

Appendix 4

Business Case - Airport Expansion Hangar Development, Gloucestershire Airport



The proposal submitted by the project promoter is based on information and consultation available at this early stage. Further research, consultation and development will follow before funds are allocated. NB There is no guaranteed funding for the project until this has been secured from Government by GFirst LEP and the project has been through an appraisal and due diligence process.



Business Case - Airport Expansion

The Proposal

Gloucestershire Airport is the UK's busiest General Aviation airport. Home to around 180 aircraft, ranging from single-seat microlights to intercontinental business jets, the Airport handles around 75 000 flights per year. The limited company which manages the Airport under a 135-year leases arrangement is wholly owned by Gloucester City and Cheltenham Borough Councils and has a 999-year lease on the 400 acre site.

The airport has undergone a significant transformation in recent years, with a number of important improvements to buildings and facilities on offer. It presents a professional, modern and efficient image and has won national awards in its field.

We provide an important focus for aviation-related employment activity in Gloucestershire. Within the Airport, the existing built up area, known as South East Camp, currently contains around 40 firms. Almost all of these are aviation-related businesses or provide support and ancillary services. These support over 350 jobs including a range of highly skilled professionals.

On the north side of the Airport is the Meteor Business Park industrial estate. This is fully occupied and contains a range of companies, employing some 800 people, including large aviation-related firms such as Messier-Bugatti-Dowty, GE Aviation and Triumph Actuation. Importantly, the aviation and aerospace industry as a whole generates a higher GVA per employee than the national average across all sectors, being approximately 74% higher based on Government statistics. The direct generation of jobs within this sector therefore plays a role in supporting the development of high value jobs within Gloucestershire.

The Airport's property portfolio, however - in both operational and industrial terms - is at maximum capacity. In order to maximise its long-term potential, development is required. The long-term viability of aviation operations at the site, which due to their heavily safety-regulated nature are resource intensive, is to some extent dependent on diversification of the Airport's revenue streams. A stronger rent roll offsets the variability of operational income, which is susceptible to influences outside the business's control such as weather and oil prices.

The Airport is recognised in the GFirst LEP Strategic Economic Plan for Gloucestershire (March 2014) as an enabler for growth in the wider economy. The plan sees growth opportunities in and around the Airport site, which, with its Cheltenham postcode, Gloucester telephone number and within the planning jurisdiction of Tewkesbury Borough Council, truly lies at the heart of the Growth Zone.

Specifically, the Strategic Economic Plan aims to optimise the potential contribution and benefit which Gloucestershire Airport can make to the local economy by:

“Supporting the development of proposals, including alternative governance models and access to investment funding, to ensure the airport remains the most successful in the UK.

Identifying and highlighting opportunities to encourage ancillary activities and related development of land within and adjacent to the airport boundary.”

This proposal seeks to maximise the Airport's economic contribution, both through direct and indirect employment along with growing an important cluster of aviation-related and other economic activity within Gloucestershire.

Business Case - Airport Expansion

This will be achieved by funding the £7.1M of necessary road, drainage, utility and associated infrastructure for four, separate development locations identified within the airfield boundary, thereby expediting and enabling private sector development of these sites in the period 2019-2024. The four sites comprise the following development opportunities: -

1. Expansion to the east of Meteor Business Park - A range of office and light industrial units.
2. Realignment of taxiway infrastructure to facilitate hangar/ industrial development
3. South East Camp (North) - Additional car parking and hotel accommodation
4. South East Camp (South) - Aviation-related office/light industrial unit

The subsequent development of these sites is expected to generate as many as 800 FTE jobs in aviation, aviation-related and non-aviation businesses around the Airport.

GFirst LEP identify productivity as a key weakness in the regional economy and the Airport can play a role in overcoming this, allowing businesses and individuals to make use of time-saving travel activities from the local area. Developing the network of both aviation-related and supporting businesses around a strong hub of industry activity close to population centres and motorway networks serves to improve productivity.

