

Committee/Board Name and Date of Meeting:
Mayoral Combined Authority Board

Meeting Date:
13 February 2024

Report Title
South Yorkshire Airport City: Outline Business Case

Is the paper exempt from the press and public? Part Exempt (Exempt Appendix)

Reason why exempt: The information contained in the Appendix (assurance summary) is exempt under paragraph 3 of Part 1 to Schedule 12A of the Local Government Act 1972 as it contains information relating to the financial or business affairs of any particular person including the MCA. It is considered that the public interest in maintaining the exemption of the content of the appendix outweighs the public interest in disclosing the information, as publication could prejudice the financial affairs of the Authority and City of Doncaster Council.

Purpose of this report: Monitoring/Assurance

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

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.

Whilst commercial negotiations with the Peel Group and potential airport operators remain ongoing, CDC have now prepared an Outline Business Case (OBC) detailing their vision for South Yorkshire Airport City – taking control of the airport, re-establishing operations under a new business model, and using the asset as an anchor for growth at the wider Gateway East site.

The proposal detailed within the business case would allow for a 10-year plan to drive economic growth in Doncaster, with the anchoring 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. 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.

This report summarises the proposal, the associated need for public funding, and the independent assessment of the business case.

The report recommends that the Board approve the progression of the project to Full Business Case, highlighting the need for commercial negotiation and procurement activity to be undertaken to inform a final funding decision.

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 proposal detailed in this business case 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

1. Approve the progression of the South Yorkshire Airport City project to Full Business Case
2. Agree to an update report being brought to the MCA Board in March 2024

Consideration by any other Board, Committee, Assurance or Advisory Panel
Programme Board

23 January 2024

1. Background

- 1.1 In July 2023 the MCA approved the award of £3.1m to the City of Doncaster Council (CDC) to support the development of a business case to re-establish aviation activity at Doncaster Sheffield Airport (DSA).

- 1.2 That business case would inform commercial negotiations with third parties and would be a necessary precursor to accessing public funds from the MCA, should they be required.
- 1.3 Since this point progress has been made by CDC towards a commercial agreement with the Peel Group as owners of the DSA site, whilst procurement activity is underway to assess market interest from potential future airport operators. This progress has shaped and informed next steps.
- 1.4 With support from professional advisors, CDC have now prepared an Outline Business Case (OBC) and submitted this into the MCA's assurance processes. These processes follow Government guidelines in how schemes should be appraised before public funding is formally committed.
- 1.5 The OBC outlines the vision for South Yorkshire Airport City (SYAC) and the potentially significant benefits that could accrue to Doncaster and the wider South Yorkshire region from its delivery.
- 1.6 This vision is predicated on CDC taking control of DSA and facilitating a new ownership model for the operation of the airport. The OBC proposes that these steps could also provide the catalyst for economic development at Gateway East, with the airport anchoring a sector specific focus on aviation related advanced manufacturing, advanced engineering and the growing jet-zero and decarbonisation industries.
- 1.7 The OBC notes other areas within the UK have linked the presence of an airport and aviation activity to growth stimulators such as freeports and enterprise zones, recognising the potential to do similar with the re-establishment of DSA and the Investment Zone opportunity site at Gateway East.
- 1.8 The OBC is prepared on a number of core assumptions that are stress tested and, as required, considers alternatives to the core proposition. The OBC concludes that the reopening of the airport and the South Yorkshire Airport City concept provides the best opportunity to secure economic growth and wellbeing.
- 1.9 To enable these gains the OBC notes that there is likely to be a requirement for material public sector funding to support initial capital reinstatement works and revenue requirements. The OBC is prepared on the basis that this funding could be derived from the long-term Gainshare commitment that the MCA has made available to support broad economic growth in Doncaster through the delivery of its Place Investment Plan, in which this scheme is prominent. Elements of activity could also be supported from other MCA funding that has been set aside to support this project.
- 1.10 In line with funding requirements, the OBC has now been reviewed by independent assessors. This process is required by Government and supports the MCA to review complex schemes and support business case development.
- 1.11 This assessment notes the potential benefits of the proposal, but also the known risks inherent in complex commercial propositions such as this. Predictable project specific risks around key variables - such as the ability to recapture the patronage

that has been lost since the closure of the airport and the challenges of reopening the airport – are also highlighted.

