

Regeneration and Transport Select Committee

Scrutiny Review of The Future of Durham Tees Valley Airport



9 October 2014



Stockton-on-Tees
BOROUGH COUNCIL

Big plans, bright future

Regeneration and Transport Select Committee
Stockton-on-Tees Borough Council
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ACKNOWLEDGEMENTS

The Select Committee thank the following contributors to this review:

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Foreword

The Committee had the important, if slightly unusual task, of scrutinising the proposals put forward by a company external to the Council although Stockton Borough Council along with others are shareholders within Durham Tees Valley Airport.

The airport is a key asset in the Tees Valley which the Committee wishes to see expand and grow in whatever guise is profitable to ensure its continued presence. Whilst we would all like our local airport to offer a wealth of destinations for business and pleasure travellers we are realistic that this cannot be easily realised. DTVA is able to provide links to worldwide destinations through its international hub (Amsterdam) but Members question the inability for DTVA and other local airports to have London as its link.

The Committee is grateful to Professor Peter Nears, Strategic Planning Director, The Peel Group for giving his time to meet with us and provide the detail to the Master Plan for DTVA to continue to have a presence when other local airports have closed. The suggestions the plan contains are supported with a number of recommended safeguards which can be found in the main body of this report.

The Committee also wish to record thanks to Stockton Council and Tees Valley Unlimited officers who have supported the Members through each stage of this review process. Whilst this might not be the longest review it certainly had the depth of information that benefitted from the expertise provided from within the organisations.

The future of the airport at the time of writing this foreword is unknown but the Committee believe that the financial investment secured and promised offer DTVA the likelihood of success that we all hope to see.

Cllr Perry - Chair



Original Brief

Which of our strategic corporate objectives does this topic address?

Stockton-on-Tees at the heart of a vibrant and economically successful Tees Valley

What are the main issues and overall aim of this review?

The aim of the review would be to provide appropriate challenge relating to Durham Tees Valley Airport (DTVA) plans, and to consider the implications of the outcome of the public consultation undertaken on the recent Master Plan proposals.

DTVA Ltd has consulted on proposals to put DTVA on a sustainable financial footing to secure its long term future. It is proposed that the airport primarily focus on general and business related aviation, creating a cluster of companies offering high value aviation related employment opportunities to the Tees Valley, whilst retaining the existing scheduled passenger services to Aberdeen and Amsterdam Schiphol Airports.

DTVA Ltd proposed that financial stability can only be achieved by minimising current deficit, investing in the airport real estate to gain higher revenues, and raising the required capital investment to build necessary infrastructure by releasing land for residential development.

The Committee will undertake the following key lines of enquiry:

Examine how the proposals within the Master plan would ensure a viable airport going forward and how future investment will seek to develop the airport related businesses.

Examine evidence that all reasonable endeavours have been made to retain a fully serviced airport, including following up all previous interest, discussions with airlines and development opportunities with other airports.

Provide an initial view as to how this review could lead to efficiencies, improvements and/or transformation:

To address public interest surrounding future of DTVA.

To seek to ensure retention and modest growth of existing markets as well as direct routes to Amsterdam Schiphol and Aberdeen Airports.

To seek to ensure the development of airport related and general businesses.

As the review progressed it was noted that an explicit aim would be:

To seek to ensure that DTVA continues to be a vibrant economic asset for the Tees Valley

1.0 Executive Summary

- 1.1 Ongoing losses prompted the production and consultation of a Master Plan proposing to put Durham Tees Valley Airport (DTVA) on a sustainable financial footing and to secure its long term future as an operating airport.
- 1.2 This review has provided appropriate challenge relating to DTVA plans from the perspective of Stockton Borough Council's scrutiny process and to consider the implications of the outcome of the public consultation undertaken on the recent Master Plan proposals.
- 1.3 DTVA is projected to suffer losses in terminal passenger forecasts produced by DfT, between 2020 and 2050 with the UK Aviation Forecast suggesting 100,000 passengers will use the airport each year before reverting back to current levels of approximately 200,000.
- 1.4 The Committee note the historic performance of the airport, in particular the impact and effect of the recession, the changes in the air passenger travel industry, and the loss of holiday charter programmes resulting in reduced passenger traffic.
- 1.5 Whilst passenger numbers may be low the Committee was reassured by the actions being taken by DTVA Ltd to bolster where possible the flight opportunities from the airport considering the effects of the recession. The Committee therefore recommend **that Peel continue to grow and encourage leisure and holiday flights at the earliest opportunity.**
- 1.6 The Committee questioned the inability to have flights to London Heathrow either as a hub or for travel to the capital having had flights until they were lost in 2009. Amsterdam (Schiphol) provides the international hub to worldwide destinations for DTVA. With the need for business connectivity needing to be realised and promoted the Master Plan for DTVA is predicated on the continued use by local businesses of their nearest airport.
- 1.7 The Committee note the importance of services from DTVA to Schiphol and Aberdeen, and recommend **Peel further cultivate these services to retain and build upon to ensure a successful business flights base.** To this end Committee further recommend **that Peel increase their marketing promotion with/of KLM and Eastern Airways.**
- 1.8 The Committee believe that air connectivity between the Tees Valley and a London airport as an international hub is vital for local/regional economic growth with business users of DTVA crucial for the Tees Valley economy. DTVA provision of business flights also assist to deliver considerable benefits for the UK as a whole. To this end, the Committee recommend **that the Council and Tees Valley Unlimited support any work and lobbying (including to the Airports Commission and Transport Select Committee) that has the potential to result in the reinstatement of a London (flight) link.**

- 1.9 The Master Plan makes reference to applying differential Air Passenger Duty (APD) and ring fenced slots for regional flights at London airports. APD can be considered damaging for smaller regional airports and particularly for handling domestic services when it is charged on both legs of the journey. UK government policy aviation policy (para 1.101) emphasises the importance of rail travel instead of using air transport for domestic and short-haul European journeys to achieve environmental benefits and release capacity at airports.
- 1.10 The Committee believes that over the past several years the capacity constraints in London and the South East, Air Passenger Duty (APD), and airport charging mechanisms have all combined to have the effect of squeezing out domestic routes and as a result recommend **that the Council and Tees Valley Unlimited support any work and lobbying (including to the Airports Commission and Transport Select Committee) to:**
- **Introduce differential APD for regional airports such as DTVA**
 - **Secure route support funding and mandate those airports increasing capacity in London and the South East, to ring-fence a certain proportion of flights to regional airports e.g. DTVA**
 - **Reduce landing charges at Heathrow for domestic flights.**
- 1.11 The Committee also recommend **support is sought from appropriate local MPs and MEPs in lobbying for changes covered in the proposals above.**
- 1.12 The Master Plan makes the claim that investment in re-positioning and growing the Airport would not be possible without capital raised from enabling housing development on land owned by DTVA Ltd. This would pay for nine new hangars, office space and industrial units to expand the existing Northside Employment Park and provide 968 new jobs.
- 1.13 The Committee recommends **that all funding secured from any and all Housing & Neighbourhood Development on the airport site(s), is subject to reinvestment under transparent arrangements to deliver the aspirations of the Peel Master Plan and ensure secondary income for the airport.**
- 1.14 The Tees Valley Local Enterprise Partnership secured £5m from the Government's Local Growth Fund for development of an employment park and logistics and processing areas on the Southside of the airport site which could deliver 2,889 new jobs.
- 1.15 The Committee recognise the importance of a successful Southside development to underpin a viable airport and encourage the Council and TVU to work with DTVA to ensure its success and support any lobbying efforts to provide additional funding to enable Southside at DTVA to be brought forward as quickly as possible.
- 1.16 A concern of the Committee was the way in which passengers could travel to and from DTVA using public transport with the loss of the current rail halt and limited bus services. The Tees Valley Rail Line is to be upgraded to accommodate rail freight which will support the development of logistic

businesses on the airport site but creating the full length of siding requires the removal of the current rail halt.

