

Mayoral Combined Authority Board

Tuesday, 12 November 2024

South Yorkshire Airport City Full Business Case

Is the paper exempt from the press and public? No

Reason why exempt: Not applicable

Purpose of this report: Funding Decision

Is this a Key Decision? Yes

Has it been included on the Forward Plan of Key Decisions? Yes

Portfolio: Infrastructure & Housing

Portfolio Holder: Mayor Ros Jones

Lead Chief Executive: Damian Allen

Director Approving Submission of the Report:

Martin Swales, Chief Executive and Head of Paid Service

Report Author(s):

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Executive Summary

Work to re-establish aviation at Doncaster Sheffield Airport (DSA) and the development of the South Yorkshire Airport City (SYAC) concept is now at a critical stage.

Procurement processes led by City of Doncaster Council (CDC) have returned a preferred bidder with a credible international airport operator and the shape of the proposed operating

model is now emerging. Whilst commercial negotiations are ongoing, the future structure is likely to require significant public sector control and investment before conditions can be established to enable greater private investment into SYAC.

The Full Business Case has now been submitted to the MCA, and whilst commercial and financial elements remain to be finalised, the opportunity presented to the region by the project is clear and significant.

The business case projects that over 5,000 direct jobs could be created, along with 6,500 indirect jobs. Gross Value Add of £6.6bn is forecast, with a benefit cost ratio of 9.1.

The project's strategic rationale is clearly aligned to MCA economic aspirations and the desire to create good growth that allows people to stay near and go far.

This report recommends that CDC continue commercial negotiations with the preferred bidder to ensure the best possible deal is secured, placing the required protections around public investment. It is expected that these negotiations will be concluded by Christmas.

To ensure alignment to the critical path that could see a resumption of commercial flights by Spring 2026, this report further recommends the release of funding previously earmarked to this project to support time critical activity. This includes compliance and infrastructure activity that are necessary to allow for accreditation from the Civil Aviation Authority. This activity is necessarily at risk pending the final decision on the project.

Finally, this report also recommends the endorsement of a referral by CDC to the Subsidy Advice Unit (SAU) providing details of the proposed package of public support. This referral is necessary given the emerging shape of the procurement and the likely need for public investment. The report of the SAU will be critical to any decision on whether to proceed with the project.

This report notes that on conclusion of the commercial negotiations, receipt of the SAU report and CDC's determination that any subsidy is lawful the MCA will be in a position to conclude its assessment and report to the MCA at its January Board meeting.

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

Prior to its closure 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.

The SYAC proposal presents the opportunity to recover lost jobs and then grow them through the development of the wider Gateway East area into a centre for advanced manufacturing and sustainable aviation.

Linking the return of aviation to the UK's first Investment Zone could present significant opportunities for businesses and communities in Doncaster and the wider region, helping address long term challenges in productivity, worklessness and low wages, and poor life outcomes that hold South Yorkshire back.

Recommendations

That the Board:

1. Note the significant strategic and economic opportunity offered by the SYAC proposal.
 2. Approve the award to CDC of additional development funding of up to £3m from existing earmarked resource to progress time critical reinstatement activity and to continue commercial negotiations.
 3. Endorse the submission by CDC to the Subsidy Advice Unit (SAU) of a referral noting the potential need for public subsidy of c. £105m.
 4. Note the intent of CDC to continue commercial negotiation with the aim of bringing a final report to the Board following the conclusion of that negotiation and the receipt of advice from the Subsidy Advice Unit in January 2025
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Consideration by any other Board, Committee, Assurance or Advisory Panel

