

Mayoral Combined Authority Board

05 June 2023

Doncaster Sheffield Airport

Is the paper exempt from the press and public? No

Reason why exempt: Not applicable

Purpose of this report: Discussion

Is this a Key Decision? Yes

Has it been included on the Forward Plan? Yes

Director Approving Submission of the Report:

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Executive Summary

This report notes the proposal from the City of Doncaster Council (CDC) for the granting of financial support from the MCA to CDC to fund the costs of building a case through compulsory purchase order (CPO) processes for the acquisition of Doncaster Sheffield Airport (DSA).

The report notes the request for up-to £3.1m to be made available to support initial activity that will enable, amongst other things, the development of a financial viability assessment, the production of an outline business case, and associated professional service and legal fees.

This activity will support CDC in determining whether to proceed with formal CPO processes and will in turn inform those processes should they be triggered.

The report notes that MCA financial support is not at this stage sought by CDC for the costs of an acquisition should a CPO process be successful, nor for potential operating costs that may be incurred should CDC acquire the airport.

The report recognises that should the MCA agree to support initial activity it will not be exposed to further financial risk and reward through that decision. Any future requests for financial support from any MCA funding source would be matters for the MCA Board to consider, informed by this initial activity.

The report notes that the proposal is affordable but recognises that the MCA will need to accept the risk of abortive costs.

What does this mean for businesses, people and places in South Yorkshire?

DSA supported an estimated 2,700 jobs in the regional economy, contributed an annual net GVA of £108.4 million, and created an annual welfare gain of approximately £49.5m.

Recommendations

That the MCA Board:

1. Consider the proposal to approve the award of up-to £3.1m to the City of Doncaster Council to support initial DSA CPO activity;
2. Subject to Recommendation 1: Delegate authority to the Section 73 Officer to enter into appropriate funding and assurance arrangements to support the transaction;
3. Subject to Recommendation 1: Delegate authority to the Head of Paid Service in consultation with the Section 73 Officer and the Monitoring Officer to enter into appropriate contractual arrangements

1. Background

- 1.1 Appended to this report is a report of CDC that outlines the economic and social rationale for the purchase of Doncaster Sheffield Airport.
- 1.2 The report notes that whilst opportunities for a commercial purchase or lease of the airport continue to be explored, the need to consider other legal avenues via CPO processes has become paramount.
- 1.3 CPO processes would test the legal basis for an acquisition of the airport along with exploring CDC's ability to acquire and operate the asset on an ongoing basis.
- 1.4 CDC note the potential need for up to £6.25m of resource to cover end-to-end activity, but in the immediate term seek £3.1m of MCA funding to undertake initial work that will help inform whether to trigger formal CPO processes.
- 1.5 Initial activity will support the development of a business case and a financial viability assessment. Professional services and legal support would also be required to help shape how a CPO may be undertaken and how future ownership and operating model considerations may be approached.
- 1.6 This initial activity is a necessary precursor to inform whether a CPO process is viable and would in turn support the case put before the Secretary of State.

Accordingly, this represents the first in a series of decision points that could lead to the acquisition and operation of the airport.

1.7 These decision points allow for the CPO process to be managed on an incremental basis, with risks considered at each stage.

1.7 The proposal to support CDC's initial CPO activity would not commit the MCA to future costs that may arise as a result of decisions to own and/or operate the airport.

1.8 Regardless of funding stream, decisions on the use of further MCA funding to undertake further CPO activity, support the costs of an acquisition, or support operating costs would be a matter for the MCA Board to consider. Initial activity into business case generation and financial viability assessment will help to inform future decision points.

2. Key Issues

2.1 In considering any investment the MCA tests two principal issues:
1. Is the proposal affordable?
2. Does the proposal represent a reasonable use of public funds?

Affordability

2.2 The proposal seeks £3.1m for immediate exploratory activity. This value does not include the costs of any acquisition activity nor any financial support that may be required to support future operations.

2.3 Loans advanced to DSA Ltd to support infrastructure investment activity have now been repaid with associated money remaining uncommitted. The MCA could meet the costs of the proposal from this resource.

2.4 Should the proposal be approved, this report recommends that authority is granted to the Section 73 Officer to enter into an appropriate funding arrangement that would allow this money to be used to meet the costs of the transaction.

2.5 At this stage the costs of an acquisition and requirements for future operating support are not known. This initial activity will help inform a view on these costs.

Reasonableness

2.6 The benefit of aviation activity to regional economies is well understood and detailed through national and sub-national strategies and the MCA's own regional Strategic Economic Plan.

2.7 The region has previously invested into DSA Ltd through direct grant support, investment loans, and through indirect activity such as the establishment of the Great Yorkshire Way, linking the airport to the motorway network.