- 1.17 The Committee recognises the importance of sub-regional and local public transport connectivity to DTVA and **recommend that the Councils work closely with TVU and DTVA to find solutions to this issue, and that any initiatives assisting with this be supported.**
- 1.18 Transport connectivity will provide for development of a logistics network through port centric logistics spreading out to satellite distribution sites. This could create a new hub for multimodal freight transport, reduce HGV usage on the road network, and the potential to create a logistics and aerospace cluster of regional significance.
- 1.19 **The Committee support the Peel Group’s proposal to develop specialist clusters e.g. logistic operations and complementary activities at DTVA and recommend Peel’s marketing promotion of their “Aero Centre” proposals.**
- 1.20 The Committee ultimately support Peel’s drive to diversify and seek business activities that provide secondary income as outlined in the Master Plan, recognising that operational costs cannot simply be recouped from air traffic.
- 1.21 The Committee positively support the aims of the Master Plan albeit with the following qualifications:
 - Consideration to be given to the potential risks and how this will be managed should the take up of a business (Hangars) interest be slower than planned
 - Any planning permission for the proposed housing element (enabling development) should not lead to any incremental permission for further housing.

2.0 Introduction

- 2.1 Durham Tees Valley Airport (DTVA) was originally an important RAF airfield during the Second World War. DTVA began commercial operations as Teesside Airport in the mid-1960s under local authority control, providing services to both the local business community and leisure passengers.
- 2.2 In April 2003, Peel Airports reached an agreement with the six local authority shareholders (Durham County, Darlington, Hartlepool; Middlesbrough; Redcar and Cleveland, and Stockton Councils) to acquire a 75% shareholding in the Airport with the local authorities retaining a 25% interest in the company. In June 2010, Vantage Airport Group (formerly Vancouver Airport Services) acquired a 65% share in Peel Airports, which included DTVA. The six local authorities continue to be shareholders in Durham Tees Valley Airport.
- 2.3 The renaming of the Airport to Durham Tees Valley Airport in 2004, was intended to help locate it on the international travel map, and provide a modern and convenient gateway to the region for visitors, further cementing, at that time, the Airport's commitment to regional tourism.
- 2.4 In February 2012, Peel Airports Limited concluded the sale of its majority shareholding in Durham Tees Valley Airport to Peel Investments (DTVA) Limited, a wholly owned subsidiary of the Peel Group.
- 2.5 For more detail see the Committee report of 12 May 2014 at Appendix 1

3.0 Background to the review

- 3.1 Ongoing losses prompted the production and consultation of a Master Plan proposing to put DTVA on a sustainable financial footing and to secure its long term future as an operating airport.
- 3.2 In October 2013 Durham Tees Valley Airport announced that they were no longer operating mainstream holiday charter programmes from summer 2014. The tour operators affected were Thompson/First Choice and Balkan Holidays.
- 3.3 Flights to Schiphol in Amsterdam, operated by KLM, and Aberdeen, operated by Eastern Airways, were not affected nor were Flybe flights operated on behalf of CITS to Jersey which remained in place.
- 3.4 A Master Plan to secure the future of Durham Tees Valley Airport was then published which included a public consultation period with the local community and stakeholders across the Tees Valley in order to publicise the Master Plan and provide opportunity for local residents and stakeholders to provide their views.
- 3.5 The majority of respondents (79 per cent) agreed with the vision and objectives contained in the Master Plan recognising the importance of business and leisure flights to the future of the airport whilst those opposed raised concerns about housing and airport uses and the loss of holiday flights.

4.0 Evidence

- 4.1 One of the Government's stated aims in its National Aviation Policy Framework is in helping the economy to grow by encouraging investment and exports as a route to a more balanced economy. It goes on to express the recognition of the very important role airports across the UK play in providing domestic and international connections and the vital contribution they can make to the growth of local economies.
- 4.2 To measure the Government's policy effectiveness the Committee used as its starting point an independent report analysing the economic and wider impacts of Durham Tees Valley Airport (DTVA) upon the Tees Valley economy which was commissioned by Tees Valley Unlimited (TVU) in 2012 on behalf of the Durham Tees Valley Airport Joint Development Group.
- 4.3 The report utilised Gross Value Added (GVA) a key measure of output, to measure the contribution to the Tees Valley economy of DTVA. It suggested that the GVA contribution was approximately £37m, roughly 0.4% of GVA, the value of all goods and services produced in the Tees Valley economy. In 2004 the airport accounted for around 0.6% of the area's total GVA. The reduction was attributed to the decline in employment at the airport over this period, and overall GVA growth over this period.
- 4.4 The economic impact of the Airport is comprised of direct employees on the airport site, jobs that rely upon the airport supply chain and the induced effect of the spending of these employees in the local economy. Wider, more qualitative impacts, upon business connectivity and trade, inward investment and tourism were not quantified.
- 4.5 The report also provided a number of scenarios to assess the economic impact of the airport and are precised below:

Reference Case 'the Do-Nothing':	Contribution of 600 FTE gross jobs and around £37m of gross direct GVA to the Tees Valley economy.
Passenger growth:	An increase in passengers at DTVA to 400,000 per annum, could support a further 30 gross jobs at the airport. These gross new additional jobs could generate approximately £1.8m of GVA in the Tees Valley area per annum.
Land development at Southside:	The overall development of the industrial and logistics park could support around 3,050 gross jobs. The GVA contribution from this employment could be of the order of around £183m per annum.
Current impact of the Airport plus Southside development impacts:	Once fully developed and occupied, alongside the current operation of the airport, the whole DTVA site has the potential to support around 3,650 gross FTE jobs, supporting approximately £220m of gross direct GVA for Tees Valley each year. It is estimated that

	around 2,420 of these are net FTE jobs and these could be taken by Tees Valley residents.
Passenger growth to 400,000 per annum and development of Southside:	An increase in passenger numbers, when combined with a fully developed and occupied Southside, the whole DTVA site has the potential to support around 3,700 gross FTE jobs supporting approximately £222m of gross direct GVA for Tees Valley each year. It is estimated that around 2,450 of these are net FTE jobs and could be taken by Tees Valley residents.

4.6 With this information the Committee could examine the proposals of the DTVA Master Plan and its claims to represent the most appropriate strategy to:

- Secure a viable airport business;
- Offer the best prospect of enabling the airport to retain international connections;
- Enable optimum investment in related used and activities to offer long term prospects for economic growth.

MASTER PLAN PROPOSALS



4.7 The reproduced Indicative Framework Plan (above) from the Master Plan provided an illustrative example of possible future development at DTVA subject to approval and refinement at planning stages. There are a number of elements proposed to develop the airport site outlined below from a

presentation given to the Committee by Professor Peter Nears, Strategic Planning Director for The Peel Group:

A Re-positioned Airport

- 200,000 passengers p.a. by 2020: 400,000 p.a. over the long term.
- Reconfigure the existing terminal: create an aviation business centre.
- Investment in new hangars for business and general aviation users.
- Growth of logistics business (particularly at Southside).
- Facilitate the expansion of aviation recycling activities (currently on Northside).
- Support a cluster of aviation employment (for example: Serco's International Fire Training Centre, aircraft recycling specialists Sycamore, and leading international aviation firm Cobham).

