable airport to support economic growth and job creation for the benefit of the region. In consequence, there are two potential scenarios for future development:

7.1.1 The successful creation of a viable airport, with comprehensive development under an approved Master Plan; or

7.1.2 The closure of the airport and the development of a suitable alternative use.

Each of the scenarios is explained in further detail below.

7.2 The successful creation of a viable airport will result in the development of property for both airport and non-airport uses. This development will follow substantially 'Durham Tees Valley Airport – Master Plan to 2020 and beyond', April 2014, except for the 23.33 acres for the development of 350 houses the land for which will be development for commercial purposes. We have expressed the opinion that the size and character of the development will create a viable transport hub, provided that the required infrastructure (see Paragraph 5.3) is completed in the near future and that the development is sustainable and creates a good brand of strong design and character, constructed of materials that provide a long-term low maintenance regime. The content of the proposed developments is summarised below:

Table 8.2: Development capacity and floorspace assumptions

Plan Proposals	**Residential Units**	**Commercial GIA**		**Gross Jobs (FTEs)**
		sq. m	**sq. ft.**	
Northside				
A1 Retail		2,025	21,797	85
B1 Business (Offices)		9,600	103,334	680
B2 (Industrial) / B8 (Warehouse)		16,820	181,049	240
B8 Hangars (Warehouse) / B2 (Industrial)		28,935	311,454	499
C1 Hotel (Extension)	60 beds	1,400	15,070	30
C3 Residential	400 units			n/a
D1 Non-Residential (Nursery)		925	9,957	22
Sui-generis (Showrooms)		2,650	28,524	32
Northside Total		**60,955**	**656,454**	**1,588**
Southside Proposals - Phase 1				
B1 Business (Offices)		3,386	36,447	339
B1 (supporting other B use)		6,984	75,175	582
B2 General (Industrial)		3,600	38,750	100
B8 Storage & Distribution (Warehouse)		162,733	1,751,643	2,034
Total - Phase 1		**176,703**	**1,902,015**	**3,055**
Southside Proposals - Phase 2				
B8 Hangars (Warehouse)		135,000	1,453,128	1,688
Total – Phase 2		**135,000**	**1,453,128**	**1,688**
Southside Phases 1 & 2 Grand Totals		**311,703**	**3,355,143**	**4,743**
Northside & Southside Grand Totals		**372,658**	**4,011,257**	**6,331**

Notes:

1. B1 Offices only:
   Assume conversion from Gross Internal Area (GIA) to Net Internal Area (NIA) at 82.5%:

   a. Northside:
      B1 Business (Offices) 7,920 sq. m / 85,250 sq. ft.
   b. Southside:
      B1 Business (Offices) 2,793 sq. m. / 30,069 sq. ft.
2. Residential:
   Assumptions on the number of house types, affordable/social and size in terms of bedrooms are to be made.
3. Hotel:
   Assume that the existing 3* standard is repeated when extended.
4. Based on the Master Plan, Indicative Framework Plans at Appendix D.

7.3 In the event of the DTVA not being successful, and on closure the development of the whole of the DTVA land is assumed to be taken forward for comprehensive development and under a Master Plan for a Garden Village.

7.4 Lichfields Planning Context Report provided at Appendix 3 addresses in outline the planning criteria necessary to achieve these objectives and development.

8.0 Garden Villages

8.1 The activities of government since 2017 to promote Garden Villages are proving to be successful. They are seen as important in providing new locations for residential development meeting the future need for housing and where people want to live.

8.2 The government is not prescriptive and encourage each garden community to have its own clear and distinct sense of identity. This is achieved by setting clear expectations for the quality of the development and how this can be maintained (such as following Garden City principles). It is about creating vibrant, mixed-use, communities where people can live, work, and play for generations to come – communities which view themselves as the conservation areas of the future. Each will be holistically planned, self-sustaining, and characterful.

8.3 To be considered for government assistance, proposals for a new garden community must meet the criteria below:

8.3.1 The scale should make a significant contribution to close the housing supply gap and proposals of more than 10,000 will be prioritised. In the case of DTVA land, which taken at a density of development of 15 houses per acre would produce some 12,000 houses.

8.3.2 The character of development should demonstrate exceptional quality or innovations, development on predominantly brownfield sites, being in an area of particularly high housing demand, or ability to expand substantially further in the future. The scale needs to be of a size that is largely self-sustaining and genuine mixed-use. This provision will also assist in promoting the economic development of the area in terms providing housing to attract new people for jobs as the economy expands and improves.

8.3.3 The DTVA proposal for a Garden village must also be a strategic fit to meet the long-term housing and economic growth in the area and be locally led. This local leadership is well demonstrated by: the Combined Authority's commitment and objectives for the area; can demonstrate the collaboration between of Stockton and Darlington Councils; will seek the support of Homes England; and will seek community engagement at the appropriate early stage of master planning.

8.3.4 It is recognised that a new garden community is a complex, long-term project, which will deliver homes over a number of decades. We consider that this can be addressed with confidence that proposals are deliverable, with an integrated approach to infrastructure, housing, business investment, employment and development.

8.3.5 Garden communities within the current programme receive a tailored package of Government support that includes resource funding, expert delivery advice from Homes England and cross-government brokerage to resolve barriers to delivery. Proposals must set out which aspects of the support package will best help enable delivery. Government will look to agree a package of support tailored to suit the scale and ambition of proposals.

9.0 Tenure

9.1 We have not been provided with a Report on Title but we assume that the Property is held freehold with a good and marketable title and is not subject to any unusual or especially onerous restrictions, encumbrances, or outgoings that would adversely impact on our opinion of estimates of value.

9.2 We recommend that your legal advisors confirm our understanding to be correct and ensure that there are no further elements, restrictions or charges contained which are likely to have a detrimental effect upon the matter herein reported.

10.0 Tenancies

10.1 A Schedule of Tenancies at DVTA October 2018 has been provided by DTVA Limited and is shown at Appendix 8.

10.2 We have not been supplied with any tenancy documents and assume that the tenants have a full repairing and insuring type of liability either directly, or through the provision of a service charge payable by the tenant.

10.3 We assume further that there is no onerous liability that would adversely affect the amount of our opinions of the estimated value and recommend that your legal advisors confirm our understanding to be correct.

11.0 Highways

11.1 The proposed Master Plan identifies the following Highway impacts:

11.1.1 The capacity and operation of the surrounding highway network was extensively researched as part of the work undertaken in the lead in to the granting of the Northside and Airport Expansion planning permissions in 2007 and 2008 respectively. The analyses concluded that the highway network could accommodate the traffic from all of the developments, provided that minor improvement works were undertaken at two nearby A66 roundabouts; Morton Palms and Great Burdon; together with some localised carriageway edge works on the A67 between the then proposed access to Southside and the A67 roundabout access at DTVA;

11.1.2 Access for the Southside is to be relocated from its original location on the A67 to the east of Urlay Nook rail bridge, reducing traffic the proportion of Southside traffic on the A67 between the previous and proposed accesses, (by around 10%). There will also be less traffic from the rest of the Master Plan area on this section than if the extant planning permissions were implemented;

11.1.3 Analyses show that the two roundabouts, on the A67 and with Yarm Road have sufficient capacity to accommodate the proposals. Furthermore, both have available highway land around them to enable small scale capacity improvements, should that be considered to be beneficial; and

11.1.4 The level of DTVA terminal activity proposed in the Master Plan for 2020 is not significantly higher than DTVA's current level of activity, which is significantly lower than its historic peak operation which occurred around 2006. The Master Plan therefore concludes that the proposals will have less of a traffic impact on the external highway network than with the extant planning permissions. It is therefore likely that some of the off-site highway improvements that were conditioned as part of the extant planning permissions may not be required to accommodate the traffic demands of the Master Plan. This will subsequently be examined in detail as part of future planning submissions.

11.2 We understand that there are no current highway proposals of a statutory nature that might have a detrimental effect on the value of the property.

11.3 We have assumed that there is a right of access between the DTVA land and all buildings and the adopted highway and accordingly the site enjoys unfettered pedestrian and vehicular access.

12.0 Services

12.1 With regard to services, the Master Plan identifies that:

12.1.1 The existing foul drainage system outfalls to the north-east of the airfield at Northumbrian Water's DTVA Works. This system will therefore need to be extended to accommodate the Northside development and approval has been obtained for connections to serve the housing areas. Further negotiations will be required with Northumbrian Water with respect to subsequent developments; and

12.1.2 On the Southside there is no foul treatment infrastructure available and it is anticipated that a package treatment system will need to be installed to serve the developments. This would outfall into the new surface water drainage system and will be subject to detailed approval by the Environment Agency. Any future planning applications for the Master Plan proposals will be accompanied, where necessary, by flood risk assessments and drainage strategies.

12.1.3 It is assumed that the cost for this work will be met through public expenditure.

13.0 Site & Ground Conditions

13.1 The Master Plan identifies the following:

13.1.1 Parts of the Master Plan area are currently agricultural land. Previous assessment has shown this land to be no better than grade 3b (in accordance with the DEFRA Agricultural Land Classification system) and is therefore not the “best and most versatile” agricultural land. This is not considered to be a significant impact;

13.1.2 The site lies within Flood Zone 1, which has the lowest probability of flooding. The surface water from the additional hard standing areas for the Master Plan proposals would be drained via new main carrier drains. The principle of the design of these drains was established as part of the planning permission for Durham Tees Valley Airport Expansion;

13.1.3 The existing drainage infrastructure would be used where appropriate, with new drainage infrastructure constructed to accommodate the increased flows from the proposed developments; and

13.1.4 Where feasible, SUDS would need to be used to provide partial attenuation of the peak discharge flows and improve the quality of water discharging to local watercourses.