Our vision is that Gloucestershire Airport continues to grow and prosper as a centre of aviation excellence and innovation, building on the strong reputation our County has on the international aerospace stage.

The £7.1m investment in infrastructure improvements we are seeking is essential to secure a step change in growth of the airport site, which will subsequently enable development by private sector business over a ten year period.

The expansion of the business parks, improved facilities and access has the potential to deliver more than £10m GVA per year, supporting the direct employment of more than eight hundred highly skilled employees and many more supply chain jobs. Perhaps uniquely, this investment opportunity represents value for money by building around an existing, thriving hub with a strong, wide-reaching reputation and clear demand. This project opens up new business opportunities and supports the long-term viability of the Airport somewhat co-incidentally in this, its 80th anniversary year.

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Demand

The Airport's operational hangar and office portfolio is at maximum capacity. Existing, immediate demand exceeds supply with seven aviation businesses currently seeking relocation from other sites or expansion of their existing premises. This includes a light aircraft manufacturer relocating from South Africa, two fixed-wing aircraft training organisations, an aircraft sales business, one training and two commercial helicopter operators.

Two hangar construction projects are close to commencement facilitated by the Growth Deal 2 grant and will service some of this need ahead of the roll out of this project but the medium term demand that this project could facilitate remains significant.

With a number of general aviation airports in the wider region having closed (Plymouth, Filton) and others under threat of closure for alternative use or development (Kemble, Wellesbourne, Long Marston) businesses and aircraft operators need facilities to operate from; Gloucestershire is well-placed to support them.

This historic and current pressure on airfields itself highlights the need for development investment and portfolio diversification with non-aviation industry identified as a key contributor to supporting Airport operations.

Previous opportunities have been lost due to the lack of availability of suitable premises with Oxford Airport in particular having secured several business relocations that had considered Gloucestershire Airport previously. Without investment, the risk of losing further opportunities is clear.

Rationale for intervention

Completion of this project as a whole, in part or in phases will significantly expedite the development of the sites.

By being able to offer build-ready plots to potential private sector developers or businesses, within the context of a long-term strategy for each site, the Airport will have a competitive advantage over alternative locations.

The planned network of private roadways, access and infrastructure within the Airport site will also enable the Airport to exercise control over the letting or allocation of the various plots so as not to flood the marketplace in each development and allow a degree of selectivity to ensure that potential tenants activities align with the demand and interoperability of the site, businesses and the local economy.

Options appraisal

Although the Airport business trades profitably, it remains somewhat constrained financially by its local authority shareholder ownership, which places a restriction on the business as to where it can source appropriate funding and borrowing. This has, in the past, limited the Airport's ability to react positively and in a timely manner to opportunities received from new operators wishing to relocate or develop in Gloucestershire.

A major runway safety project, completed in 2013 was funded to the value of £2.4M by Public Works Loan Board funding and direct loans facilitated via the shareholders with seven years remaining on the term. This level of gearing limits further loan advances. A further limitation on the ability to secure borrowing against assets further constrains access to investment capital.

Business Case - Airport Expansion

The business also has an inherent long-term liability to the Local Government Pension Scheme which was inherited by the business when the company was formed in 1992. Like many organisations that subscribe to the Scheme, this places a significant deficit on the balance sheet, which, as a result of the necessary accounting treatment for pensions, limits the airport's ability to attract investment. Therefore, the ability to build the infrastructure with the support of the GFirst LEP Growth Deal 3 Fund will enable private sector investment to begin.

Strategic Growth

In 2014 the shareholding authorities made a long term commitment to the Airport, securing its future on the basis of the significant economic impact and the potential for improvements in financial returns which was identified by York Aviation. The decision to support the Airport rather than release the land for other purposes was driven by an understanding that development would be sought to improve the returns to the local authorities and growth to the local economy. Therefore, if development cannot be achieved with subsequent benefits to the business, economy and shareholders, then there has to be some risk that future reviews by the shareholders into their assets may see a different outcome.