Passenger Numbers

- 4.8 There is a significant catchment area for passengers and businesses within a short distance of Durham Tees Valley Airport. TVU research published in 2012 found the following:

Resident catchment for DTVA	
Drive time from DTVA	Total Passengers
30 minutes	1,140,000
60 minutes	3,480,000
90 minutes	7,210,000
Business catchment for DTVA	
Drive time from DTVA	Total Passengers
30 minutes	34,750
60 minutes	115,000
90 minutes	249,000

- 4.9 DTVA's catchment area is relatively compact with over 55% of passengers coming from within Tees Valley. The huge concentration of industry in the area has the potential to ensure demand for flights to London is high and constant.
- 4.10 Based on this information a major concern for the Committee throughout this review was the low number of passengers using DTVA, the projections (from the Department for Transport (DfT)) that suggested that this would not improve especially in the short-term, and the continued viability of the airport.
- 4.11 Prestwick and DTVA are the only airports that suffer projected losses in terminal passenger forecasts produced by DfT, between 2020 and 2050 with the UK Aviation Forecast suggesting 100,000 passengers before reverting back to current levels of approximately 200,000. When challenged about the ability to run a profitable airport on such small numbers Professor Nears didn't support the government figures and suggested that there needed to be a national rebalancing both in terms of the economy and aviation capacity which is beginning to get traction in government. However, in regard to

airport policy this is still focussed on the south east of England where the bulk of major growth continues.

- 4.12 The Committee compared DTVA passenger figures with those of Leeds/Bradford Airport which had seen an increase of 11.6 per cent (3.3m passengers – total) in 2013 from the previous year. Leeds/Bradford Airport's close proximity to Tees Valley and number of destinations offered suggested that it was able to attract passengers who would otherwise have used DTVA if it had the same provision. Professor Nears warned that to chase numbers and pay a lot to bring in air traffic, as has been the case at Leeds/Bradford, would create difficulties as losses would build up. DTVA had posted a £4m annual loss and it couldn't cope if this figure increased. The airlines determine where they put their capacity although an airport might influence that to an extent. Airlines have in general repositioned themselves to the larger airports serving the bigger conurbations and population, disadvantaging smaller regional airports across the UK (with recent closures at Manston and problems at Prestwick, Cardiff, and other smaller airports).
- 4.13 Professor Nears highlighted the effects as hitting the Tees Valley area harder than most in terms of gross disposable household income which is reflected in the numbers of people with a 'propensity to fly'. The number of flights a person will take per year is low compared to other areas of the country such as the South East and London and although economic growth is returning it is not as strong as that enjoyed in the South East. Recovery is therefore patchy by area and sector.
- 4.14 The Committee note the historic performance of the airport, in particular the impact and effect of the recession, the changes in the air passenger travel industry, and the effect on holiday flights resulting in reduced passenger traffic.
- 4.15 Whilst passenger numbers may be low the Committee was reassured by the actions being taken by DTVA Ltd to bolster where possible the flight opportunities from the airport considering the effects of the recession. In June it was reported that the airport had seen significant increases in passenger numbers on its key scheduled services both to Aberdeen and Amsterdam in the first five months of the year. Flybe, which operates a summer only charter flight to Jersey had increased passenger numbers by 39 per cent and Newmarket Holidays would operate five departures to Italy and Austria from the airport in 2015, compared to two in 2014.
- 4.16 **The Committee recommend that Peel continue to grow and encourage leisure and holiday flights at the earliest opportunity.**
- 4.17 Scheduled flights are available to Aberdeen and Amsterdam (Schiphol) the latter providing the international hub to worldwide destinations for DTVA. The Committee as a result questioned the inability to have flights to London Heathrow either as a hub or for travel to the capital having had flights until they were lost in 2009.

4.18 Reference was given to the Airport Commission's discussion paper "Utilisation of the UK's Existing Airport Capacity" published in June 2014. It states that:

"In many cases, the key domestic connection for the UK's regional airports is a link to the capital. Non-London airports and their corresponding regions have emphasised...the importance of safeguarding domestic links into London, and in particular Heathrow."

4.19 The domestic links that once operated out of Heathrow have not moved to other airports in the London network. Reasons for the recent reduction in air connectivity between London and the UK regions have been given as:

- **Capacity constraints:** In a capacity constrained system airlines will prioritise the operation of their larger aircraft, in order to maximise revenue. It is said to be in the airport's interest to go along with or incentivise this behaviour, as larger planes bring more passengers and therefore maximise an airport's non-aeronautical (parking, retail and catering) revenue.
- **Reduced demand:** A number of reasons are speculated for reducing demand:
 - The recession.
 - The doubling of the rate of Air Passenger Duty (APD).
 - Improvements in UK rail services.
 - Increasingly time-consuming check-in processes at UK airports.
- **Transferring elsewhere:** Increasing numbers of passengers flying from regional airports are now choosing to transfer to connecting flights at hub airports outside of the UK in particular, Schiphol and Dubai.

4.20 The Committee note the importance of services from DTVA to Schiphol (international hub) and Aberdeen, and recommend **Peel further cultivate these services to retain and build upon to ensure a successful business flights base. To this end Committee further recommend that Peel increase their marketing promotion with/of KLM and Eastern Airways.**

4.21 Rory Sherwood-Parkin, Economic Strategy and Intelligence Manager at Tees Valley Unlimited (the Local Enterprise Partnership) provided the Committee with the LEP's submission response to the discussion paper. In summary it identified:

- **The importance of smaller regional airports to national economic growth:** with strong support for the thrust of the Discussion Paper which emphasises the important role that smaller regional airports currently play and will play in the future.
- **The need for smaller regional airports to specialise:** there is a bright future for those airports outside of the major regional destinations. However, they need to develop as clusters of specialist and complementary activities.
- **The contribution of smaller regional airports to national aviation:** smaller regional airports, such as DTVA, have an essential role to

play...[including] specialist services, such as fire training...[serving] the whole country, including the South East. In order to ensure a true national aviation offer that helps to rebalance the economy, a national hub airport needs local spokes in order to benefit the whole country.

- **Route support is needed to catalyse growth at smaller airports:** The Government needs to support these airports by providing more flexible route support, including the new Air Connectivity Fund, and by reforming Air Passenger Duty.
- **Extra capacity in London and the South East must come with guarantees of access to local economies:** mandate those airports with increasing capacity to ring-fence a certain proportion of flights to regional airports. This will be small in comparison to the total extra capacity granted, but will make a big difference to airports such as Durham Tees Valley. It will also help to rebalance the economy and address the historic trend of a lack of investment in infrastructure in the North of the country.

- 4.22 The House of Commons Transport Select Committee launched a similar enquiry on 9 July 2014 to examine policy and make recommendations to the Government on the role of smaller airports to which TVU and DTVA would provide a response based on the points above. The Transport Select Committee's objective in undertaking the inquiry was to ensure that the role of smaller airports in improving connectivity was recognised within Government.
- 4.23 With the need for business connectivity needing to be realised and promoted the Regeneration and Transport Committee took information from a report by Regeneris for TVU (highlighted above) which provided consultation information regarding business use and needs of local airports.
- 4.24 A key message was that international business and trade is still taking place in the Tees Valley area, despite the limited route offer from DTVA. Newcastle Airport is approximately 1 hour away and Leeds Bradford 1 hour 30 (with Manchester airport 2 hours 20 minutes away), the range of international flights available to meet Tees Valley business needs are also well served by these airports and airlines, albeit with greater airport travel times involved. The range of routes and carriers to European destinations and hub airports for onward travel was a major factor as to why business travel has fallen away from DTVA to other airport locations within an acceptable drive/travel time.
- 4.25 The Master Plan for DTVA is predicated on the continued use by local businesses of their nearest airport. Professor Nears stated to the Committee that it is the core business of the airport and should be the number one aspect for the region as a whole economically. The business users are crucial for the Tees Valley economy therefore DTVA needs to grow from a sound basis provided by the business flights and will develop if the core business can be maintained and grow.
- 4.26 Professor Nears also recognised that any of the London expansion/development schemes should provide an economic boost to the

area and the airport if a link is made but that it will be beyond 2020 before anything would be delivered so there needs to be more immediate changes.