14.0 Environmental Issues

14.1 Other environmental issues identified within the Master Plan include ecology, heritage, noise and landscaping, are set out below:

14.1.1 The Masterplan site includes no ecological designations that would preclude development. Habitat losses resulting from the development of Northside and the main runway are considered to be negligible and the Southside proposals incorporate extensive areas of landscaping including a range of habitat types to ameliorate the impacts of the proposed development;

14.1.2 Previous assessment work has indicated that the Southside area does have the possibility of archaeological remains, in particular the site of Newsham Grange and a ridge and furrow system. These have been assessed to be locally important and are unlikely to constrain future development as minimal upstanding earthworks survive;

14.1.3 The area to the north west of the terminal building and the Southside Phase 2 will require an archaeological investigation to accompany any future planning applications and appropriate mitigation will be defined where necessary;

14.1.4 There are no designated heritage assets (listed buildings, conservation areas or scheduled ancient monuments) within the Master Plan area. The nearest listed buildings to the Master Plan area are Middleton Hall (to the west of Oak Tree), and St George’s Church and Featherstone House to the south of the Master Plan area. There is also a Conservation Area at Middleton One Row;

14.1.5 On the north side of the Master Plan area buildings assessed as of local interest include several WWII aircraft hangars, the former officers’ mess, now the St George Hotel, as well as a control tower and various other ancillary technical and mess buildings and structures. There is the potential that each of these buildings, of local interest, will be affected by the development, but could be reduced through mitigation;

14.1.6 On the Southside of the Master Plan area, two small WWII retractable gun emplacements, known as Pickett Hamilton Forts were identified as being of regional heritage interest. The gun emplacements could be accommodated within or relocated as part of future development;

14.1.7 There will be impacts on buildings of local cultural heritage interest, although these are not envisaged to create any major impact, which mitigation could not address;

14.1.8 Taking into account the reduction in passenger traffic from 2004 levels, no additional impacts are anticipated with respect to operational noise as a result of the Masterplan proposals. However, the proposed residential development (23.33 acre site) and new hangars west of the terminal will need to allow for noise mitigation resulting from increased industrial and business traffic, especially for properties on the edge of developments; and

14.1.9 DTVA is located on a lowland plateau in an area of landscape character that is undistinguished, open and of ordinary landscape quality. There is little visual connection between the valley of the River Tees and the adjacent lowland plateau. Structural landscaping measures are proposed around the external boundaries of the development to both screen the development and integrate the scheme into the surrounding landscape character.

15.0 Environmental Impact of Master Plan Objectives

15.1 If the passenger numbers increase to circa 2 million per annum by the end of the 10-year period, as advised by aviation industry consultants by TVCA, then this could have a significant material impact on the localised infrastructure and where further improvements will be required. It is recommended that the next phase be the formulation of a revised Master Plan, currently in preparation, assesses the full environmental effects, impact, cost and programming for such improvements. Should the planned improvement in passenger traffic prove not to be successful those infrastructure improvements will benefit the development of a Garden Village.

15.2 Wider infrastructure improvements will be required, including the provision of a super-fast broadband system to make the site highly attractive to meet the needs of occupiers and to ensure that the site provides for the requirement of the revolution in digital technology and communication.

16.0 Market Overview

16.1 The Bank of England, Agents' summary of business conditions - 2018 Q4 reports;

“Property markets
Investor demand for commercial real estate was concentrated in warehousing and distribution, and demand from foreign investors for developments in UK cities remained solid.

Housing market activity weakened, partly due to increased uncertainty about the economic outlook.

Commercial real estate
Investor demand for UK commercial property remained modestly ahead of supply, reflecting a search for yield and the low supply of available stock in many areas. Investor appetite was weakest for retail properties, where vacancy rates continued to pick up, with demand most buoyant for distribution sheds and warehouses, in part reflecting the structural shift to online retail.

Contacts reported that investor demand for prime retail and office properties in London had held up better than expected. And demand from foreign investors for developments in major UK cities remained good. However, there were also growing concerns about the impact of Brexit on the commercial property market, and there were signs that development activity was starting to weaken, with some projects being delayed or put on hold.

Contacts in the property sector continued to report limited UK warehousing capacity for stockbuilding ahead of Brexit, though some capacity was likely to become available after Christmas. Some *contacts reported rising rents for bonded warehouses and refrigerated storage in south east England.*

Housing market
Estate agent contacts reported a general weakening in activity levels in the housing market, as the usual autumn pickup in activity failed to materialise in a number of regions. Although the stock of houses for sale remained low, contacts indicated that demand was also falling.

For example, there had been an increase in the number of purchases falling through due to uncertainty among potential buyers. More viewings were required before a sale could be achieved. And buyers were taking longer to reach a decision to purchase.

In addition, the difference between asking prices and offered prices had widened. Housing activity in southern England was muted, which contacts said was due to uncertainty among buyers and sellers, who were postponing transactions until after EU withdrawal.

Demand for new-build homes remained stronger outside London, although housebuilders reported having to offer more incentives and undertake more viewings in order to complete sales. Labour shortages continued to constrain supply.

Mortgage activity was mostly concentrated in refinancing deals and homeowners moving from floating-rate deals to fixed-rate loans, with mortgage tenors often increasing to five years.

Contacts said that subdued demand for mortgages, combined with the entry of new lenders to the market, had resulted in intense competition. In turn, this has led to tighter pricing and improved availability of higher loan to value and loan to income mortgages, as challenger banks competed for higher-risk loans in order to grow market share.”

16.2 A similar sentiment is identified in the RICS UK Economic and Property Market for Q4 2018 report provided at Appendix 5.

16.3 Overall the market demand is slowing and the provision of finance from banks for development is becoming tighter as the time extends over which the Brexit settlement is taking. Whilst the value of the pound against the euro and dollar has fallen and would normally result in increased exports and a measure of improved economic activity enjoyed by the Tees Valley region as a relatively large manufacturing region this has not yet shown in the demand for accommodation, or increased rent and improved property values.

16.4 Global and private finance for infrastructure projects and investment is available provided a comprehensive presentation and justification for an effective partnership with the public sector is available.

16.5 The planned development of a viable airport business has a 10 year programme and should it be necessary to implement the exit strategy of the development of a Garden Village a further 20 to 30 year programme for development. Over this long-term programme the economy will go through a number of cycles, with periods of slower economic activity and other times of economic growth, with windows of opportunity for investment. Thus overall, a vision for development linked with a long-term delivery programme is essential to achieve success.

Local Market Overview

16.6 The impact of Brexit is having an adverse effect in the local market with: reduced retial spend in local shops diverting to some extent to a digital retail revolution; increased demand for industrial and distribution units; and a flattening of demand for office space. Generally, investment is not occurring, other than in the residential sector.

16.7 The development and commercial land market in Tees Valley Combined Authority area has suffered through the economic recession. Whilst generally the country has recovered from recession and market conditions improved the land and development markets in Tees Valley continue to struggle, although we are informed that there is increasing demand from potential occupiers and investors following the success of devolution and the policies being pursued.

16.8 In general terms the historical performance of the property market in the North East region has shown that values have lower peaks and deep troughs of activity relative to other regions. Further, the regional property market appears to have been quicker to enter recession but with improving economic conditions, slower to respond, relative to the national property market. With the impact of structural change in the factors of economic activity in the region there has been a marked decline in values compounded by the impact of the global economic recession.

16.9 With the economic and fiscal policy of the present government, linked with the changes in governance and the focus to rebalance the economy of the regions, there is greater confidence and interest from investors and developers to invest in development activity but which interest is constrained by a perception of risk relating to the cost of holding empty property until an occupier is found.

16.10 In this region, with the exception of residential properties, the value of commercial properties tends to be less than the total costs of development. It will be necessary to structure a planned programme of action and investment to achieve viable development and to ensure that the market operates in a manner that does not depend upon financial support from government. Without this strategic approach attracting investors and accelerating development will be problematic.

16.11 Government are encouraging the building of more houses and this presents an opportunity to secure an alternative use for the overall airport site in the event that DTVA operation is considered not to be viable.

16.12 We note that TVCA are currently considering options for the potential delivery of Garden Villages. This site could be considered as part of a long-term strategy for accelerated housing delivery alongside economic growth aspirations for Tees Valley.

16.13 We are of the opinion that there is no shortage of land available for commercial development. Much of the land available for commercial use is on previously used, or ‘brownfield’ sites. The challenge is to overcome the risks and costs of preparing the land by improvement with infrastructure and/or remediation and overcoming abnormal ground conditions that increase the risks, time and cost of bringing land forward for construction.

16.14 This report assumes that the DTVA land identified requires no remediation, abnormal costs, infrastructure and services requirements and that the site is readily available for development without incurring unnecessary delay and costs in preparation for construction. The exception to this is the need for investment in new access to release development opportunities to the Southside of DTVA and on which further advice is required. It is assumed further in this valuation that the cost of all necessary infrastructure releasing access to the Southside of DTVA will be met by the public sector and not from the development value generated.