Furthermore, the Airport has been working with Tewkesbury Borough Council as the local planning authority within which Gloucestershire Airport is located to ensure the Local Plan and the Joint Core Strategy (JCS) remain supportive of the proposed development.

Context: Local

In 2015 the Airport was successful in its application for support from the GFirst LEP Growth Deal 2 fund. This enabled the business to

open up a new site on the southern aerodrome boundary specifically for hangar developments in the South East Camp, which has already attracted interest from key, high value operators. Furthermore, this investment provided the trigger for the Airport to embark on its ambitious 10-year capital programme, which ultimately provides continued and sustainable growth of the Airport and the region.

In the non-operational context, the Airport recently granted a long lease to Triumph Actuation, who have relocated their aircraft component manufacturing business from China, having identified the Airport site as ideal in terms of supply chain and workforce needs. Further, similar interest in the north side development from an engineering firm exists, wishing to relocate and consolidate their entire operation at the Airport. This opportunity means that early hangar/warehouse development could see a large part of the site in use, and delivering benefits, very quickly. However, in order to allow the development to go ahead, the Airport needs to realign a taxiway and put in place the enabling infrastructure to open the site for development.

In order to continue attracting these market opportunities and achieve sustainable growth, new modern facilities need to be made available. Based on the evidence and demand for the site made possible by the GFirst LEP Growth Deal 2 fund, the Airport commissioned a Master Development Plan that identified the land that would enable further growth to be delivered. The detailed delivery of the Plan will be subject to an implementation plan which will need to be robust but flexible enough to react to any changes in the operating environment.

A key part of the Plan is to develop the building stock on land leased to the Airport, either directly or with carefully selected partners.

Business Case - Airport Expansion

Context : Regional / National

A 2014 Government Challenge Panel reported on a number of measures which were deemed crucial to reinvigorating the general aviation sector.

Two key recommendations were:

1. Securing a network of airfields which provide access for General Aviation; and
2. Underwriting the renaissance of UK GA through positive policies, grants and seed-corn funding where appropriate.

In both of these cases, this proposal meets these recommendations. The Airport's long term viability is linked to the ability to develop hangars and supporting developments, and as the UK's busiest General Aviation airfield its role in the strategic network is vital. Furthermore, the application for funding would appear to meet the Panel's recommendations for financial support where appropriate.

As yet, these recommendations are not yet policy, and following on from this initial study, the DfT has commissioned a further report to understand the baseline economic value of the sector to the UK economy, and to understand where policy interventions can be made in order to grow its contribution to the economy. Government Policy is expected to be developed from this second study. Clearly however, if the Government is committed to growth in the sector, then the opportunity presented within this proposal will meet those strategic aims

In so far as the Aviation industry is internationally orientated, much of the business undertaken on site is export led, including the provision of services by Flying Schools to international students and the use of based aircraft for international charter work by the corporate operators.

Outputs

| Category | Description | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|---------------------------|--|-------------------|--------------------|--------|--------|--------|
| Jobs (direct) | Project management, design, construction and manufacture | 20 | 20 | | | |
| Housing units | 0 | | | | | |
| Business Starts | | 3 | 4 | 4 | 3 | 3 |
| Qualifications | 0 | | | | | |
| Infrastructure/ Transport | Roadway including drainage and utility infrastructure | 900m ² | 1100m ² | | | |
| Land (in Ha) | | | | | | |
| Other | | | | | | |
| Other | | | | | | |

Narrative/assumptions

It is estimated that up to 20 contractors will be engaged in delivering the enabling works, including professional services. On completion and throughout the development period, indirect jobs will be created through supply chain and ancillary activities.