- 4.27 The Committee support that view and believe that DTVA makes a vital contribution to the local economy through the provision of connectivity for businesses and residents and the economic impact that leading companies, such as Serco, Sycamore and Cobham, make at the Airport site. The Committee believe this contribution to the Tees Valley economy can be strengthened further through investment by DTVA and changes to government policy.
- 4.28 The Committee believe that air connectivity between the Tees Valley and a London airport as an international hub is vital for local/regional economic growth with business users of DTVA crucial for the Tees Valley economy. DTVA provision of business flights also assist to deliver considerable benefits for the UK as a whole. To this end, the Committee recommend **that the Council and Tees Valley Unlimited support any work and lobbying (including to the Airports Commission and Transport Select Committee) that has the potential to result in the reinstatement of a London (flight) link.**

Air Passenger Duty (APD)

- 4.29 The Master Plan refers to Tees Valley's input to the Davies Commission in relation to a case for differential APD and ring fenced slots for regional flights at London airports. The measures would support the greater use of DTVA, assist in relieving capacity constraints in London and the South East and have positive local economic effects.
- 4.30 APD is considered damaging for smaller regional airports and particularly for handling domestic services e.g. DTVA to Aberdeen and return to DTVA means APD is paid on both journeys. The Airports Commission - Discussion Paper 6 (para 3.28) however, highlights that in 1998 the EC ruled that the practice of charging APD on only one leg of a domestic return journey, which was the UK practice at the time, was in contravention of the EU treaty, because it did not provide the same effective tax treatment for all EU flights.
- 4.31 The two highest bands of APD have been abolished, effective from April 2015. The policy objective of the change was to contribute to the UK's growth opportunities by lowering the cost of travelling to many emerging market destinations but the long-haul flights does not benefit shorter routes and especially domestic flights by continuing to charge APD twice as evidenced above.
- 4.32 Ireland, for example, has removed APD from April 2014 which saw Ryanair put on more services from Shannon Airport which is a smaller Irish airport. In terms of the UK government policy it suggests links should be by rail. The government's aviation policy (para 1.101) emphasises the importance of rail travel instead of using air transport for domestic and short-haul European journeys to achieve environmental benefits and release capacity at airports.

- 4.33 The Committee believes that over the past several years the capacity constraints in London and the South East, Air Passenger Duty (APD), and airport charging mechanisms have all combined to have the effect of squeezing out domestic routes and as a result recommend **that the Council and Tees Valley Unlimited support any work and lobbying (including to the Airports Commission and Transport Select Committee) to:**
- **Introduce differential APD for regional airports such as DTVA**
 - **Secure route support funding and mandate those airports increasing capacity in London and the South East, to ring-fence a certain proportion of flights to regional airports e.g. DTVA**
 - **Reduce landing charges at Heathrow for domestic flights.**
- 4.34 The Committee also recommend **support is sought from appropriate local MPs and MEPs in lobbying for changes covered in the proposals above.**

Mixed-use neighbourhood.

- 4.35 The Master Plan makes the claim that investment in re-positioning and growing the Airport would not be possible without capital raised from enabling housing development on land owned by DTVA Ltd. The intention is to deliver between 250 and 400 homes, offering a wide range and mix of housing types, sizes, and tenures to meet local needs. This development falls within Darlington Borough boundary.
- 4.36 The sale of the airport land for housing would pay for nine new hangars, 9,600m² of office space and industrial units covering 16,820m² to expand the existing Northside Employment Park. This in turn would facilitate 968 new jobs, £68m GVA to the local economy, and £1m Business Rates (phased delivery 2020 and beyond).
- 4.37 Professor Nears stated that hangars are full so more are needed as are more hangars throughout the country. Requests for hangar space are made but are unable to be met so investment is required in the buildings to realise the income that would result. The development of hangars will therefore provide long term rental income. The master plan is offered as helping to provide the vision for the investment provided by the Local Growth Fund.
- 4.38 Such development has the opportunity to deliver construction jobs, consumer spending, and contribute to the resource base of local authorities through enhancement of Council Tax revenues and New Homes Bonus (NHB) payments. The NHB payments are not ring-fenced, which will provide Darlington Borough Council with the opportunity to reinvest this to support and enhance public services and infrastructure.
- 4.39 The Committee was keen to receive reassurances regarding the reinvestment of monies from the sale of housing land used for DTVA and what would happen if the land could not be sold or if there was no demand for houses, or businesses at this site. Professor Nears affirmed that financial investment would be given to DTVA from the total received for the land owned by DTVA

Ltd and that there was interest in, and demand for, the site. He saw the housing as an enabling element of getting initial funding for the scheme and not setting a precedent in terms of further housing development, which had been a concern of Members.

- 4.40 The Committee welcomes that affirmation but still wishes to record its recommendation **that all funding secured from any and all Housing & Neighbourhood Development on the airport site(s), is subject to reinvestment under transparent arrangements to deliver the aspirations of the Peel Master Plan and ensure secondary income for the airport.**
- 4.41 On the day Professor Nears met with the Committee (7 July 2014) it was announced that more than 1,000 jobs were to be created in Tees Valley after the Tees Valley Local Enterprise Partnership had secured £90.3m from the Government's Local Growth Fund – with £14.1m of new funding confirmed for 2015/16 and £21.2m for 2016/17 to 2021.
- 4.42 The funding included £5m provision for a new access road linking the Northside with the Southside at DTVA around the eastern end of the runway. This development would then open up the Southside to provide an employment park with a variety of employment uses. It is envisaged this will provide logistics and processing areas and deliver 2,889 new jobs resulting in £280m GVA to the economy and £2.9m Business Rates in a phased delivery to 2020 and beyond.
- 4.43 Southside is a shared area between Darlington and Stockton Councils with the area within Stockton's boundary already having detailed planning permission secured in 2007 for approximately 176,900 m² (1,900,000 ft²) for development as a logistics and industrial park focussed on developing freight handling and distribution, associated assembly facilities, seasonal aircraft parking and maintenance, and industrial processes.
- 4.44 The Committee recognise the importance of a successful Southside development to underpin a viable airport and encourage the Council and TVU to work with DTVA to ensure its success and support any lobbying efforts to provide additional funding to enable Southside at DTVA to be brought forward as quickly as possible.

Passenger Transport

- 4.45 A concern of the Committee was the way in which passengers could travel to and from DTVA using public transport.
- 4.46 The DTVA master plan area has two rail stations in close proximity, Dinsdale and Teesside Airport. The latter currently has a 'Parliamentary Service' whereby it stops at the rail station in order to maintain its existence. The Tees Valley Line is to be upgraded to accommodate rail freight but creating the full length of siding requires the removal of the current rail halt. Professor Nears recognises the current inadequacy in provision needs to be a focus of joint

working between DTVA/TVU/LAs to ensure a proposed relocated station gets the prominence it deserves.

- 4.47 The Committee subsequently enquired whether it was possible to relocate the train station at the terminal if the current rail halt was to be lost. This is not envisaged but a bus stop could be provided to ferry people to the airport. As a result this might improve the current arrangements of one bus route from Darlington and no route from Stockton Borough. The current bus service does not provide a drop off/pick up at the terminal but with the housing development it will hopefully rectify this.
- 4.48 The Committee recognises the importance of sub-regional and local public transport connectivity to DTVA and **recommend that the Councils work closely with TVU and DTVA to find solutions to this issue, and that any initiatives assisting with this be supported.**
- 4.49 A relocated station would also provide the potential for a new 'layby' style rail siding for freight use. This, as argued in the Master Plan, would create a valuable connection between rail and air freight networks with the potential to provide further benefits through links with Teesport. Professor Nears imagined a logistic development through port centric logistics spreading out to satellite distribution sites. This could create a new hub for multimodal freight transport, reduce HGV usage on the road network, and the potential to create a logistics and aerospace cluster of regional significance.
- 4.50 **The Committee support the Peel Group's proposal to develop specialist clusters e.g. logistic operations and complementary activities at DTVA and recommend Peel's marketing promotion of their "Aero Centre" proposals.**

5.0 Conclusions

- 5.1 The Committee ultimately support Peel's drive to diversify and seek business activities that provide secondary income as outlined in the Master Plan, recognising that operational costs cannot simply be recouped from air traffic.
- 5.2 The Committee positively support the aims of the Master Plan albeit with the following qualifications:
- Consideration to be given to the potential risks and how this will be managed should the take up of a business (Hangars) interest be slower than planned
 - Any planning permission for the proposed housing element (enabling development) should not lead to any incremental permission for further housing.