16.15 The development of commercial property in the present market is dependent upon occupiers being ready and able to commit to purchase, or acquire a lease for occupation. Developers and their funders will not commit to speculative development unless there is confidence that an occupier can be readily found and without incurring long periods of holding costs for vacant property. To overcome this stasis in the market and to encourage development some local authorities are adopting the risk of developer, either by carrying out direct development, or taking an overarching head lease that guarantees the developer and funder a long-term stable income on which finance can be secured. This guarantees rental income and enhances the end value of the developed property, which in turn encourages investors as the purchaser. Whilst this is helpful in the short-term to kick-start a challenging property market it is not recommended for the long-term without having a growth plan in place to allow the open market to operate without support.

16.16 Linked with the above comments and to ensure that demand is improved, a robust marketing plan is required for the region, the local area and the developed property in DTVA by which to attract inward investors and other occupiers. In particular a Unique Selling Point needs to be made that there is an ideal opportunity to develop a strategic transport hub to create sufficient demand in the market from airport related users, as well as others, particularly in freight handling for logistical and passenger usage, to create the vibrancy of use, but this will not in our opinion generate a premium of value from such use and proximity to DTVA.

16.17 Research and example have shown that development around transport hubs, such as an airport, has a better chance for success given the location and activity. DTVA has not achieved the desired growth over the last few years and is not perceived by the market to be a vibrant and active transport hub. The achievement of values to make the development proposed both viable and attractive to occupiers will require a step change in the perception of DTVA. This will require an approach for regeneration of the area, including investments in the infrastructure, the kick-starting of development by speculative development and an effective marketing plan.

16.18 Demand from house builders for green-field land continues across the region, with sales reflecting the market sentiment expressed by the Bank of England. Government policy in relation to reduced stamp duty and Help to Buy is also underpinning the market in this region. In the immediate area to Durham Tees Valley Airport there is a large amount of house building currently and house builders will be cautious in relation to the commencement of further development to ensure that returns on investment are maximised.

16.19 House builders have lost confidence in the purchase of large strategic sites following Chancellor Phillip Hammond announcing in November 2017 the intention to reclaim land that was not developed quickly enough, the government response that the Land Capture Review will recommend that councils are 'able to strip landowners of large portions of profits from the sale of their land’, and Sir Oliver Letwin's review of build out rates. This currently leaves the public sector to take leadership in the delivery of large scale strategic housing land.

16.20 Caution is expressed that construction of the recent planning consent for residential development of 350 houses on the 23.33 acres periphery of DTVA is likely to frustrate, or delay the development of DTVA and its ancillary uses. Similarly, the site to the entrance at Yarm Road and St Georges Way recently sold to Esh Group should be managed to provide a gateway to the DTVA site.

17.0 Method Statement

17.1 Our instructions are to advise on the purchase price based on the market value of the DTVA land on three bases:

17.1.1 The existing use value of the operational airport; and

17.1.2 An alternative use value assuming the DTVA ceased operation.

17.2 The existing use value of the operational airport is made up of three parts:

17.2.1 Income flow from rents receivable arising from the several leases listed in the Tenancy Schedule at Appendix 8, which basis of value is that of investment value, defined by the RICS Valuation – Global Standards 2017:

Investment Value: *'the value of an asset to a particular owner or prospective owner for individual investment or operational objectives';* and

17.2.2 Other land with development potential being the remainder of land not operational airport land, or land and property let to third parties (see item 18.2.1 above) being the basis of market value where there is the prospect of additional value being created or obtained in the future, which will be through a Master Plan currently being formulated:

Market Value: *'the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.'*; and

17.2.3 The operational buildings and facilities of the DTVA on a cost approach, discounted to arrive at the depreciated replacement cost, this approach is most appropriate in liaison with the firm of chartered accountants the client is intending to instruct and which valuation will be based on the assumption of a profitable ongoing concern.

The opinion of value on existing use of the land and property assets comprising the business of DTVA can not be completed without including a value for those operational land and buildings and this opinion is therefore only part of the complete position and should be taken as an interim amount until the final position can be concluded in consultation with the appointed accountants with whom we will liaise.

17.3 The alternative use for the DTVA land, should closure of the airport occur, is based on the long-term development of a Garden Village. The basis of value adopted is that of market value, with the prospect of development where there is no current permission for that development but assuming the probability that planning consent is granted and the land sold to third parties for development.

17.4 The approach to valuation has been taken on the following bases:

17.4.1 The comparable sale value of land for similar uses, in the case of land capable of development for the proposed Master Plan;

17.4.2 The investment value of an income stream from the properties let on the lease terms and strength of covenant of the several tenants; and

17.4.3 For the alternative use as development for a Garden Village, based on comparable land values for residential use discounted over the period until the sale proceeds are estimated to be receivable and make deduction, so far as feasibly possible at this early stage, for the costs of adapting the land for the proposed use. The assumption is made that the preparation for the implementation of this alternative sue will start within five years of the date of this valuation, in anticipation of the closure of DTVA

17.4.4 The residual value appraisal of the land taking into account the estimated total development values, less the total development costs of the uses proposed in the Master Plan.

17.5 Adopting these methods of valuation will result in different figures as to price. This arises from differing factors that are taken into account when addressing each basis. A judgement is then made, having regard to the circumstances of the case, as to the reasonable price a potential seller of the DTVA land would take in the open market.

18.0 Definitions

18.1 This is an advisory report to assist in the purchase of the land comprising DTVA. It is not to be adopted as an asset valuation within the meaning of the RICS Valuation – Global Standards 2017 (the 'Red

Book') but for consistency of approach the following definitions have been adopted:

18.1.1 Market Rent (MR) – The estimated amount for which an interest in real property should be leased on the valuation date between a willing lessor and willing lessee on appropriate lease terms in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion (see IVS 104 paragraph 40.1);

18.1.2 Market Value (MV) – The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion (see IVS 104 paragraph 30.1);

18.2 Material Uncertainty – Matters that may give rise to material valuation uncertainty. Express attention is drawn to, and comment made on, the issues at the valuation date that make the development at DTVA viable and the specific risk of achieving viability of the proposed developments in the Masterplan deliverable;

18.3 Special Assumption – An assumption that either assumes facts that differ from the actual facts existing at the valuation date, or that would not be made by a typical market participant in a transaction on the valuation date;

18.4 Special Purchaser – A particular buyer for whom a particular asset has a special value because of advantages arising from its ownership that would not be available to other buyers in a market; and

18.5 Valuation Date: is the date of this report.

19.0 Market Commentary

19.1 There is no shortage of land available for commercial development, or indeed for residential development in the Tees Valley region. Much of this land available is on previously used, or 'brownfield' sites. The challenge is to overcome the risks and costs of preparing the land by improvement with infrastructure and/or remediation and overcoming abnormal ground conditions that increase the risks, time and cost of bringing land forward for construction.

19.2 This report assumes that the development land identified for development within the Master Plan in preparation, or for a Garden Village, requires no remediation, abnormal costs, infrastructure and services requirements and that the site is readily available for development without incurring unnecessary delay and costs in preparation for construction. The exception to this is the need for investment in a new road access to release development opportunities to the Southside of DTVA and on which further advice is given.

19.3 Reference has been made in paragraph 17.15 of the need to have a regeneration development plan to attract investors and occupiers.

19.4 Linked with the above comments a robust marketing plan is required for the region, the local area and the developed property by which to attract inward investors and other occupiers. In particular, a Unique Selling Point needs to be made that there is an ideal opportunity to develop a strategic transport hub and air-passenger traffic to create sufficient demand in the market from airport related users, particularly in freight handling and passenger usage, to create the vibrancy of use, but this will not in our opinion generate a premium of value from such use with proximity to DTVA.

19.5 Research and example have shown that development around transport hubs, such as an airport, has a better chance for success given the location and activity. DTVA has not achieved the desired growth over the last few years and is not perceived by the market to be a vibrant and active transport hub. The achievement of values that are necessary to make the development proposed both viable and attractive to occupiers will require a commitment to investment in infrastructure, development and the achievement of a step change in the perception of DTVA.

20.0 Development Issues

20.1 Carrying out development is high risk, which is mitigated by seeking to identify all those variable factors that have an adverse impact upon the timing, programme and cost of construction. Before any development is commenced it is advisable to identify fully the costs of preparing the land for development including remediation, abnormal foundation requirements, site infrastructure including the need to increase the capacity of services necessary to fully use the properties to be developed.

20.2 The risk is further extended by making a judgement as to the likelihood of finding occupiers, when this is likely to occur and the rent or value that is achievable. Should there be a delay in finding an occupier the developer’s profit is eroded by the cost of holding the property vacant, these costs can include: security, maintaining services and heating, insurance and empty property rates.

20.3 There are two variable factors in determining the price payable for land for the purpose of development. One is to fix the developers profit, usually taken at 20% of the total development value for speculative development. This produces the residual amount attributable to the payment for the land, less the costs of purchase such as legal, surveyors and Stamp Duty Land Tax. The other is to fix the price at which the landed is to be bought and determine whether the desired level of developer’s profit is achievable in the market place. In this case we have adopted the residual amount attributable to the payment of the land. We have then, at this early stage of the development process, attempted to identify all of those matters that will determine the total development value and the total development costs, excluding the land. It is clear that the present total commercial development value falls well below the total development costs and a planned approach is necessary to grow demand and values to make development viable overtime.