Business Case - Airport Expansion

Outcomes

| Category | Description | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|-----------------|---|-------------------|-------------------|--------|--------|--------|
| Jobs (indirect) | High Value Engineering, Aviation-Related and other | 0 | 50 | 150 | 250 | 350+ |
| Housing units | 0 | | | | | |
| Skills | | | | | | |
| Infrastructure | Roadway including drainage and utility infrastructure | 900m ² | 600m ² | | | |
| Land (in Ha) | 4 new pockets of land available for development | 4ha | 1.6ha | 0 | 1.2ha | 2.7ha |

Narrative outcomes/assumptions

The outcomes associated with the proposal will be to provide 9.5ha of land for development by the installation of circa 1500m² of private access roadway and parking over the four development areas.

Analysis by York Aviation, estimated that by developing around 12,000 square metres of aviation related hangars could directly generate a further 85 FTE jobs at the Airport, contributing a further £5.5m of direct GVA to the economy. Indirect and Induced effects could see a further 21 jobs supported and £800,000 of GVA.

This proposal of approximately 24,000m² of building for aviation, commercial and industrial units, together with a hotel, has the potential of generating more than 800 FTE jobs and apprenticeships. Many further supply chain opportunities will be created.

Financial: Capital and Revenue

Detailed costing analysis for the enabling works has been complete by Burroughs Consultancy, who has supported the airport for a number of years. These capital costs have been based on recent, relevant known costs as a result of the enabling works currently underway following GFirst LEP Growth Deal 2 funding. These have been factored for a FY2019/20 construction start date.

Capital costs

Meteor Business Park
 – roadway, drainage infrastructure £1.3m (2019) 450m²

Anson Business Park
 - roadway, drainage infrastructure £1.5m (2019) 450m²

South East Camp (North)
 - roadway, drainage infrastructure £1.1m (2020) 200m²

South East Camp (South)
 - groundworks, roadway, drainage infrastructure £3.2m (2020) 400m²

Revenues

Revenue costs associated directly with the development relate principally to the upkeep and maintenance of the infrastructure put in place. The majority proportion of these costs, however, are recovered via a site service charge regime. The annual budget for the existing South east Camp is circa £20k p.a. (80% recovery) with a £30k p.a. (95% recovery) figure for Meteor Business Park. The phased development of the sites will lead to a gradual increase in these budgets.

Business Case - Airport Expansion

Revenue derived from subsequent development of the sites is derived from three key sources. This is principally ground rent, normally based on a 20% gearing of passing rents. These currently achieve circa £9psf for office accommodation and £6psf for hangarage. Aeronautical charges (landing fees, parking, navigation fees, aircraft handling etc.) and aviation fuel sales to aircraft based at or visiting the development sites provide the remainder.

Funding request for Growth Deal 3

The total request to GFirst LEP for funding from the Single Local Growth Fund is £7.1m. This will enable each development site to be opened up by providing the necessary infrastructure (roads, utilities, groundworks, drainage), which will enable substantial private investment through the development of hangars and other commercial uses:-

| | |
|-------------------------|--------------|
| Meteor Business Park | £1.3m (2019) |
| Anson Business Park | £1.5m (2019) |
| South East Camp (North) | £1.1m (2020) |
| South East Camp (South) | £3.2m (2020) |
| Total | £7.1m |

Financial: Capital and / or Revenue leveraged in to the project

This subsequent building development proposal overall is estimated to cost around £30M, based on factored build costs of £110-125 per m2 from current development experience. Therefore, in assessing the leverage of the project, this request represents just 24% of the development cost to deliver the anticipated employment and GVA

growth. 76% of the investment will therefore be sought through private sector involvement.

Project viability with reduced funding

The outcome of reduced funding would result overall in delays in realising the full return and potential of the developments as alternative funding would be required to prepare the sites. However, the development areas are separate and segregated meaning that each element could be deliverable as a standalone entity; the breakdowns as shown in Funding Request GD3 above.

Whilst the South East Camps developments are likely to lead to higher GVA contribution and increased revenues to the Airport from aeronautical activity, the Meteor and Anson Business park developments could be facilitated more quickly, albeit with a greater level of uncertainty over planning permissions. It is difficult to prioritise one development area over another in the event of reduced funding but all would remain independently viable.