APPENDIX 1

REVIEW OF THE FUTURE OF DURHAM TEES VALLEY AIRPORT (DTVA)

SUMMARY

This paper provides a chronological summary of critical issues in relation to DTVA, starting from 2003 (paragraphs 1-21). In particular from paragraphs 30-44, the issues relate to Peel Investments (DTVA) Ltd's (the 89% majority shareholder) ambitions for significant strategic change and the development of a Masterplan for the Durham Tees Valley Airport. The report also provides information relating to national aviation policy and also the economic importance of the airport to Tees Valley and Durham.

DETAIL

Historical Summary

1. In July 2002, Leaders concluded that the best way forward was to seek a long term, strategic partner to participate in the growth and development of the airport. The respective Cabinets approved the proposals and, as a result, on 1 April 2003, the local authority shareholders entered into an agreement with Peel Airports Limited (PAL), whereby in return for 75% of the shareholding in the airport company, PAL would inject £7.5m into the airport business, followed by voluntary investment in exchange for further shares. In addition, the Investor (PAL) would put in place a formal agreement to develop the South Side land. There remains in place a detailed Shareholders' Agreement.
2. Significant public sector support was forthcoming to support Peel Holdings in moving forward complementary developments of both the South Side and North Side.
 - The South Side project received significant support from One Northeast (ONE) and the English Partnerships (EP)/Homes and Community Agency (HCA) – "Skylink" was proposed to be the development of a new 52.32 hectare business park adjacent to Durham Tees Valley Airport (DTVA) creating 175,347m² of business accommodation, and realising the creation of 2,722 new jobs.
 - The project was to be undertaken by Peel Holdings, in partnership with ONE and EP/HCA. Partnership agreements were signed in 2007 and some preparatory works were undertaken, however, the main infrastructure works providing access and services to the development were delayed at Peel's request as demand for business units had fallen dramatically due to the economic conditions. The contract had been tendered for the main works but the contractor was never appointed.
 - The decision to agree significant public funding, was taken some time ago, in 2006 (ONE £6m and EP/HCA £6m). This provides a

demonstration of the scale of public sector support required to enable supporting developments to underpin the Airport's viability.

- In January 2009, the local authority shareholders commissioned work to carry out a valuation exercise, of the development opportunity of the areas of land known as the "North Side" (the areas of developable land to the North of the runway, including the North Side Option Land) and the "South Side" (the South side Land).
 - The report stated that both in the case of the North Side and South Side land, any value in development of either is dependent on the airport remaining open. Indeed, the report advised that the relevant Planning Authorities stated that planning permission for any development without the airport would not be permitted, other than for a relatively small area of land on the South Side (20 hectares) which had been approved for general employment i.e. non airport related use.
3. The Airport showed positive growth in passenger numbers following the initial investment phases, but in recent years has been operating against a background of failure to secure carriers, and therefore sustain passenger numbers. This has resulted in a trading performance well below that envisaged when the original arrangement started.
 4. In 2009, this decline in passenger numbers, caused PAL to reconsider the current arrangement and sustainability of the business and enter into dialogue with the local authority shareholders about a potential to develop a replacement arrangement.
 5. The Chief Executives at that time engaged, on a "without commitment" basis, to try to reach a satisfactory position with PAL aimed at securing the continued operation of the airport as a sub-regional transport resource, and as a driver of economic development and in line with the original objectives in 2003.
 6. Passenger numbers have now fallen back to pre-2003/04 levels, after some initial growth, and significant business losses occurred such as Bmibaby withdrawing in October 2006, followed by Flyglobespan withdrawing and the cessation of Heathrow flights.
 7. Throughout 2009, PAL proactively explored options for how they may acquire the remaining shareholding from the Councils, and discussions and preliminary work was conducted to link this to a non-closure guarantee for a fixed period to enable the fortunes of the airport to be reversed. It was apparent that this work, along with Project Panther – a cost reduction programme at the airport – was linked to a strategy preparing the airport for a possible sale to another investor.
 8. This was proven in June 2010, when Vancouver Airport Group acquired a majority shareholding in PAL, who ran and operated the airports of Liverpool,

Doncaster and DTVA. This news was initially well received and welcomed as they are an international airport company with a proven track record, promising a two year turn-a-round.

9. Surprisingly, one of PAL's (Vancouver Airport Group major shareholder) early activities in November 2010 was to introduce a £6 airport facility charge. This was particularly unpopular and appeared to impact on the summer peak in charter and international scheduled traffic, being much less pronounced in 2011. Ryanair specifically identify the charge as a reason for exiting from the market.
10. Over the years, PAL, as the airport's operator, has received ongoing support such as; in 2008 TVU led a delegation of MPs led by Phil Wilson and Nick Brown to the Aviation Minister setting out the case for halting the proposed increase in landing charges at Heathrow, which made regional flights from airports like Durham Tees Valley uneconomic.
11. Another important example of support to PAL was in June 2011: TVU responded to the Government's consultation document on the Reform of Air Passenger Duty. The key points were:
 - Regional airports, such as Durham Tees Valley, can be major drivers of economic growth and are vital in ensuring the international connectivity of businesses in the Tees Valley to global markets.
 - Air Passenger Duty (APD) in the UK is already the highest in the world. Most other EU countries have significantly reduced or abolished aviation taxes to help their economies grow. APD is a significant obstacle to Durham Tees Valley Airport in establishing air links to other European cities thereby impacting negatively on the competitiveness of the Tees Valley as a business location.
 - Ideally, APD should be dropped when the UK joins the EU Emissions Trading Scheme in 2012 or at least substantially reduced.
12. Government took the view that APD was important in reducing the budget deficit and should therefore be retained, particularly as passenger journeys in the UK are not eligible for VAT, unlike most countries in Europe.
13. Further analysis of Civil Aviation Authority (CAA) trends at this time prompted some areas for further question and query, and in July 2011 the questions noted below were asked of PAL, against the backdrop of significant frustration and a perception of poor marketing efforts by the airport despite regular offers of support from local authorities. Detailed responses were received in August 2011, and the questions posed and answers received, are provided below:
 - *According to CAA figures, there has been a passenger reduction from DTVA since 2005 of 73%. Over this period there have been increases at*

both Liverpool and perhaps, surprisingly, at Doncaster of 14%. The issue is, how can Doncaster airport's fortunes be so different from DTVA?

PAL advised that the drop in traffic at DTVA was truly drastic. The two primary factors in this significant decline were the BMI baby withdrawal in 2006 and the merger of charter operators: MY Travel and Thomas Cook merged in spring 2007 and First Choice and Thomson merged in spring 2007. These new operators then consolidated their operations in the major airports, away from many regional airports. These two changes combined lead directly to the current situation. Other route losses, such as the cancellation of the BMI route to London and the collapse of FlyGlobespan in 2009 have just exacerbated this decline.

Further, PAL advised that there was no simple answer regarding the difference between Doncaster and DTVA - they just served very different markets and their histories unfolded differently. No airport is immune from unexpected service withdrawals e.g. EasyJet left Doncaster in 2010, which dropped the passenger numbers at Doncaster considerably, and Eastern Airways just stopped flying out of Liverpool in July.