20.4 The above is attributable to a single building development. Where, as in the case of the Master Plan for DTVA, there are a number of buildings within the overall development scheme the more complex develop appraisal is required. Normally, phasing is factored into the development programme and a discounted approach is taken, plus the addition of interest over the time taken for the development, offset by the interest earned from lettings and sales. In this case, because of the paucity of information available, a single day residual valuation approach has been adopted without phasing and other than normal interest charges on the assumption it is a hypothetical single building event. As the development proposals are formulated so the development and appraisal can be refined to meet the particular circumstances.

20.5 In dealing with the multi-building phased development of this character it is usual that the first phase of development is of low value and high risk; and that the final phase of development, if successful, is of high value and low risk. It is therefore important to recognise this when considering the procurement of development and in particular a development/funding partner.

20.6 It has been assumed that the development of hangar space is not commercial property related but is Airport specific and is an integral part of developing viable business of airport operation. Thus hangar space has been excluded from the estimate of value and costs reported herein.

21.0 Land, Capital & Rental Values

21.1 Land

21.1.1 Housing: the summary of land transactions in the area in the recent past has produced sale prices that range from £166,667 to £562,142 per acre over the last four years; see Appendices 9.1 and 9.3. We are informed that the sale of land of around 23.33 acres by DTVA to Miller Homes for the 350 house development on the DTVA land achieved a sale price of £5 million, equivalent to £214,316 per acre. This appears to be low and has regard to the higher incidence of construction costs and lower house sale prices because of proximity to an operational airport. We are told that this sale has been halted with the proposed sale of DTVA to the client and thus is not a valid comparable. In contrast, the sale of 11.91 acres of land for 148 houses at Green Lane, Yarm at a price £295,768 per acre achieved in April 2017 is the nearest appropriate comparable of similar character for Garden Village style land, and has been adopted but rounded up to £300,000 per acre, before making a deduction for quantum.

21.1.2 Industrial & Distribution: there is a small range of relevant land sales, see Appendices 9.2, 9.4 and 9.6:

- Yarm Rd, Darlington £359,801 per acre, which is for a car showroom and which is discounted;
- Fabian Rd, Middlesbrough £220,176 per acre; and
- West of Tursdale Rd, Bowburn £221,744 per acre for a 90 acre site.

21.1.3 The above are better sites in terms of location and uses. This contrasts with the generality of the market for employment land sales within the Tees Valley region where sales are between £40,000 and £50,000 per acre. All of these figures relate to relatively small sites and the sale of areas the size of which is being contemplated for development of DTVA will be heavily discounted because of quantum. The JLL report of July 2015 (Appendix 11) adopts a figure of £50,000 per acre for commercial land values and whilst I agree with their assessment of existing agricultural use value, I am of the opinion that commercial land value held for development is more in the order of £40,000 per acre, because of the quantum of land involved.

21.1.4 Offices: there are no comparables on land sales that assist, and usually such sales are part of the overall price for employment land and or industrial/distribution land in out of town locations in the area.

21.2 Capital

21.2.1 Housing: the comparison of sale price per square foot is shown in Appendices 9.1 and 9.3. Since the proposed Garden Village style development is not yet planned and the capacity of development unknown it is not considered appropriate to adopt a residual valuation approach and this information is discounted because of too much uncertainty.

21.2.2 Industrial & Distribution: it is likely that the size of units for disposal will be between 5,000 and 20,000 sq. ft. Consideration has been given to capital sale prices within this range and whilst the information is wide ranging those transactions relating to the locality have been chosen, see Appendix 9.4:

- 5,000 to 10,000 sq. ft. there are two old units in Stockton sold in March 2017 at £45.80 sq. ft. & February 2018 £31.53 sq. ft.; and
- !0,000 and 20,000 sq. ft. there are two units one at Stockton and the other Darlington sold at £33.85 sq. ft. and £41.22 sq. ft. respectively.

A capital value of £40 per sq. ft. has been adopted as appropriate for the site and character of development.

21.2.3 Offices: the relevant comparable capital value cases from the information in Appendix 9.5 are:

- Falcon Court at £53.36 sq. ft. ;
- Lockheed Close Stockton at £56.47 sq. ft. ;
- Wetherby Close Stockton at £98.14 sq. ft. shows an 8.29% initial yield; and
- Northgate Darlington £157.05 sq. ft. showing 9.03% initial yield.

These are very wide ranging and deal with buildings ranging from 11 years to 98 years of age. Adjusting for a new building but discounting the Northgate transaction as being of a town centre location a rate of £125 sq. ft. is adopted.

21.3 Rental

21.3.1 Housing: no rental value evidence has been applied and capital sales are assumed.

21.3.2 Industrial & Distribution: Appendix 9.6 shows the comparable for asking rentals for new build in the Stockton area are being quoted at £6 per sq. ft. for sizes between 5,000 and 10,000 sq. ft. A figure of £6 per sq. ft. has been adopted for the development appraisal but a rental of in excess of £7 per sq. ft. is likely to be required to achieve a viable development.

21.3.3 Offices: the comparable evidence shown in Appendix 9.7 shows that between 2015 and 2016 office rents in Darlington, Stockton and Middlesbrough were achieving between £8.61 and £9.98 per sq. ft. for 10 year lease, some with mid-term breaks, for 5,000 to 10,000 sq. ft. of space. In contrast new space will require a rental in excess of £18 per sq. ft. to achieve a viable and profitable development.

22.0 Valuations

22.1 Continued Operational Airport

22.1.1 The value of the existing use of the airport is in two parts: the value of the income stream of rentals; and the unused land for which there is a development potential and these are addressed below.

Value for Existing Use

22.1.2 The estimate of the value for existing use of the airport in this report deals solely with the value of the non-operational airport land and buildings. That is: the income received from third parties in relation to the terminal, hotel and properties let on the 'land-side' of the airport and which is done on an investment basis of valuation; the 23.33 acres of land for which planning permission has been granted for housing and is taken at the contracted sale price to Miller Homes of £5,000,000; and the existing agricultural use value of the land at the Southside of the airport, the subject of a valuation by JLL, July 2015 and a copy of which is provided at Appendix 10 and reported at £1,160,000, with which we agree and consider to be still current in the present market. There remains to be valued the 'airside' of the airport operations such as the control tower and other land and building assets necessary for the carrying out of the function of the airports operations. The value of these operational assets need to be done in consultation with the accountants to be appointed by our client and might take the form of a Depreciated Replacement Cost basis of value, provided a satisfactory profitable ongoing business can be established.

22.1.3 The valuation on an investment basis is:

Table 23.1.3 Value of rental income

Description	Amount £
Gross Rental Income as Oct 2018 tenancy	576,666

schedule		
Less management @10%	57,767	
Net Income	518,999	
Years Purchase @ 8%	x12.5	
Gross Value of rental income	6,487,493	
Less acquisition fee legal and surveyor @ 1.5%	97,312	
Value before Stamp Duty Land Tax		6,390,180
Stamp Duty Land Tax		
First £150,000	nil	
Next £200,000 @ 2%	4,000	
Remainder £6,040,180 @ 5%	302,009	
Total Stamp Duty Land Tax		306,009
Estimated Value of Land & Buildings let to third parties		**6,084,171**

22.1.4 The total Existing Use Value, incorporating the investment basis of value from paragraph 23.1.3 is:

Table 23.1.4 Existing Use Value

Description	**Amount £**
Investment basis as paragraph 23.1.3 above	6,084,171
Housing development land	5,000,000
Land at Southside for agricultural use	1,160,000
Total Estimated Existing use Value	**12,244,171**

22.1.5 I round this estimate for existing use to £12,250,000 (twelve million, two hundred and fifty thousand pounds), as an interim amount and subject to the addition of the estimated value of the ‘airside’ land and buildings. The increases the figure reported on the 14 December 2018 email as a the result of an amended Tenancy Schedule received from DTVA Limited showing and increase from £542,940 to £577,666 in the gross annual rental income.

Value of Land with Development Potential

22.1.6 On the assumption that DTVA continues to trade successfully there is a potential increase in value of the land available for development.

22.1.7 The approach adopted is to consider each constituent part of the site: annual income from existing tenancies; the availability of the 'housing' land of some 23.33 acres on the Northside of the airport for commercial development and not housing development; and the development of land at the Southside of the airport, conditional on the construction of an access road not paid for from the assets of DTVA i.e. by government funding. This approach adopts to a certain extent the Master Plan of 2014 without the additional land not in the ownership of DTVA.

22.1.8 It is clear that non-residential development in the Tees Valley is likely to prove difficult, given the negative 'gap' between the higher cost of development and the lower development value, based on a development appraisal applying current market rental and capital values. The approach taken to assess the potential market value of the DTVA land available for development is based upon comparable sale figures for commercial land. I have explained my adoption of the amount of £40,000 per acre at paragraph 22.1.3 above and apply in this case, on the basis of uses not being restricted to airport use.

Description	**Amount £**	
Value of income see table 23.1.3		6,084,171
Value of ex-housing land	23.33 acres	
@ per acre	40,000	933,200
Value of Southside Commercial development land	120 acres	
@ per acre	40,000	4,800,000
Value of land with development potential		**11,817,371**

22.1.9 I round this estimate for existing use to £11,850,000 (twelve million, two hundred and fifty thousand pounds), as an interim amount and subject to the addition of the estimated value of the 'airside' land and buildings.