Programme Board

23 October 2024

1. Background

- 1.1 Since the closure of Doncaster Sheffield Airport (DSA), the Mayor, MCA, City of Doncaster Council (CDC), and other partners have worked to find opportunities to re-establish the airport and aviation activity.
- 1.2 These efforts have coalesced around a vision for the South Yorkshire Airport City (SYAC). This vision would see CDC take control of the airport, re-establish operations under a new business model, and use the asset as an anchor for growth at the wider Gateway East site.
- 1.3 The vision would see a 10-year plan to drive economic growth in Doncaster, with the anchor reinstated airport and the UK's first Investment Zone providing the catalyst to position Doncaster in the vanguard of the next industrial revolution through a sustainable aviation hub.
- 1.4 Building on core South Yorkshire applied research strengths – as evidenced through McClaren, Boeing, Rolls-Royce, and Hybrid Air Vehicles choosing to locate in the region – the opportunity exists to locate new advanced manufacturing developments at Gateway East connected to global markets through Doncaster Sheffield Airport.
- 1.5 Over the calendar year partners have established a twin-track approach to progress this vision that would see:
 1. The preparation of a business case that would, if approved, allow for the draw down of Gainshare funding to support the costs of reinstating and operating the airport through the SYAC concept; and,
 2. The necessary conditions established for a resumption of aviation, including:
 - a. the acquisition of the site;
 - b. the protection of airspace designated to DSA;
 - c. procurement of an operator; and,
 - d. investment into necessary infrastructure.

- 1.6 Over the year the MCA has received an outline business case (OBC) and approved the progression of the project to full business case (FBC). Work on this FBC has been underway for several months, supported by independent aviation specialists and other expert commercial and legal consultancies. The MCA continues to subject the business case to its usual assurance processes as detail is provided.
- 1.7 Over the same period CDC have entered into a 125-year lease with Peel, securing the airport site over the long-term and protecting the airport infrastructure whilst the Civil Aviation Authority (CAA) have also designated the DSA airspace as suspended. CDC have also run a comprehensive procurement process with the aspiration of securing both a credible airport operator and private investment.
- 1.8 Procurement processes are now reaching their conclusion and the FBC has been submitted into the MCA's assurance processes.
- 1.9 Initial assessment of the business case highlights the significant opportunity around the reestablishment of aviation within the region. The business case highlights that SYAC could deliver over 5,000 direct jobs, a Gross Value Add (GVA) uplift of £6.6bn, and a benefit cost-ratio of 9.1. Growth would be catalytic, and whilst not considered as part of this business case could support other ancillary growth when the financial benefits of the Investment Zone are considered.
- 1.10 These returns would be of significant economic benefit to the region, supporting the MCA's core aspirations of securing good economic growth, and an economy where people can stay near and go far.
- 1.11 The business case and initial assessment does, however, also show the significant risks associated with a commercial venture of this kind. Initial assessment shows the vulnerability of the project to adverse swings in patronage and commercial revenues along with the challenges of restarting the airport and recapturing market share. These risks are well understood and were detailed at the OBC stage.
- 1.12 Assessment at the FBC stage has also considered the shape of the commercial deal that is emerging from the procurement exercise and with respect to the lease entered into with the landowner.
- 1.13 The procurement exercise has returned a proposal from a preferred bidder that would see a credible international airport operator partner with CDC and others through a special purpose vehicle to reinstate and run the airport.
- 1.14 At this stage, commercial negotiations between CDC and the preferred bidder in respect of a number of critical issues are ongoing, but the final deal is likely to see much greater public control and investment into the operating entity than had initially been envisaged. This likely outcome is, in part, shaped by the superior headlease. This approach is likely required over a period of time to generate market confidence and facilitate the conditions for private investment.

- 1.15 Whilst the required level of investment is still emerging, it is forecast to remain within the funding envelope previously earmarked to CDC's Place Investment Plan priorities by the MCA's Board.
- 1.16 Protection of any public investment will require the right level of public control over decision making. Taking time to get this right through commercial negotiation is critical. Accordingly, this report recommends that further time is afforded to CDC to conclude these negotiations. It is estimated that this activity will be finalised by Christmas.
- 1.17 To support the overall critical path that aims to see a resumption of commercial flights by Spring 2026, it is further recommended through this report that additional development funding is granted to CDC to allow for the delivery of time critical activity. This activity includes work on CAA accreditation and necessary enabling infrastructure.
- 1.18 This work would necessarily be at risk, but delays would likely see the 2026 date missed and the loss of a holiday season that would impact on operator confidence and the commercial viability of the business case.
- 1.19 Finally, the emerging shape of the procurement and the stated need to public investment will require the proposal to be referred by CDC to the Government's Subsidy Advice Unit (SAU). The SAU will advise on the proposal, in particular whether any expected market distortion could lead to legal challenge. It is expected that this referral would be made in November, with a response received in January. Following the SAU's advice CDC will need to provide the MCA with a legal opinion on subsidy control compliance.
- 1.20 On conclusion of the commercial negotiation and the advice from the SAU the Board will be presented with a final decision point on whether to support the release of funding for the project in its entirety. This decision will require consideration in the balance of the significant opportunity and the risks inherent in a commercial venture of this kind and be supported by the final business case assessment.