PAL stated that DVTA's catchment area offered significant growth potential - almost 40% of the north-east population lives closer to DTVA than to Newcastle airport. However, Newcastle airport has, over several decades, established itself as the region's dominant volume airport, partly reflecting the heightened profile of the city itself. The ambition for DTVA was to significantly increase the share of traffic secured from the core catchment area. However, it was not expected to challenge Newcastle's dominant regional position, and this would continue to be reflected in Newcastle's larger market share, and broader range of destinations.

- *There appears to have been some growth in markets to Germany and Poland with over 200,000 passengers a year utilising a Doncaster to Poland service. There are no flights to Berlin or Cologne from east of the Pennines. Is this a possibility or one that has received any focus?*

PAL advised that they repeatedly looked for a carrier to serve this market but to no avail. They also pointed out that Doncaster has a significant population with Eastern European ties which has resulted in strong growth to these markets.

- *Is it not feasible to secure an operator to base an aircraft at DTVA, servicing once weekly flights to Paris, Rome, Dublin or any of the other European cities which appear still viable on more frequent occasions from other airports?*

PAL noted that a once a week flight would not successfully target either the weekend break or business markets, therefore it would have to be operated by a charter airline. Once a week would also mean a non-based aircraft, therefore the operating costs would be much higher, as the two flights to and from the base would be factored into the flight to Europe. This was not an impossible idea, but was unlikely at that point in time.

- *What efforts have been made to explore and secure regular services to Cyprus, particularly in light of the Vancouver ownership of airports?*

PAL advised they had worked hard on this option but, unfortunately, there was no one with aircraft based in Cyprus who would fly to regional UK markets. Other UK operators would not currently base an aircraft in Cyprus, so the aircraft would have to be based in DTVA or the aircraft would have to fly a “W” pattern from Manchester or Liverpool bases. PAL noted that whilst they had endeavoured to make this case, all operators responded by saying that they make more money elsewhere.

They also added that there was another factor: regional funding and marketing support. There was no offer of any form of regional financial support over and above the airport levy concessions – at the time, it was not unusual for regions to offer heavy marketing support for inward investment for tourism reasons, but that was not something that had been available at DTVA.

- *CAA figures also appear to show sustained significant passenger numbers from Newcastle to Malaga, Palma and Alicante. Could it have been possible to accommodate some of this business at DTVA?*

PAL advised that they would love to accommodate this business, but the challenge was finding a carrier willing to take a chance on DTVA, given the current economic circumstances.

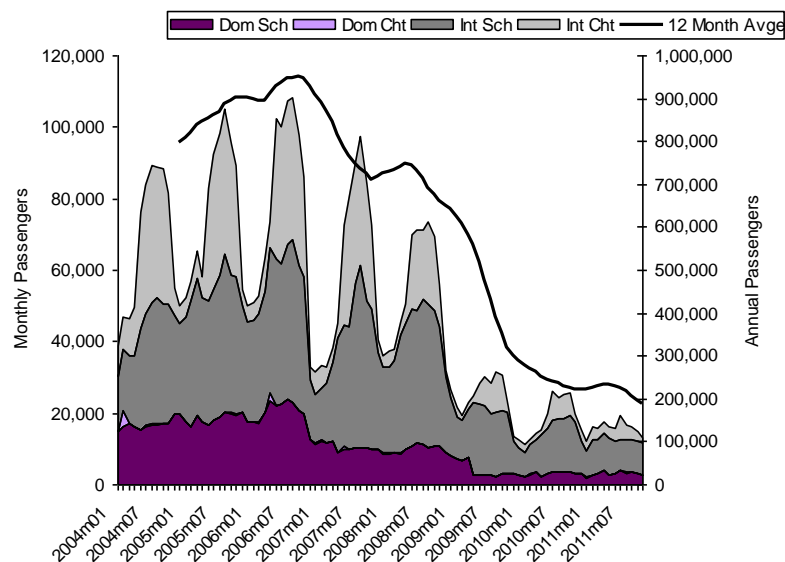
- *Are there opportunities for more focus on freight – maybe utilising DTVA as a hub for Canada-Britain freight imports/exports?*

PAL responded to say they were hopeful that they could make something of this part of the business in the future. The airport had a major setback when TNT withdrew, again for reasons of reducing demand and profitability during the current economic downturn. East Midlands won much of the business over the past decade and had the facilities and services (such as 24 hour customs) which make taking their customers away.

- *Is there any further progress or developments relating to military usage?*

PAL advised that they believed they could make a very compelling case for DTVA, given the cutbacks scheduled for the RAF and other services. However, the RAF attention was understandably on other matters in the past few months but they wished to re-engage with them on this idea.

14. The details in the table below show very clearly the success of the early investment peaking in 2007, followed by significant reduction to only 189,000 passenger traffic in the 12 months to October 2011.
 Source CAA Statistics. (Additional details are included in Appendix 1.)



15. The Local Authorities (LAs) and Tees Valley Unlimited (TVU) continued to support PAL and when the Coalition Government announced it was reviewing the National Aviation Framework and produced a scoping document to seek responses as to how the framework should be changed, in October 2011 TVU provided a detailed response. The main points were:

- Regional airports have considerable potential for growth and can drive the expansion of their economies.
- The regulatory framework needs to be amended to safeguard slots at Heathrow and reduces landing fees at Heathrow for regional flights to enable them to operate economically in order to improve the international connectivity of the regions.
- The Government should require the CAA to look at Heathrow as an asset serving the UK as a whole and not simply as a business in its own right.
- APD for flights from regional airports should be reduced and abolished for new flights to European Cities.

- The UK Aviation Forecasts should be withdrawn and recalculated to fully recognise the contribution regional airports like Durham Tees Valley can make to projected growth.
16. On 14 December 2011, PAL issued a press release indicating that it intended to seek a buyer for its shares in Durham Tees Valley Airport. Peel Airports own 75% of the shares with the local authorities owning the remainder.
 17. Vancouver Airport Group acquired Durham Tees Valley along with, Liverpool and Doncaster and, within 18 months had formed a view to sell DTVA despite the regular positive and reassuring messages about their abilities to 'turn it round'.
 18. Subsequently, Price Waterhouse Cooper (PWC) was appointed to oversee the sale with a very short conclusion deadline.
 19. There was a limited range of interest, but many parties have since informed officers of not pursuing it because of the particularly quick timescales. The Peel Group immediately stepped back in as the only realistic (within timescales) likely purchaser and set up a new company Peel Investments (DTVA) Limited as its proposed investor.
 20. The combined Local Authorities and TVU commissioned some work to explore the viability of DTVA. Some key findings then were:
 - The number of passengers required for an airport to break even is 2 million passengers a year. The market for DTVA is about 3.9 million passengers per year which is very small.
 - It would be necessary for the airport to operate to find revenue from the development land. It is vital that the development land should not be sold off separately from the airport for this reason. This would almost certainly lead to closure of the airport. Sheffield City and Plymouth are good examples where this has occurred.
 - A period of 18 months to turn around the airport (suggested by Peel Holdings in their draft memorandum of understanding, underpinning their thinking on "stepping back in") into a feasible financial operation was not practical given the long lead time for property development.
 - There was no one business model that could sustain the airport. There would need to be a combination of activities. The best model in the short term would be to attract a low cost airline to use DTVA as a base, to obtain the throughput of passengers to develop revenue from fees, other than landing charges. This would be extremely difficult in the current economic climate.
 - Removal of Air Passenger Duty would help.

See **Appendix A** for more background (attached).