22.1.10 These estimates should be reviewed when further information is made available through the process of due diligence.

22.2 Closure of DTVA and Development as a Garden Village

22.2.1 To arrive at the value of the DTVA land on an alternative use basis an assumption has been made that the DTVA will close after 10 years and that there is the probability of obtaining planning consent for a Garden Village, in the longer term, as previously explained.

22.2.2 There has not been a sale of land of this size in the recent past on which to make an assessment of value by direct comparison. The large national house builders operating in the region would normally approach an option to purchase by offering the existing use value, plus 50% of the improved value of the land on receipt of planning consent for housing.

22.2.3 The estimate of existing use to apply to this purchase is calculated in table 23.2.3 below

Table 23.2.3 Estimate of Existing Use Value on rental income from land and buildings let to existing tenants, excluding airside properties

Description		Amount £
Income as Tenancy Schedule Oct 2018		576,666
Less airside income:		
Terminal	81,075	
Hanger 1	39,450	
Hanger 2	175,500	
Hanger 360	106,242	
Building 40	20,750	423,017
Income producing Northside properties		153,649
Add St George Hotel revenue £595,000		
provision for annual rent @ say 8%		47,600
Gross rental income say		201,249
Less management and other outgoings @10%		20,125
Estimated net income say		181,124
Years Purchase @ 8%		x12.5
Estimated investment value of income from lettings		**2,264,049**

22.2.4 There is no criteria by which to make a judgement of the scale and content of an alternative and fully development Master Plan by which to assess the net developable area, nor for any hard and soft infrastructure (i.e. schools and health care etc.,). An approximation has been made that the gross development area is some 817 acres. Whilst a broad average of purchase price of £300,000 per acre may be adopted for the gross developable area of housing, a discounting is applied:

Table 23.2.4 Calculation of Estimated Purchase Price for DVTA Land on Basis of Alternative Use

Description		**Amount £**
Price per acre		300,000
Less, net to gross development area @ 10%		30,000
Price per gross development area:		270,000
Less quantum @ 20%		54,000
Net price per acre		216,000
Total site area acres		817
Gross land price		176,472,000
Less,		
Clearance provision say	£5,250,000	
Professional fees say 15%	£ 787,500	
Planning costs say	£2,500,000	
Contingency say	£1,462,500	10,000,000
		166,472,000
Less overage payment to landowner @ 50%		83,236,000
Gross payment for land		83,236,000
Adjusted to present day costs Present Value £1 for 20 years at 3.5%		0.5025659
Price for DTVA on alternative use		41,831,575
Add investment value of existing use (see para.23.2.3)		2,274,049
Total price		44,105,624
Legal fees say 0.5% of £44,105,624	£200,000	
Valuation fees say 0.1%	£40,000	240,000
Gross price before purchasers costs		43,865,624
Stamp Duty Land Tax		
Up to £150,000	nil	

Next £100,000 @ 2%	£2,000	
After £250,000 on balance of		
£39,750,000 @ 5%	£1,987,500	1,989,500
Estimated Purchase Price		**41,876,124**

22.2.5 The estimated value of the DTVA land assuming an alternative residential use in the character of a Garden Village I have rounded to the order of say £42,000,000 after allowing a period of 10 years to make the airport viable and for a reasonable period in which to achieve planning consent.

22.2.6 It is also unlikely that a single house builder would be willing to purchase such a large area of land as a strategic purchase, given the timescale of waiting to see if the airport will achieve viability and costs of preparation and planning before development can be considered. The purchase of DVTA land is more of a strategic purchase for either a large corporate organisation such as Peel Holdings plc the majority shareholder of DTVA, or the public sector such as Homes England, or an enterprising regional body, such as the Mayor/Combined Authority.

22.3 The amounts of the estimated values for development based on development appraisals result in significant negative figures, as is expected in an area where rents and capital value are lower than the cost of development. The regeneration initiative must be carried out in conjunction with a plan for growing values and this is dependent upon increasing the demand for space through a cohesive and comprehensive marketing plan.

22.4 The cost of constructing a new access road to release the development potential of the Southside site is assumed to be funded by regional economic regeneration sources. If the Southside development is dependent upon a self-funding access road then the present estimated negative value would be increased significantly.

23.0 Conclusion

23.1 Our instructions first ask if the purchase price for the DTVA land at £40,000,000 (forty million pounds) is a fair market value: on the basis of the assumptions that we have made, we are of the opinion that an estimate of the present market value of the DTVA land is in the order of £42,000,000 (forty two million pounds) on the basis of alternative use in twenty years and on the probability of obtaining planning consent for a Garden Village style housing development.

23.2 The purchase of DTVA is to create transport hub by the development of a vibrant and viable airport business. Initial advice has been given on the formulation of a Master Plan for that hub. As an economic regeneration initiative investment is required to improve the infrastructure and to change perception of a failing airport operation. This will require further investment in the marketing of the opportunity, the attraction of public and private sector investment and occupiers. The objective will be to grow values sufficiently to make development viable and attractive to by the private sector as investors and developers.

23.3 The existing use and development values for a transport hub are based on the premise that the use of the DTVA land will not be restricted to airport use only. Further, that a planned programme of activity will be put in hand to complete the formulation of a Master Plan for delivery as a priority.

23.4 The client has indicated that a period of 10 years will be allowed by which to achieve this regeneration initiative for economic growth and job creation. After which, if not successful, the land can be developed for housing in the character as a Garden Village. It is considered that present government policy encourages and indicates that there is a probability of achieving planning consent for this approach and on which the alternative use value, that substantiates the purchase price has been based. It is important that time be allowed prior to the expiry of 10 years to begin the process of obtaining consent for the development of housing in the Garden Village concept.

24.0 Disclosure

24.1 In accordance with our standard practice we must state that this report is confidential to the party to whom it is addressed and no responsibility is accepted to any third party for the whole or any part of its contents. If our report and opinion is disclosed to persons rather than the addressees of this Report the basis of the valuation should be stated.

22.2 Neither the whole nor any part of this report or any references thereto should be included in any published document, circular or statement, nor published in any way without the prior written approval of the form and context in which it may appear.

JK Property Consultants LLP
14 January 2019

Appendix 1

Brief of Instructions

Scoping Document – Land Valuation Report Required to Support Acquisition of DTVA

Our advisers are requested to prepare a full valuation report which values all land currently owned by Durham Tees Valley Limited on the bases set out below:-

Valuation	Assumptions
1. Value for existing use as an Airport but under TVCA ownership	Need to consider all potential planning uses available and airport operational land and buildings, the latter will require liaison with the appointed accountants and bring in item 4 below.
2. Value when commercial development improvements (as envisaged by Business Plan) are completed at year 10.	Define what it is that to be developed in the first 10 years as described in the Business Plan. This will incorporate:- • internal roads • station development • road from A67 to Southside • normal infrastructure support for infrastructure on Northside • TVCA being prepared to make commercial investment.
3. Value if airport should close	Present this to predominantly housing subject to agreement on the planning criteria.
4. Depreciated Replacement Cost valuation	If required by appointed accountants - see item 1 above

The valuation report must expressly state the assumptions on which each valuation is based.

The above sentence will be incorporated and is part of the directions issued in the RICS Valuation - Global Standards 2017-‘The Red Book’ on which the valuation and report will be based.

Reference will also be made to conform to the Treasury Green Book.

Appendix 2

General Principles Applying to all United Kingdom Valuations Undertaken by JK Property Consultants LLP

It is our objective to provide a professional and efficient valuation service to all of our clients. In the interests of establishing clear terms of reference at the outset we believe that it is important that we should fully understand the requirements of our clients and the purpose and basis of the valuations that they commission and that clients should understand the usual limitations to the services offered. We are pleased to discuss such variations, where appropriate, and to arrange the provision of extended or additional services, such as site, building or structural surveys if required.

The following General Principles apply to all valuations and appraisals undertaken by JK Property Consultants LLP in the UK unless it is specifically agreed otherwise in confirming instructions and so stated within the main body of the report. The General Principles themselves will normally be included as an appendix to the report but will nonetheless comprise as a part of the conditions of our engagement.

1. RICS Appraisal and Valuation Standards “The Red Book”

   Valuations and appraisals will be carried out in accordance with the RICS Appraisal and Valuation Standards (“The Red Book”), by valuers who conform to its requirements, and with relevant regards to statutes or regulations. Compliance with The Red Book is mandatory for Chartered Surveyors in the interests of maintaining high standards of service and for the protection of claims.

2. Confirmation of Instructions.

   In order to comply with The Red Book, instructions must be confirmed with clients in writing. In addition to the matters specifically referred to below the purpose, timetable, extent of and limitations to the valuation service are subject to such an agreement.

3. Valuation Basis.

   Properties are valued individually and valuations and appraisals are carried out on a basis appropriate to the purpose for which they are intended and in accordance with the relevant definitions, commentary and assumptions contained in The Red Book. The basis of valuation will be stated in the body of the report and the definition will usually be included with these General Principles.

4. Title and burdens.

We do not read documents of title although, where provided, we consider and take into account of matters referred to in solicitor's reports or certificates of title. We would normally assume, unless specifically informed and stated otherwise, that each property has good and marketable title and that all documentation is satisfactorily drawn and that there are no unusual outgoings, planning proposals onerous restrictions or local authority intentions which affect neither the property nor any material litigation pending.