Sustainability

Revenue funding requirements for the infrastructure project is relatively low and, to a large extent, recoverable via the service charge regime.

Business Case - Airport Expansion

Financial Summary

Key: C - Capital R - Revenue

| | 2017 /18 | | 2018 /19 | | 2019 /20 | | 2020 /21 | | Total |
|----------------------------------|----------|-----|----------|-------|----------|-------|----------|-------|-------|
| | C | R | C | R | C | R | C | R | |
| Growth Deal 3 | | n/a | | n/a | £2.8m | n/a | £4.3m | n/a | £7.1m |
| Total follow on private leverage | | | | £800k | £7m | £1.4m | £1.5m | £300k | £11m |
| Total other public funding | | | | | | | | | |
| Other | | | | | | | | | |
| Totals | | | | | | | | | |

Future funding beyond Growth Deal period, where applicable:

| | 2021 /22 | | 2022 /23 | | 2023 /24 | | 2024 /25 | | Total |
|----------------------------|----------|-------|----------|---|----------|---|----------|---|---------|
| | C | R | C | R | C | R | C | R | |
| Total Private funding | £12m | £2.4m | | | | | | | £14.4m* |
| Total other public funding | | | | | | | | | |
| Other | | | | | | | | | |
| Totals | | | | | | | | | |

* Anticipated future private funding not included in the total for the bid at this stage.

Financial: Follow on investment

The aim is to use the Growth Deal funding to leverage investment by the private sector. Most of this is likely to come through them developing the hangars which would themselves be the source of employment and financial returns. The level of demand generated by recent Growth Deal funding and, in particular, the redevelopment of the Triumph Actuation site have generated significant positive influence on the long-term viability and development potential of the site.

Timeline

The ideal start date is 2019 with an anticipated end date of 2024. This allows a phased approach over four development sites.

- Meteor Business Park infrastructure Q1 2019 – Q3 2019
Subsequent development Q4 2019 – Q4 2021
- Anson Business Park infrastructure Q1 2019 – Q3 2019
Subsequent development Q4 2019 – Q4 2020
- South East Camp (North) infrastructure Q1 2020 – Q3 2020
Subsequent development Q4 2020 – Q1 2022
- South East Camp (South) infrastructure Q1 2020 – Q4 2020
Subsequent development Q1 2021 – Q4 2024

| | Start | End |
|--------------------------------------|---------|---------|
| Refining Business Case | Q3 2016 | Q4 2016 |
| Project Planning & Development | Q1 2017 | Q4 2017 |
| Due Diligence and LEP Board Approval | | |
| Capital Investment | Q1 2019 | Q4 2020 |
| Implementation / Delivery | Q1 2019 | Q4 2020 |
| Project Completed | | Q4 2024 |

Business Case - Airport Expansion

Risks

| Risks Description | Owner | Probability | Impact | Mitigation |
|------------------------------------|-------------------------|-------------|--------|---|
| Planning Permission | Gloucestershire Airport | Low | High | Use of Permitted Development Rights in some circumstances, continued engagement in JCS and Local Plan processes. Submission of appropriate applications |
| Civil Aviation Authority approvals | Gloucestershire Airport | Low | Med | Early dialogue with regulator, timely submission of appropriate applications |
| Low rental take up | Gloucestershire Airport | Low | High | Active marketing within industry and region. |

The main risk to be considered is planning, due to the location of the Airport within Green Belt. This is being dealt with through early engagement with the planning authority, Tewkesbury Borough Council, with the aim of finalising concurrently with seeking funding. The Council has previously indicated it would be likely to accept a CLOPUD¹ application for hangar development in the light of the permitted development rights which the Airports holds for operational developments. Initial indications are that the Council is likely to look favourably on such a development but an early screening opinion will need to be sought to ascertain the level of environmental information which will need to be submitted to comply with the Environmental Impact Assessment (EIA) Regulations².