21. Prior to the sale of shares to Peel as new investor Peel Investments (DTVA) Ltd, the share conversion provisions in the Subscription and Shareholders' Agreement (SSA) had been invoked and a Conversion notice served by PAL as required by the Agreement, in order to convert the investment made at that stage (£16.8 M in addition to the initial required £7.5M) to shares. This resulted in dilution of the LA shareholding shares in accordance with the formula set out in the SSA. Under the terms of the Agreement, the LAs had the opportunity to avoid dilution by introducing matching investment of around £4m, which all Councils agreed was not possible. Thus, the LA shareholdings became:

Council	PRE DILUTION % Shareholding	Post Dilution % SHAREHOLDING
Darlington Borough Council	6.67%	2.91%
Durham County Council	3.33%	1.45%
Hartlepool Borough Council	2.47%	1.08%
Middlesbrough Borough Council	3.88%	1.69%
Redcar & Cleveland Borough Council	3.89%	1.70%
Stockton Borough Council	4.76%	2.08%

22. In late 2012, TVU, on behalf of the local authorities in Tees Valley and DTVA, lobbied government to improve conditions for regional airports through two routes; a letter to the Financial Secretary to the Treasury on APD and by responding to the Department for Transport's consultation on its Draft National Aviation Policy Framework.
23. In regard to APD, TVU presented the case for lowering APD for regional airports in order to help rebalance the economy and catalyse growth in area such as Tees Valley. There are five main reasons for creating differential rates of APD;
- The precedent for lower rates in different areas within the UK has been set in Northern Ireland, putting regional airports like DTVA at a competitive disadvantage.
 - The potential for devolved APD powers for Scotland could lead to a leakage of operators, flights and economic impact away from areas like Tees Valley.
 - A two-tier rate could help rebalance the national economy by acting as a further lever to attract foreign direct investment through enhanced connectivity.
 - Reduced APD could catalyse export-led growth. At present APD acts as a disincentive for operators to establish new routes from regional airports, constraining the ability of Tees Valley firms to export to areas across the globe.

- A lower rate of APD could support the service, tourism and retail industries in the regions through multiplier effects achieved via an increased number and variety of flights.
24. The Draft National Aviation Policy Framework published in October 2012 presented an opportunity to reinforce these points. TVU stated that the framework, despite promising “to pursue a suite of measures....to support regional airports,” offered few significant practical proposals which would encourage regional airports to improve their air connectivity. While TVU welcomed proposals on clear airport master plans, strengthened roles for local consultative committees and airport forums, as well as moves to introduce Route Development Funds, the Framework failed to address the two key issues facing regional airports; namely, APD and access to Heathrow.
 25. The same arguments as set out above on APD were put forward to address the first issue. On the second, TVU argued that in order to enhance regional connectivity – itself an ingredient of economic growth – mandating landing slots at Heathrow for a number of regional flights needed to be introduced. This could be achieved by offering slots with lower landing charges to regional airports and promoting the use of flights from Heathrow that would serve two regional destinations, such as DTVA and Aberdeen.
 26. As the most important contribution of the aviation industry to economic growth is its facilitation of business connectivity and international trade, the response reinforced the point that the link to a London hub is of crucial importance in facilitating inward investment and supporting Tees Valley export-led businesses. The inability to access Heathrow from smaller northern airports effectively means that Heathrow is only an international hub for the South East and not a national asset serving the whole of England.
 27. TVU subsequently responded to the ‘Emerging Thinking’ consultation of the Davies Commission in October 2013, set up by government to examine air capacity in London and the South East. The arguments outlined above were reiterated. TVU, DTVA and local authorities set out their strong support for the emerging thinking of the Davies Commission that regional airports have a role to play in meeting future aviation capacity needs in the UK. However, it argued that a more holistic approach should be taken which does not solely focus upon easing capacity issues in London and the South East, and recognises the importance of smaller regional airports, like DTVA, not just for the local economies they serve, but also for UK PLC as a whole.
 28. Five key points were made, namely that:
 - Smaller regional airports can make a real contribution to capacity shortages over the next 10 years.
 - Local and national economies can benefit from introducing differential APD.

- Access to London/a national hub and potential slot-ring-fencing is crucial for smaller regional airports.
 - Smaller regional airports are developing as focal points for economic clusters and business connectivity.
 - Government can enact measures to reduce regulatory costs and improve the commercial viability of smaller regional airports.
29. Since the dilution of shareholdings and the lobbying activity outlined above, DTVA has continued to struggle. Despite efforts, very few additional routes or operators have been found. An extensive marketing campaign of the KLM Schipol link has had some small success. The main offer is now 3 x daily KLM flights to Schipol and 2 x daily flights to Aberdeen (both important destinations for our business base).
30. DTVA losses continue and for 2012/13 were reported of circa £3.5m p/a. Peel has repeatedly and understandably stated they cannot continue to financially underpin such a loss making entity without an agreed longer-term realistic plan.
31. A well publicised legal settlement with Bmi for compensation after that service was withdrawn provided a one-off cash investment to mitigate losses.
32. The LAs and advisers have reviewed the yearly statutory company accounts and financial statements and it is unquestionable that DTVA is losing significant sums per annum and without additional revenue streams this would continue.
33. The LAs and TVU have continued to fully support Peel Investments (DTVA) Ltd in joint work to provide a strategic plan. This has proven difficult. The LA position is that sustainable aviation must be at the heart of any new strategic and land use plan. Peel Holdings is keen to quickly drive value from new planning permissions for residential and other uses which will lead to investment in development to help stem losses. However, no overall strategic plan existed and only in late June was it possible for TVU and Peel to agree a brief for the strategic review plan. In the meantime, part of Peel's plan to produce income from investment into the South Side (more hangers for aircraft recycling and new provision for Serco fire training centre), were incorporated within failed bids to Regional Growth Fund (RGF) rounds 3 and 4.
34. The frustration and continued losses prompted Peel Holdings, in early 2013, to take a paper through their Board proposing an immediate move toward acceptance of a new land use plan (including some residential), and to reduce the aviation provision from a fully serviced commercial airport to a general aviation airport. The critical difference being much lower operating costs. Peel presented this proposal to DTVA Board meeting and it was agreed to produce a Master Plan for consultation.

35. This Draft Master Plan, was subject to an eight week public consultation. The Master Plan proposes to put DTVA on a sustainable financial footing and to secure its long term future as an operating airport.
36. In October 2013, DTVA announced they were ceasing holiday flights, to concentrate on business travel. In a move to 'stream-line operations,' DTVA ceased their contracts with Thomson / First Choice and Balkan Holidays, choosing to concentrate on daily passenger flights to Schiphol (Amsterdam), operated by KLM, and Eastern Airways' flights to Aberdeen, as part of their plan to re-position the airport to focus on business and general aviation growth.
37. As a "specialist business aviation airport", they seek to attract further businesses to the Airport, to join the existing skilled aviation related businesses already present. This would produce a cluster of companies, some of which will offer high value aviation related employment opportunities in the Tees Valley.
38. Peel propose that financial sustainability can only be achieved by minimising the deficit from aviation activities and by investing in the airport's real estate to gain higher revenues, from for example, additional hangars supporting new business development.
39. Peel also proposes to minimise the current financial deficit and raise the required capital investment to build the necessary infrastructure, by releasing the land within the North Side terminal area, within the boundaries of Darlington Borough Council (DBC), and bring it forward for residential development. This potential sale is expected to raise a large capital receipt which would fund the development of new hangers to accommodate new and expanding businesses. These funds would also be used to invest in the long term development of the Airport, such as a replacement radar system. The proposal by Peel to develop land at the Airport for residential use is contrary to DBCs adopted Local Plan Core Strategy. A planning application for residential development is expected by DBC in 2014.
40. Within the plan a three-phased approach is proposed:
 1. Implement the new operating model for DTVA, reducing the net annual losses for the airport by around two thirds;
 2. Using potential funds, derived from residential development, to develop growth opportunities to further reduce the annual losses further, bringing the new aviation model to a sustainable financial position;
 3. Continue to grow the aviation aspects of the model but also develop the property around the site in accordance with the Masterplan. This should provide growth in employment and optimise the economic benefits of the site to the sub-region.
41. The phasing referred to above do not necessarily denote a sequential timing plan i.e. phases 2 and 3 could happen in parallel.