5. Disposal Costs and Liabilities.

No allowance is made in our valuation for expenses of realisation or for taxation which may arise in the event of a disposal and our valuation is expressed as exclusive of any VAT that may become chargeable. Properties are valued disregarding any mortgages or other charges.

6. Sources of Information.

We rely upon the information provided to us, by the sources listed, as to details of tenure and tenancies (subject to 'Leases' below), planning consents and other relevant matters, as summarised in our report. We assume that this information is complete and correct.

7. Boundaries.

Plans accompanying reports are for identification purposes only and should not be relied upon to define boundaries, title or easements. The extent of the site is outlined in accordance with information given to us and/or our understanding of the boundaries.

8. Planning, Highways and Other Statutory Regulations.

Enquiries of the relevant Planning and Highways Authorities in respect of matters affecting the property, where considered appropriate, are normally only obtained verbally, and this information is given to us, and accepted by us, on the basis that it should not be relied upon. Written enquiries can take several weeks for response and incur charges. Where reassurance is required on planning matters, we recommend that formal written enquiries should be undertaken by your lawyers who should also confirm the position with regards to any legal matters referred to in our report. We assume that the properties have been constructed, or are being constructed, and are in accordance with the appropriate consents and that there are no outstanding statutory notices.

We assume that the premises comply with all relevant statutory requirements including fire and building regulations.

Appendix 3

Lichfields Planning Context Report

Appendix 3

Turner & Townsend – High Level Approximate Construction Estimates

Appendix 5

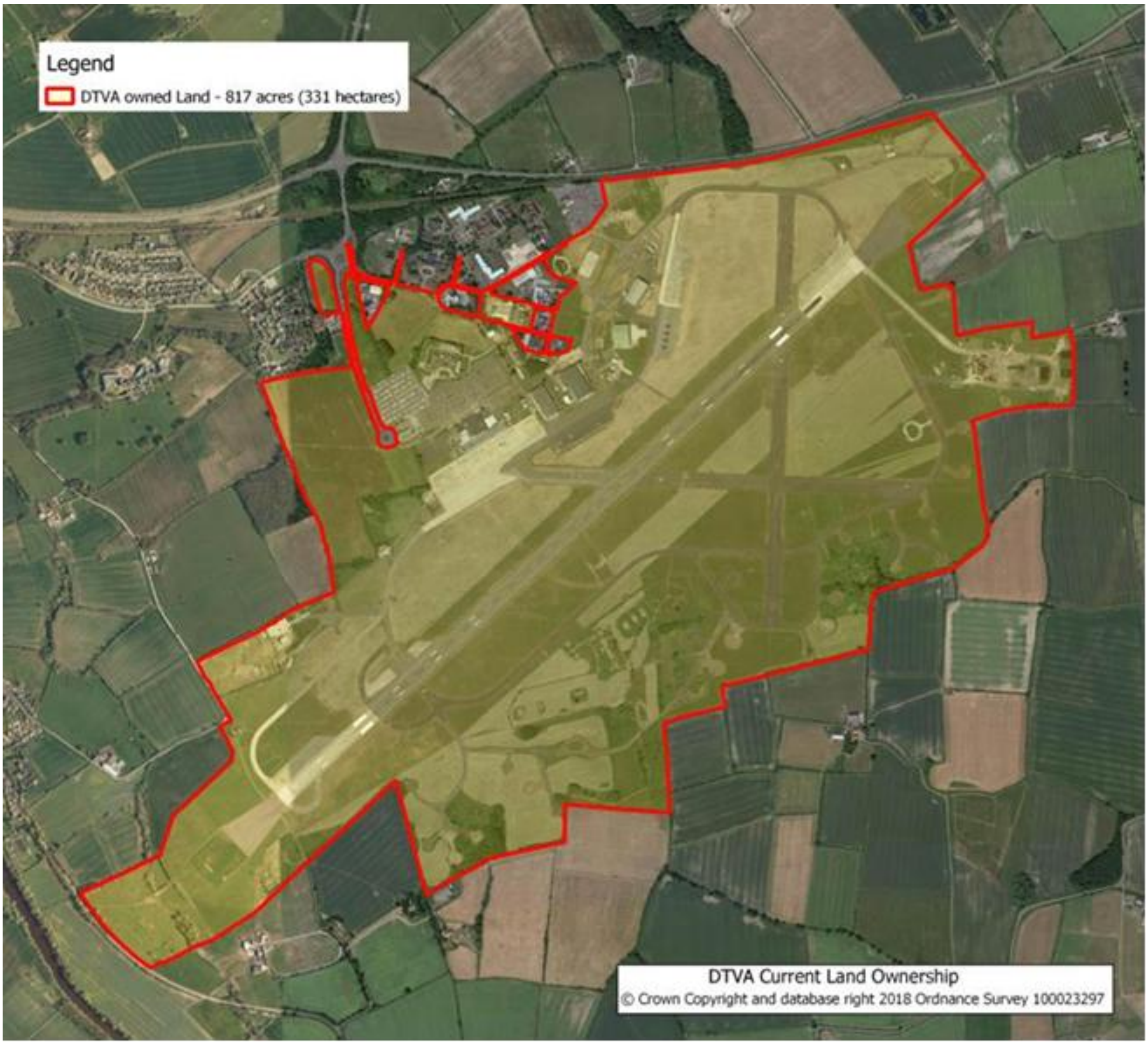
RICS UK Economic and Property Market Overview

Appendix 6

Location Plan

Appendix 7

Site Plan



Appendix 8

Schedule of Tenancies at DVTA October 2018

Appendix 9

Comparable Land and Property Transactions

Appendix 10

JLL Valuation of Southside Land, July 2015

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Appendix 3

Acquisition of Land at South Tees Development Corporation Site

Overview

STDC Board on 15th December approved a proposal to acquire the Tata land and set up a wholly owned Special Purpose Vehicle to own the land on its behalf.

This decision is a Referral Decision in accordance with its Constitution and as such needs to be referred to TVCA for ratification.

The relevant Board Papers are included as an Annex to this Appendix for reference.

Decision

TVCA is requested to approve the following:

- The acquisition of the Tata land as a Referral Decision;
- The ability of STDC to set up an SPV as a Referral Decision; and
- The funding of the acquisition as part of the Investment Plan.

ANNEX

South Tees Development Corporation

Extraordinary Board Meeting 1.19
15 January 2019

Tata land acquisition

PURPOSE

1. This paper updates the Board on the detail of the Tata land acquisition deal and seeks approval to acquire the land.

Recommendations

2. The Board are recommended to:

   a) Agree to the purchase of Tata land at a cost of £12.06m (including SDLT);
   b) Agree to submit this as a referral decision to the TVCA Cabinet as per the Constitution; and
   c) Make application to the TVCA Cabinet for funds to make this purchase, including an allocation to cover the cost, over 10 years of the operation and maintenance of the Tata liabilities.

3. The Board are asked to note the £14m commitment from central Government to support the redevelopment of the Prairie site as phase one of the development which will allow remediation and site preparation for initial investors to start early in 2019.

OVERVIEW

4. STDC is acquiring the Tata land (contract at **Annex A** with a range of appendices) as part of the delivery of a wider project to regenerate the former South Tees steelworks site (which also comprises sites in the ownership of, amongst others, SSI) and deliver on the Master Plan strategy for growth. **Annex B** displays the ownership site plan and photos of the land to be acquired.

5. All the Tata land is within the STDC boundary which has been designated as a Special Economic Area (to take effect before the 1 April on conclusion of the parliamentary process). This land acquisition is a necessary part in the development of the site as a whole, in line with national, regional & local strategic economic plans. The site cannot be fully and efficiently developed without it.

DETAILS OF THE PURCHASE

6. The structure of the deal for the acquisition of the site has developed over time. The original proposal involved the site being drawn down in phases over a period of approximately two years, with a headline purchase price subject to reduction based upon adverse ground investigation results.

7. That original structure has been superseded by what has now been agreed, namely an unconditional acquisition of the total Tata land within the STDC boundary at a lower total fixed purchase price. Details of the deal can be found in **Annex A** and its various appendices:

- Annex A - Deed of agreement for sale
- Appendix 1 – TR5 doc - transfer of portfolio or titles
- Appendix 2 – TR1 assignment of seller lease
- Appendix 3 – assignment of shared services contracts
- Appendix 4 – Assignment of benefit of unregistered 3rd party agreements
- Appendix 5 – Deed of assignment of rent arrears
- Appendix 6 – data room including list of everything included in contract – not complete until point of sale – not circulated with these papers.
- Appendix 7 – Plans of unregistered land
- Schedule 7 – Report on occupational interests and 3rd party agreements summary
- Womble Bond Dickinson Report on Contract for sale and purchase

Cost of the deal

8. The cash cost of the deal is £12,064,500 (£11.5m plus £564,500 stamp duty land tax), and a potential requirement for £12m in operational and maintenance costs over the next ten years. These sums will be paid back by STDC when it is able to do so and after it has begun to return a profit.

What is included in the deal

9. All the Tata land within the STDC boundary (**see Annex B** maps and photos); a range of liabilities including shared services contracts (Appendix 3), unregistered 3rd party agreements (Appendix 4); assignment of rent arrears (Appendix 5); unregistered land (appendix 7) and occupational interests (Schedule 7). While there has been detailed analysis undertaken of the potential management and maintenance costs to be incurred in acquiring the Tata land, these were assessed on a gross basis intentionally without any recognition of revenue opportunities that would flow from the lease and easement agreements that we would take over as landlord. This revenue from such arrangements has been assessed as being potentially in the region of £200-300k p.a.