¹A Certificate of Lawful Development

²Until a screening opinion is obtained, it is unclear whether a full EIA is required notwithstanding that the total development site exceeds 1 hectare. This would apply whether for the whole development or the Skypark hangar on its own.

In the longer term, the risks are attached primarily to securing the right quality of tenant for the site, to deliver economic and financial gains. The high level of interest in the Airport means that this can be mitigated through the controlled release of plots for development to ensure that tenants meet both the strategic vision of the shareholders, but also deliver employment and GVA value to the region.

Procurement and State Aid

Having recently be completed the GFirst LEP Growth Deal 2 process, Gloucestershire Airport can has confirmed with Counsel’s opinion that Growth Deal funding is State Aid compliant.

Furthermore, the European Commission has just released a consultation on potentially amending the General Block Exemption Regulation (GBER) to include investment aid in smaller airports and their surrounding access infrastructure. As you know the benefit of GBER allows investments to proceed without the need for individual notification to the Commission, provided all relevant conditions for the GBER exemption concerned are met.

Broadly the proposed provisions are:

1. Aid for airports whose annual passengers do not exceed 3m and annual freight does not exceed 200,000 tonnes is eligible for block exemption cover. The aided airport must be within an acceptable distance from other airports.
2. Eligible costs are those relating to investment in airport infrastructure.

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Governance and delivery arrangements

As a result of current Growth Deal 2 Funding, the Airport is both fully familiar with process and compliant with the Governance Arrangements put in place by GFirst LEP and Gloucestershire County Council to oversee delivery.

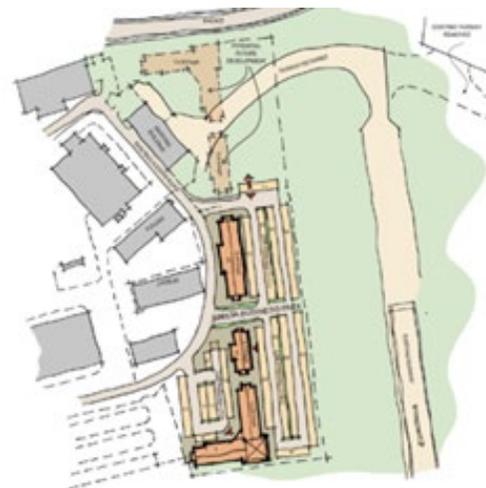
We also report to our shareholders quarterly and our board monthly. Growth Deal funding reports would be submitted to the LEP on a quarterly basis.

The operational requirements associated with works on, or adjacent to an active aerodrome require regular interaction with on-site contractors through facilitated project management and, generally, not less than weekly meetings. This process is fully documented, traceable and auditable through the Airport's Safety Management System and Permit to Work procedures, which form part of its Civil Aviation Authority licensing approval.

Appendix A – Development Sites



1. Meteor Business Park

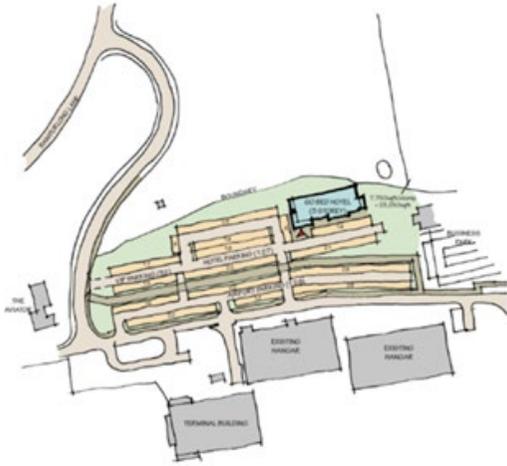


2. Anson Business Park



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3. South East Camp (North)



4. South East Camp (South)



Appendices

Where there are appendices referenced but not included in this document, they are available on request from GFirst LEP.