42. Further significant capital investment is required to enable a shift to this sustainable business model. A key component of the long term strategy for DTVA involves the development of land to the south of the runway. This land currently has the benefit of planning consent and capacity for approximately 176,900sqm of high quality employment floorspace within the Stockton Borough Council (SBC) boundary and addition employment land allocation on the DBC boundary within South Side for employment uses, including potential military uses.
43. Access to this land, however, would require a new link road to provide a direct connection between the existing terminal building on the north side of the runway and the Southside sites. DTVA/Peel are exploring ways of funding this additional infrastructure.
44. Independent financial and commercial aviation experts were commissioned to carry out independent verification/due diligence providing advice to the six Local Authority shareholders and their board members. This detailed information is not available to the committee due to commercial confidentiality.

Economic impact

45. As a part of working with DTVA on the two, ultimately, unsuccessful RGF bids, TVU commissioned independent work to examine the economic impact DTVA has upon the Tees Valley economy. This commission, undertaken by Regeneris Consulting, considered the number of employees on the airport site, in off-airport businesses, whose activity is directly related to the airport, those employed at businesses in related supply chains, and jobs supported through the spending of all these workers.
46. These estimates were produced through quantitative data obtained from DTVA, onsite operators (such as Serco, Cobham and TNT) and others, combined with applying a rigorous multiplier methodology. It should be noted that the study focused upon Tees Valley, so took account of and removed any induced benefits arising from those employees living outside of Tees Valley. It should also be stressed that since the development of the report, changes in employment numbers have occurred at the airport, including the creation of more jobs at Sycamore Aviation.
47. While the report focused on the quantitative impacts of the airport for the Tees Valley economy, it also looked at wider or catalytic benefits the airport delivers. This drew upon existing research and consultations with some businesses, business representative organisations, local authorities and other partners.
48. The quantity estimates of economic impact were as follows:

DTVA Estimated Current Employment Impacts (Direct, Indirect and Induced)				
	Lower multiplier		Higher multiplier	
Tees Valley – assumed combined indirect and induced multipliers	0.25		0.35	
	FTEs	All Jobs	FTEs	All Jobs
Estimated Direct Jobs	594	637	594	637
Direct jobs taken by Tees Valley residents*	445	478	445	478
Indirect & Induced Employment	111	119	156	167
All employment impacts at the Tees Valley level	557	597	601	645

49. Two multipliers were used to give a sense of range, resulting in total employment impact of DTVA upon the Tees Valley economy of between 597 and 645 jobs.
50. The report also estimated that the current Gross Value Added (GVA) contribution of the airport is around £37m. This level of GVA represents roughly 0.4% of GVA of the Tees Valley economy. In 2004, the airport accounted for around 0.6% of the area's total GVA. This fall can be attributed to the decline in employment at the airport over this period, and overall GVA growth over this period.
51. While examining the catalytic and wider effects of DTVA, the study found that the Airport has an impact upon:
- International connectivity and business: Given the nature of many of the businesses operating in the Tees Valley area (e.g. petrochemicals, oil and gas, and engineering and design businesses operating internationally), access to an airport which provides connectivity and accessibility to international markets is seen as critical.
 - Sub-regional competitiveness: Access to DTVA and its KLM routes, as well as other airports in North, means that Tees Valley businesses are still able to compete internationally. Although there is no conclusive evidence that the Tees Valley area has been missing out on inward investment opportunities as a result of airport accessibility issues at DTVA, it is clear that an airport with a wider selection of carriers and route availability would provide a more robust proposition to a potential inward investor.
 - Supporting high-skilled employment by on site occupiers: DTVA plays an important role in facilitating the retention of employment around the airport estate, particularly highly skilled jobs at the likes of Serco and Cobham.

- Impact on tourism and leisure in Tees Valley: There is little empirical evidence on the current impact of DTVA in supporting tourism and leisure activity, but a wider range of scheduled routes would offer the opportunity to attract more inbound tourism.
52. In light of the research being commissioned to support the RGF bids, the study also considered potential future impacts based on five scenarios:
1. Reference Case 'the Do-Nothing': This scenario assumes the current economic impact of the airport is maintained going forward.
 2. Passenger growth: This scenario sets out the potential economic impacts from annual passenger numbers growing to 400,000 (half that of 2004) over the next 10 years (an additional 207,600 passengers).
 3. Land development at South Side: This scenario models the economic impact of the South Side development.
 4. Current impact of the Airport plus South Side development impacts.
 5. Passenger growth to 400,000 per annum and development of South Side.

Summary of Scenario Impacts				
Scenarios		Total Gross Jobs	Total Net Jobs in Tees Valley (inc. Leakage)	GVA Impacts based on Gross Direct jobs (£m pa)
Scenario 1	Current Impact	594	557	37
Scenario 2	<i>Passenger Growth</i>	29	27	2
	Future Impact of Airport	623	584	39
Scenario 3	Southside	3,055	1,861	183
Scenario 4	Current + Southside	3,649	2,418	220
Scenario 5	Passenger Growth + Southside	3,678	2,446	222

Source: Regeneris Consulting calculations

53. These figures were used as part of the RGF bid and should carry the same health warnings as expressed above in regard to changes to the proposed Southside scheme and changes in employment numbers of businesses on the airport site.
54. Much of this evidence informed the connectivity and infrastructure section of the Tees Valley Strategic Economic Plan, submitted to government in March 2014, which stated the importance of DTVA to the local economy and called on government to introduce differential rates of APD and ensure better access to London airports from the regions.

APPENDIX A

Why has the number of Airport passengers fallen from over 900,000 in 2006 to 200,000 in 2011?

- Market forces which largely have been outside the control of Peel Airports Ltd.
- Changes in Government policy towards Aviation.

Market Forces

The main reasons are:

- The withdrawal of Bmibaby mainly due to their inexperience in running low costs airlines profitably. Bmibaby was replaced by Globespan who then withdrew from the airport as a result of financial difficulties which led a year later to the bankruptcy of the airline.
- The rise of low cost airlines led to the reduction in package holidays and so the traditional holiday charter market downsized. Consequently when the low cost airlines withdrew there was not a holiday charter market to fall back upon.
- Neighbouring airports attracted low cost airlines which grew. Leeds Bradford became a key hub for Jet2 and Newcastle for Jet2 and Easyjet. Consequently it was difficult to attract a low cost airline to Durham Tees Valley.
- The business model for airports changed from the majority of the revenue being generated by landing charges paid by the airlines to revenue generated by passengers from car parking and airport shopping and restaurant facilities. Consequently the volume of passengers became more important in generating income such that an annual volume of 2 million passengers per year is now needed for an airport to breakeven.

Changes in Government Policy towards Aviation

The main reasons are:

- Changes in the structure of landing charges at Heathrow agreed by the Civil Aviation Authority which resulted in UK domestic flights into Heathrow becoming uneconomic. BMI withdrew from DTVA, Leeds Bradford and Glasgow and reduced frequencies from other UK regional airports.
- The introduction of Air Passenger Duty in the UK which meant that the rates of return on flights from the UK operated by low cost airlines such as Easyjet and Ryanair were not as competitive as new flights between European destinations. Easyjet and Ryanair have therefore expanded their European operations at the expense of the UK. The introduction of Air Passenger Duty unfortunately coincided with the withdrawal of Bmibaby and Globespan from DTVA and therefore made it difficult to attract a low cost airline to replace them.

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