10. There are 4 parcels of land within Tata ownership over which SSI has an option until 2023. This is not a barrier to purchase of the Tata land and further discussions are ongoing about the option. This will be explained in detail at the meeting.

South Tees Development Corporation

Extraordinary Board Meeting 1.19
15 January 2019

Setting up a Special Purpose Vehicle

Purpose

3. This paper seeks Board approval to establish the parameters to set up Special Purpose Vehicle(s) (SPV[s]) including one immediately to enable STDC to purchase the Tata land. The key benefits being that an SPV is a Limited Liability Co, with the ability to buy, sell, borrow in a standalone vehicle. It will also resolve the current situation regarding VAT that STDC is facing.

Recommendations

4. The Board are recommended to:
  - **a)** Agree to the broad parameters within which STDC can set up SPV's as required to purchase and develop land;
  - **b)** Agree to the details for the functions of the first SPV which will purchase Tata land;
  - **c)** Approve the shareholding of the SPV;
  - **d)** Approve the Directors of the SPV;
  - **e)** Agree to the development of Articles of Association for the SPV;
  - **f)** Agree to the development of a Shareholders Agreement;
  - **g)** Agree to the development of a Service Level/Management Agreement to enable STDC staff to deliver their day to day functions in relation to the SPV; and
  - **h)** Make application to TVCA Cabinet to confirm the setting up of the SPV(s).

Details

5. The briefing note at Appendix A was prepared by Womble Bond Dickinson to support STDC in putting arrangements for creating SPV's in place. It is likely that STDC will develop a range of SPVs with different functions eg purchase and development of "clean" land and purchase and management of "dirty" land. **The Board is recommended to agree to the broad parameters outlined in the briefing note in setting up SPVs – recommendation 2a.**

6. In determining the broad parameters it should also be noted that action has already been taken regarding setting up the first SPV, incorporated at Companies House as South Tees Developments Ltd, to be used to undertake the Tata land acquisition. The Board also need to be aware that the operation of the SPV will be seamless and, in practical terms, it will be business as usual on the ground. It will not be an entity going off unguided on its own account and without reference. From a practical point of view the Board will not notice any difference from the way it currently operates.

7. This first SPV will enable STDC to purchase the Tata land and to then take responsibility to direct the development of that land. **The Board is recommended to agree to the details for the functions of this SPV recommendation 2b.**

8. The SPV, as a separate legal entity, will be a private company limited by shares and the sole shareholder will be STDC but this does not mean that STDC would be liable for the SPV's debts and liabilities (Para 4.3.1 refers), although STDC is unlikely to walk away from a wholly owned subsidiary. The SPV would have its own corporate structure and accounting and reporting arrangements. **The Board is recommended to approve the shareholding for the SPV – recommendation 2c.**

9. It is proposed that in the first instance that Paul Booth be the sole Director of this SPV whilst detailed arrangements are put in place for the Board, Directors and governance arrangements, including a Company Secretary. These arrangements are likely to include identification of one or two non-executive Directors for the Board of the SPV. **The Board is recommended to approve Paul Booth as the sole Director of this SPV whilst further arrangements are put in place – recommendation 2d.**

10. Articles of Association for the SPV will be developed setting out the objectives of the company eg land acquisition, development and leasing of land etc with reference to the Constitution of STDC. **The Board are asked to recommend the drafting of the Articles of Association – recommendation 2e.**

11. It is proposed that a Shareholders Agreement be put in place to restrict the decision-making powers of the SPV to a set of reserved matters and therefore aid its governance. **The Board is recommended to approve the development of a Shareholders Agreement for the SPV – recommendation 2f.**

12. A Service Level/Management Agreement also needs to be put in place to enable the employees of STDC to carry out their roles in relation to any assets owned by the SPV. **The Board is recommended to approve the development of a Service Level/Management Agreement for the SPV – recommendation 2g.**

13. Due to the nature and function of the SPV(s) this constitutes a referral decision to TVCA Cabinet. **The Board is recommended to approve the submission of a proposal to set up SPVs to TVCA Cabinet – recommendation 2h.**

14. One of the actions required in parallel with setting up the SPV is appropriate establishment of the position regarding VAT (Schedule 3 of Appendix A refers). This will be for the management team, in collaboration with advisors, to clarify as a priority.

Paul Booth, Interim Senior non-Executive Officer

APPENDIX A

BRIEFING NOTE TO SOUTH TEES DEVELOPMENT CORPORATION

8 JANUARY 2019

1. INTRODUCTION

1.1 This briefing note has been prepared by Womble Bond Dickinson (UK) LLP (**WBD**) and is strictly private and confidential, for the sole attention of the board of South Tees Development Corporation (**STDC**).

1.2 This briefing note has been prepared at the request of STDC for the purpose of considering the use of a private company limited by shares as a proposed special purpose vehicle (**SPV**) owned by STDC for the acquisition of land from TATA Steel UK Limited (**TATA**) at Redcar (the **TATA Land**) and sites in the ownership of Sahaviriya Steel Industries UK Limited (in liquidation) (**SSI**) at Redcar (**SSI Land**).

1.3 This briefing note has not been prepared for any other recipient. If it has been received in error, please do not read any further and return it to WBD or to STDC. WBD does not, in providing this briefing note, accept or assume responsibility for any other purpose or to any other person except as expressly agreed on behalf of WBD.

2. BACKGROUND

2.1 The contract for the sale and purchase of the TATA Land (**Contract**) provides for the TATA Land to be transferred by TATA directly to the SPV; however, the obligations and indemnities imposed in the Contract will be guaranteed by STDC.

2.2 The relevance and benefit of the SPV is therefore to be assessed not only in the context of the Contract, but also in relation to future negotiations with SSI for the acquisition of the SSI Land by the SPV in respect of which we presume STDC will seek to negotiate the acquisition of the SSI Land by the SPV without the provision of any further guarantees or indemnities by STDC.

3. STEPS SO FAR

3.1 **Incorporation:** The SPV has been incorporated at Companies House with the name South Tees Developments Limited.

3.2 **Directors:** Currently, the only director is Paul Booth. New directors need to be appointed (their identities are to be confirmed but the current intention is to have the same directors as those in STDC). Each director will need to sign a letter confirming their agreement to be appointed as a director and to comply with the SPV's articles of association. It is envisaged that the new directors will be appointed immediately prior to the SPV acquiring the TATA Land. On request by STDC, we will prepare letters for the director appointments.

4. USE OF AN SPV

4.1 Introduction

4.2 The SPV is proposed to be a private company limited by shares. It would be established to acquire the TATA Land and SSI Land. It would also be able to hold other assets, enter into contracts with third parties and generally carry on the business of owning and managing the development of the TATA Land and the SSI Land.

4.3 Reasons for using an SPV

The main reasons for using an SPV are:

4.3.1 **Limited liability:** STDC would be the sole shareholder of the SPV and, accordingly, STDC's liability to creditors and third parties in respect of the TATA Land, SSI Land and any other assets or liabilities of the SPV would, in general, be limited to the value of the share capital which STDC holds in the SPV. In general, this applies even in the event of insolvency of the SPV. The fact that STDC would own 100% of the shares in the SPV is no reason to attribute the acts or omissions of the SPV to STDC. Therefore, STDC would not be liable to pay for the SPV's debts or liabilities. There are some rare exceptions to this protection which are raised later in this note (see paragraph 4.4.40) but we do not consider any are likely to apply to STDC and the SPV.

4.3.2 **Separate legal entity:** The SPV would be a separate legal entity for contracting with third parties, dealing with property, and if necessary suing in its own name and being sued in its own name.

4.3.3 **Recognisable structure:** The SPV would be, as a company limited by shares, an easily recognisable entity in all global jurisdictions, which may be of benefit when liaising with grant providers and investors. This should be contrasted with STDC, which , as one of the few mayoral development corporations established by statute, may not be so easily understood by funders and other third parties.

4.3.4 **Finance / security:** The SPV could own and hold assets in its own name, and give a floating charge as security for external finance, create charges over future assets such as debts receivable and (depending on the value of the security offered by the SPV) enable finance to be raised without recourse to the shareholder, STDC.

4.3.5 **Group arrangements:** As a separate company from STDC, the SPV would provide a clear corporate structure for internal group accounting and reporting.

4.4 Points to note in using an SPV

The main points to note in using an SPV, as envisaged in this scenario, are:

4.4.1 **Cross indemnities:** We understand that TATA will require cross indemnities to be given by STDC in respect of the TATA Land acquisition, which means that STDC will bear the full risk of liabilities under these indemnities, regardless of the fact that the SPV is used as the acquisition vehicle.

4.4.2 **Guarantee from STDC:** TATA requires a guarantee of the SPV's obligations to be given by STDC, with these provisions accordingly having been drafted into the Contract. In terms of the acquisition of the TATA Land, this erodes the benefit of STDC's limited liability through the SPV, to a significant extent and possibly entirely.

4.4.3 **Contractual liability for STDC:** The liabilities under the Contract as between TATA, STDC and the SPV, such as environmental liabilities, remain with STDC either directly or by virtue of the guarantee and cross-indemnities referred to above. However, in respect of the SSI Land, if STDC is able to negotiate the acquisition of the SSI Land solely in the name of the SPV, STDC would (subject to the comments at paragraph 4.4.40 below) not be exposed to liabilities arising in connection with the SSI Land because all of the liabilities in respect of the SSI Land would rest solely with the SPV.