2. Key Issues

Timeline

- 2.1 Since its establishment in 2014 the MCA has shown a continued commitment to supporting aviation at DSA and wider economic growth in Doncaster.
- 2.2 The timeline highlights activity over the years, leading to this point:
2017 – Award of £1.24m grant to DSA to support increased cargo capacity, funded from the MCA's Business Investment Fund
2018 – Opening of the Great Yorkshire Way airport link road, part funded from the MCA's City Region Investment Fund (£13m)

2019 – Advance of a £3.5m loan to support airport growth, funded through the MCA’s Business Investment Fund

2020 – Advance of a further £5.0m loan to support new airport growth activity, funded through the MCA’s Business Investment Fund

2021 – Recognition of the importance of the airport in the MCA’s 20-year Strategic Economic Plan

2022 March – Earmarking of £138m of MCA Gainshare funding to support Doncaster’s economic growth, to be made available in annual instalments of £5.3m from 2024/25 for 26 years

2022 July – Peel undertake a ‘strategic review’ on the future of DSA

2022 September – MCA offer bridging financial support to the Peel Group to enable operations to continue at DSA whilst a buyer was found

2022 November – **Airport Closed**

2022 October – MCA provides financial support to enable the judicial challenge on the decision to close the airport.

2023 June – MCA endorsement of the Doncaster Place Investment Plan in which DSA featured prominently

2023 June – Agreement to award £3.1m of grant to Doncaster to prepare a business case to support the reestablishment of the airport

2023 November – Receipt of the OBC for South Yorkshire Airport City and submission into assessment processes

2024 February – Consideration of the OBC by the MCA Board.

2024 March – CDC enters into a Lease Agreement with Peel

2024 June – Operator Final Tenders submitted

2024 July onwards – continuing negotiations with shortlisted bidders

2024 September – Receipt of the FBC for South Yorkshire Airport City and submission into assessment processes

2024 October – preferred bidder selected

2024 – November – Report to MCA Board

2024 –November- referral of proposals to Subsidy Advice Unit

2024 – December – conclusion of commercial negotiation with preferred bidder

2025 January – receipt of Subsidy Advice Unit and final report to MCA Board

3. **Options Considered and Recommended Proposal**

3.1 **Option 1**

Progress the South Yorkshire Airport City to full award.

3.2 **Option 1 Risks and Mitigations**

Progressing the scheme to full award at this stage will commit the remaining allocation of Gainshare investment available to Doncaster in its entirety thereby removing the ability to fund other investment priorities in the City. There remain outstanding risks associated with the conclusion of the final commercial arrangements and the balance of the public sector investment which need to be addressed.

3.3 **Option 2**

Progress the scheme incrementally, approve the award to CDC of additional development funding of up to £3m from existing earmarked resource to progress time critical reinstatement activity and to continue commercial negotiation. A further report to be presented to MCA Board following conclusion of commercial negotiations and Subsidy Advice Unit Assessment.

3.4 Option 2 Risks and Mitigations

This option allows time to conclude commercial negotiations with an operator and understand the outcome of the subsidy assessment, both of which will enable a more informed risk based decision. Risk will not be removed entirely, known delivery risks of a scheme of this nature will remain, and include:

- Inability to realise passenger number and freight expectations in order to achieve the modelled financial profile and comply with lease terms;
- Subsidy Advice Unit assessment and any subsequent legal challenge.