- 2.8 Research undertaken as part of the region's response to the 'strategic review' into the continuation of the airport also noted that DSA supported an estimated 2,700 jobs in the regional economy, contributed an annual net GVA of £108.4 million, and created an annual welfare gain of approximately £49.5 million.
- 2.9 The key consideration now is whether it is reasonable to commit public funding to the first in a number of potential events that could lead to the acquisition of the airport and the re-establishment of aviation operations.
- 2.10 The initial activity that it is proposed be funded from the MCA would support an assessment of whether it would be appropriate to continue with a CPO process. This activity would also inform the more significant potential future decisions around acquisition and ownership and operating models.
- 2.11 Project mapping shows that there a number of gateways that will allow CDC to consider whether it is appropriate to continue processes as more information is received and milestones reached. These include stages when business cases will be completed, engagement with potential investors/operators has been undertaken, and following a potential public enquiry.
- 2.12 The sequencing of activity will enable consideration of whether to proceed with each next stage and how to fund that activity. This will allow for risk to be managed incrementally.
- 2.13 At this initial stage the MCA will need to consider whether it is willing to incur costs on exploratory activity that may ultimately be abortive.
- 2.14 Abortive costs may arise from a decision informed by this initial work not to proceed with CPO processes, or from a decision of the Secretary of State not to grant an order.
- 2.15 This risk can be mitigated partly by agreeing milestones at which decisions could be taken to stop activity if processes became unviable.

3. Options Considered and Recommended Proposal

3.1 Option 1

The MCA could choose to reject the proposal to fund this activity.

3.2 Option 1 Risks and Mitigations

CDC have indicated that should this funding not be made available they may be unable to undertake the processes that could lead to the re-establishment of the airport.

3.3 Option 2

The MCA could choose to support the proposal and fund this initial activity only.

3.4 **Option 2 Risks and Mitigations**

There is a risk that the MCA funds activity that is ultimately abortive.

This risk may arise from initial activity being undertaken that informs a decision not to proceed with CPO processes or arise from a decision from the Secretary of State not to grant an order.

The MCA could limit its exposure to risk by limiting funding to initial activity only. This would allow the MCA to consider future funding decisions from a position that is informed by initial exploratory work.

3.7 **Recommended Option**

Board are asked to consider the proposal as described in the main body of the report and at Option 2.

4. **Consultation on Proposal**

4.1 None.

5. **Timetable and Accountability for Implementing this Decision**

5.1 The statutory officers of the MCA will begin the process for funding and contracting arrangements immediately.

6. **Financial and Procurement Implications and Advice**

6.1 This report outlines the proposal for the MCA to grant fund CDC up to £3.1m for initial CPO activity. The report notes that this proposal is affordable and should the proposal be approved the report recommends that the Section 73 Officer be granted authority to enter into an appropriate funding arrangement.

6.2 The full costs of a CPO process are not yet known and the report recognises that more funding may be required for an end-to-end process.

6.3 The report recognises that further related costs could be incurred in the event of a successful CPO. These include potential acquisition costs with risk potentially arising around exposure to operations. The report notes that information on the cost of acquisition and operating models are not yet known, with the proposed initial activity helping to inform this position. The report further notes that commercial discussions remain ongoing.

6.4 The report notes the sequencing of decisions that will allow for incremental decisions to be taken by CDC on whether to proceed with processes whilst limiting the MCA's exposure to cost.

6.5 Finally, the report notes the risk of abortive costs as initial activity may result in a decision not to proceed with processes or a decision by the Secretary of State not to grant a compulsory purchase order.

7. Legal Implications and Advice

- 7.1 Under s.1 Localism Act 2011 the MCA has the general power of competence, including economic development functions, that would allow the MCA to grant fund the CPO preparation costs of CDC. The grant funding will be subject to the MCA assessing the funding business case through its Assurance Framework. Any funding will be the subject of a Grant Agreement. Under s.101 Local Government Act 1972 the MCA can delegate the funding decision to an Officer of the MCA.

8. Human Resources Implications and Advice

- 8.1 None.

9. Equality and Diversity Implications and Advice

- 9.1 None.

10. Climate Change Implications and Advice

- 10.1 None associated with this immediate decision.

11. Information and Communication Technology Implications and Advice

- 11.1 None.

12. Communications and Marketing Implications and Advice

- 12.1 Throughout the period following up to and following the Airport's closure, representations have been received from the public, businesses and other bodies via petitions, questionnaires, public meetings and through direct representations.
- Recognising that community and business support is pivotal in the City of Doncaster Council's continued acquisition of the airport, various gateway stages are planned by the Council which will ensure continued dialogue with stakeholders at appropriate times.
- 12.2 The UK Government provides clear guidance on how interventions should be branded and how communications should be made. This is usual for government funds. A schedule of branding and communication requirements will be developed and monitored as required.

List of Appendices Included

- A Report of the City of Doncaster Council

Background Papers

- None