4.4.4 **STDC liability as shareholder:** As noted at paragraph 4.3.10 above, there are certain rare circumstances where STDC could incur liability, as the shareholder in the SPV. This is known as "piercing the corporate veil" so that the protection of limited liability afforded by the SPV could be removed. We were asked to comment in this briefing note on circumstances where this may happen, and we have set them out in a high level summary in **Error! Reference source not found.**, but it should be noted that we consider these highly unlikely to apply to STDC.

4.4.5 **Director liability:** Whilst the acts or omissions of a director in the ordinary course of business will be the acts or omissions of the SPV, such that the SPV is liable for what the director does or fails to do, there could be circumstances where directors of the SPV incur personal liability. A summary of these is set out in **Error! Reference source not found.** along with commentary on protecting directors from personal liability.

4.4.6 **Confidentiality:** There will be a lack of confidentiality on some aspects of the SPV's business. Forms and returns are required to be filed at Companies House in a register which is open to public inspection. Details of directors and of shareholders and audited accounts are all required to be filed annually.

4.4.7 **Record-keeping:** All companies are required to take minutes of all proceedings at meetings of directors. While it is not necessary to ensure that every word said is recorded, it is good practice to ensure that, at the very least, the minutes record accurately all resolutions and decisions and contain enough information for the reader to have an understanding of the background to the various decisions. Minutes of meetings of directors must be retained for at least 10 years from the date of the meeting. Failure to do so is an offence committed by every officer of the company who is in default.

4.5 Management of the SPV

4.5.1 **Constitution and governance:** At STDC's request, we set out specific advice in paragraph 0 of this briefing note on the proposed constitution and governance of the SPV. The points in paragraphs 4.5.2 to 4.5.5 below will assist in setting the background for that specific advice.

4.5.2 **Board or sub-committee:** Thought needs to be given to establishing the management team of the SPV and defining the parameters of the team's day to day authority. It could be that having the same board of directors of STDC is desirable. However, for practical reasons, the decision may be taken that the board should be a smaller group of directors than those in STDC, or that a sub-committee of directors be appointed with delegated authority to conduct the day-to-day practical business of the SPV. We comment on these possibilities in more detail below. The route selected will, very likely, depend on the extent to which the SPV is to be a dormant company holding the TATA Land and the SSI Land or is to be active in the development or remediation works (in which case it is likely to need a sensibly-sized practical working group of decision-makers).

4.5.3 **Directors:** Appointing the management team of the SPV as a board of directors will give them statutory duties of which they must be aware. These duties are cumulative and directors must comply with each one that applies to a particular case. We can advise in further detail, if required, but directors' duties can be summarised as follows:

(a) to act within the company's constitution and only exercise powers for a proper purpose;

(b) to act in good faith to promote the success of the company;

(c) to exercise independent judgment (this does not restrict a director seeking informed advice);

(d) to exercise reasonable care, skill and diligence;

(e) to avoid conflicts of interest;

(f) not to accept benefits from third parties; and

(g) to declare interests in proposed transactions or arrangements with the company.

4.5.4 **Delegation by directors:** The directors of the SPV could delegate to a sub-committee of directors. A number of relevant points arise on this topic, at the outset:

(a) A director's ability to delegate powers would be regulated by the articles of association of the SPV. Typically, directors can delegate any of the powers which are conferred on them to individual directors or persons or committees but they will always be expected to have a broad overview of the SPV's affairs.

(b) The following should be considered surrounding the possible delegation to individuals / a committee:

  (i) what powers may be delegated and upon what conditions; and

  (ii) what powers have, in fact, been properly delegated by the board, according to a resolution of the board meeting or other decision of the board.

(c) Directors will be expected to satisfy themselves that delegation is made to an appropriate person who is discharging his functions properly. Directors should ensure that an adequate system of control and supervision is in place for any scheme of delegation. In particular, to be able to show that they have exercised reasonable care, skill and diligence when delegating responsibilities.

(d) Any delegation of powers by directors can be revoked by the board at any time, either expressly or by the directors as a board assuming the powers previously delegated.

4.5.5 **Conclusion:** The above analysis illustrates that it is essential that the management team of the SPV understands their remit, the basis on which the SPV is to be operated and how the management relationship between them is to be conducted. As noted at paragraph 4.5.1, at STDC's request, we set out specific advice in paragraph 5 of this briefing note on the proposed constitution and governance of the SPV.

5. CONSTITUTION AND GOVERNANCE OF THE SPV

5.1 **Articles of Association:** The articles of association of the SPV will be the main document which governs the SPV's constitution. In the articles of association, it will be possible to set out an agreed set of objects for the company. This is opposed to allowing the company to undertake any general business. As part of the object, it will be possible to include reference to STDC's constitution so that the SPV can only carry out acts that are consistent with STDC's constitution. The situation of conflicts of interest between directors of both STDC and the SPV can also be addressed in the articles.

5.2 **Shareholders' Agreement:** In addition to the articles of association, a shareholders' agreement could be put in place for the governance of the SPV to contain restrictions on the decision-making powers of the directors of the SPV. This would have the benefit of being a private document, unlike the articles of association which must be filed at Companies House and so are open to inspection by the public. A shareholders' agreement would have the benefit of clearly setting out the restrictions on the board of the SPV and can include the restricted matters set out in paragraph 5.3 below.

5.3 **Restriction on directors decision-making:** The main restriction on the decision-making powers of the directors of the SPV which we would recommend is a set of reserved matters, on which the directors must obtain the consent of STDC as the shareholder. We can provide a full sample list of such matters, but for illustration purposes we set out some examples below:

5.3.1 borrowing any funds or borrowing funds over a certain prescribed figure;

5.3.2 securing any of the assets of the SPV;

5.3.3 making any loan or giving credit to a third party;

5.3.4 disposing of any assets of the SPV;

5.3.5 acquiring any new assets for the SPV or taking on any leasehold interest or licence over land;

5.3.6 approving any dividend by the SPV; or

5.3.7 entry by the SPV into any contracts over a specified value.

5.4 **Service Level Agreement / Management Agreement:** To ensure that the executive employees (non-directors) of STDC can still carry on their day to day positions in relation to any assets which the SPV owns (as if they were owned by STDC), we suggest that a service level agreement or a management agreement is put in place to allow these employees to carry out these roles.

6. OTHER RELEVANT POINTS

A number of further relevant points arise in contemplating the use of the SPV:

6.1 **Contracts, Licences, Consents etc:** All directors, employees or other representatives who enter into contracts on behalf of the SPV or obtain licences, consents, permissions and the like, which relate to the TATA Land and/or the SSI Land, should clearly understand that the SPV must be the named entity and not STDC. Likewise, any contracts in the name of STDC should be assigned or novated and any licences, consents or permissions and the like should be transferred to the SPV.

6.2 **South Tees Site Company (STSC):** The interaction with STSC should be clarified, perhaps in an agreement between STSC and the SPV, on matters relating to the planned site management of the TATA Land and the SSI Land.

6.3 **Tax treatment:** a note on the VAT issues pertinent to the use of the SPV is set out in Schedule 3.

We would welcome the opportunity to discuss any of the points raised in this briefing note, or to provide more detail on any of them, if STDC wishes us to do so.

Potential shareholder liability of STDC

1. INTRODUCTION

1.1 In limited circumstances the Courts are willing to disregard the separate legal personality of the company and look beyond the company to the shareholders ("piercing the corporate veil"), holding them responsible for a liability of the company.

1.2 There are also limited statutory exceptions to limited liability of shareholders, mainly under the Proceeds of Crime Act 2002 (**POCA**), as described in paragraph 3.

1.3 In other circumstances, the Courts can look behind the company for a specific purpose, as described in paragraph 4.

2. PIERCING THE CORPORATE VEIL

2.1 ”Piercing the corporate veil” means looking beyond the separate personality of a company to fix liability on the shareholder(s).

2.2 The principle could be applied to STDC if it were under an existing legal obligation or liability or subject to an existing legal restriction, which STDC deliberately evades or whose enforcement it deliberately frustrates, by use of the SPV.

2.3 The Court may then pierce the corporate veil solely for the purpose of depriving STDC of the advantage which it would otherwise have obtained by the SPV’s separate legal personality. From our understanding of the operation of STDC and the intended use of the SPV, it seems unlikely that this will apply.

3. POCA

POCA provides a statutory basis for piercing corporate the veil where criminality is involved. Again, from our understanding of the operation of STDC and the intended use of the SPV, it seems unlikely that this will apply.

4. ”PEEPING” BEHIND THE VEIL

The following examples are not about piercing the veil, but looking behind the company’s personality for a specific purpose. They are mentioned here for convenience but none would seem to apply to the SPV and STDC:

4.1 The production of group accounts.

4.2 The transfer of control of a company under the TUPE Regulations.

4.3 European competition matters pursuant to certain Articles of the Treaty on the Functioning of the European Union.

4.4 Third party costs orders in relation to costs that a company is liable to pay under Civil Procedure Rules.

4.5 Looking behind the structure of the company to identify the true position in relation to its activities, such as the centre of main interests for insolvency purposes or the place of business for jurisdiction purposes.

4.6 Permitting shareholders to petition the court on grounds of unfair prejudice.