- 1.12 The assessment further provides helpful suggestions on how the next iteration of the business case could be strengthened to best support the case and allow for a thorough informed assessment by decision-makers.
- 1.13 The assessment notes that at this stage of the process much of the information that is ultimately required to support value-for-money considerations and take an informed view of relative risk and reward is still unknown. This largely reflects that commercial negotiations with the Peel Group and procurement exercises for potential airport operators are still in progress.
- 1.14 These commercial exercises will shape the requirement for public resource in the short and long-term and help shape the approach to the mitigation of financial and operating risk. Commercial arrangements will also help inform legal opinions around State Aid. It is likely that a State Aid assessment will be required from the Government's Subsidy Advice Unit.
- 1.15 Further detail on the business case and the independent assessment is provided in the appended Assurance Summary. This document is exempt from publication due to the sensitive commercial information pertinent to ongoing negotiations.
- 1.16 This report proposes that the Board approve the progression of the scheme to Full Business Case. Progression will allow for ongoing commercial activity to complete, the business case to be strengthened, allowing the Board to make a fully informed funding decision.
- 1.17 It is recommended that an update on progress be brought to the Board in March.

2. Key Issues

Strategic Context and 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 October – 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 December – Receipt of the OBC for South Yorkshire Airport City and submission into assessment processes

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

Funding

- 2.3 This report notes that the proposal could be funded, in full or in part, from the MCA Gainshare funding that has been earmarked to support the economic growth of Doncaster.
- 2.4 Gainshare funding refers to the money committed to South Yorkshire through the Devolution Deal agreed by the MCA, South Yorkshire local authorities and Government.
- 2.5 To-date, £120m of Gainshare funding - representing 4 years of allocations - has been committed to activity across South Yorkshire. This funding was deployed in support of the Renewal Action Plan which sought to help stimulate growth after the economic disruption of the pandemic.
- 2.6 Money has been committed to skills and business support activity, place regeneration schemes, flood alleviation works, transport investment – particularly helping safeguard at risk bus services – and has also been committed to feasibility studies to help generate a pipeline of investment propositions into the future.
- 2.7 In 2022 the MCA agreed to forward commit future allocations of the Gainshare funding to five investment plans. This was comprised of four Place Investment Plans, representing the growth ambitions of each of the four local authority areas, and one Plan for Growth, which would set out region wide ambition and be led by the MCA.
- 2.8 Funding was earmarked to each plan on a per-capita basis, with £138m earmarked to Doncaster, to be released in twenty-six annual instalments of c. £5.3m each year as funding was received by the MCA from financial year 2024/25 onwards.
- 2.9 In June 2022 the Doncaster Place Investment Plan was submitted and endorsed by the MCA Board. This Plan set out the broad growth ambitions for Doncaster, covering requirements to invest in the city, its towns, villages, and key employment sites. The South Yorkshire Airport City proposal featured prominently in this Plan.
- 2.10 The financial requirements of this proposal are likely to be in excess of the annual allocations of Gainshare that can be made available to CDC. This is likely to mean that borrowing would be required by the CDC to support cash flow in the near term until annual funding allocations catch up with initial outlays. Whilst borrowing in this manner is permissible and common practice for local authorities it does come with

associated interest costs. The business case has been prepared in a manner that reflects this in a prudent way.

3. Options Considered and Recommended Proposal

3.1 Option 1

Approve the progression of the South Yorkshire Airport City to Full Business Case.

3.4 Option 1 Risks and Mitigations

Progressing the scheme to Full Business Case is likely to incur further development costs. The MCA has previously committed to funding business case development activity in full with resource earmarked to this activity.

3.5 Option 2

The MCA could choose not to progress the South Yorkshire Airport City scheme to Full Business Case.

3.8 Option 2 Risks and Mitigations

Rejecting progression of the scheme would prejudice the ability of CDC to continue commercial negotiations with Peel and procurement activity with potential airport operators.

3.13 Recommended Option

Option 1

4. Consultation on Proposal

4.1 N/A.

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 OBC notes the likely requirement for public subsidy to support the proposal and requests that this be found in part 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 such as that proposed. A balanced assessment of the relative risk and reward is, however, not possible until the conclusion of commercial negotiations and the completion of procurement exercises. 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 Costs associated with progression of the scheme to Full Business Case can be accommodated within the original funding envelope made available by the MCA for this activity.
- 6.7 CDC continue to lead the negotiation with airport owners and the procurement exercise to attract a new operator. Public investment remains contingent on the successful completion of those negotiations.
- 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, with plans for the delivery of the Investment Zone on the agenda at this Board. 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 In general providing funding to for the proposed scheme falls within the MCA's powers to promote economic development and regeneration within its area.
- 7.2 The recommended option to approve the progression of this scheme to Full Business Case on the basis of information supplied in the Outline Business Case. As the commercial negotiations being carried out by CDC with the landowner and prospective airport operators are ongoing the financial information within the Outline Business Case is incomplete. However, the Assurance Framework allows flexibility for further work to be carried out in preparation of the Full Business Case. Conclusion of the commercial negotiations prior to the submission of the Full Business Case will allow a full financial breakdown to be submitted and assessed before final approval. The recommended option is, if approved, not therefore considered to be unreasonable.
- 7.3 The outline 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 will be required 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 OBC 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 OBC 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 Outline 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 Outline Business Case

List of Appendices Included

A Assurance Summary (Exempt Item)

Background Papers

None.