3.5 Option 3

The MCA could choose not to support the South Yorkshire Airport City scheme.

3.6 Option 3 Risks and Mitigations

Rejecting progression of the scheme would require some investment to support CDC to cover the cost of lease repayments, interest and site costs up to the break clause but without the associated economic benefits of reinstating the airport being realised.

3.7 Recommended Option

Option 2

4. Consultation on Proposal

4.1 Not Applicable

5. Timetable and Accountability for Implementing this Decision

5.1 The Executive Director Resources and Investment will implement this decision immediately.

6. Financial and Procurement Implications and Advice

6.1 The MCA has previously provided CDC with access to £3.1m of resource to support the development of this business case and other associated professional services activity.

6.2 The FBC outlines the requirement for public subsidy to support the proposal and requests that this be found from the long-term allocation of Gainshare capital and revenue funding that has been earmarked to the delivery of the CDC Place Investment Plan. This funding remains available and can be disbursed to CDC in annual allocations commensurate to the release of funding from Government to the MCA. MCA receipts earmarked to this activity also remain available.

- 6.3 The report also notes that the business case has been prepared on a broader basis than solely the return of aviation activity. The proposal sets the reopening of the airport as the anchor and catalyst for wider economic growth at Gateway East, through the creation of a new advanced manufacturing and sustainable aviation Hub.
- 6.4 The broader proposal affords the opportunity to consider how financial tools available through the Investment Zone package – noting that Gateway East is designated an Investment Zone opportunity site - can be brought to bear to create mutually reinforcing benefit. Within the bounds of funding conditionality, aligning Investment Zone funding and tools to Gainshare funding offers the potential for multiplier effect, helping to mitigate risk and accentuate benefit.
- 6.5 The report notes the significant financial risk inherent in the project and in the complex commercial arrangements. Taking a staged approach to the investment decision provides time for a balanced assessment of the relative risk and reward once the commercial negotiations and the subsidy assessment are concluded. This activity will inform the commercial operating model, the approach to risk mitigation, and ultimately the requirement for public investment and any ongoing risk carried by the public purse.
- 6.6 The MCA will continue to provide strategic advice and support to CDC in relation to the wider regeneration of the development of the Gateway East site. Unlocking the full economic growth of that area will be mutually beneficial for the airport and wider growth, with the potential to bring greater funding to bear.

7. Legal Implications and Advice

- 7.1 The provision of funding to for the proposed scheme falls within the MCA's powers to promote economic development and regeneration within its area. Further the MCA has a general power of competence.
- 7.2 In taking the decision to provide funding the MCA must have regard to relevant considerations and must make a decision that is not unreasonable i.e it is so unreasonable that no reasonable person acting reasonably could have made it .
- 7.3 The full business case confirms that CDC have taken independent legal advice in respect of whether any funding granted by the MCA would constitute a subsidy under the Subsidy Control Act 2022. CDC confirm the advice they have received is that CDC will not be acting as an enterprise for the purposes of subsidy control in carrying out the scheme. As a result, the funding to CDC will not constitute a subsidy. CDC acknowledge that the funding passed by them to the selected airport operator will be a subsidy and an assessment by the Subsidy Advice Unit is underway and due to conclude in January 2025 prior to the funding being released to the operator.

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 The FBC recognises that reinstatement of aviation activity will inherently lead to related air-based carbon emissions.
- 10.2 Mitigating factors are considered, including the displacement of air traffic from other airports and the promotion of the clean or low carbon aviation sector. References are further made to the aspiration to development of a rail station at the airport, for which funding was earmarked from current CRSTS1 funding.
- 10.3 The FBC also highlights that other options – such as the demolition of the airfield/airport infrastructure and construction of new buildings – would also likely lead to material embodied carbon generation.

11. Information and Communication Technology Implications and Advice

- 11.1 A communications plan has been developed with relevant stakeholders to raise awareness of the Full Business Case.

12. Communications and Marketing Implications and Advice

- 12.1 A communications plan has been developed with relevant stakeholders to raise awareness of the Full Business Case.

List of Appendices Included:

N/A

Background Papers:

N/A