



# City of Doncaster Council

## Report

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Date: 20<sup>th</sup> September 2023

To: The Chair and Members of Cabinet  
Report Title: South Yorkshire Airport City Update

Relevant Cabinet Member(s)	Wards Affected	Key Decision
Mayor Ros Jones	Finningley Rossington and Bawtry All	Yes

### EXECUTIVE SUMMARY

1. South Yorkshire Airport City (SYAC) is the programme to reopen Doncaster Sheffield Airport (DSA) and develop a cluster of high value economic activity which complements traditional aerospace functions, including logistics. SYAC would incorporate employment, retail, leisure and residential opportunities with excellent transport links, supporting new inward investment into Doncaster and South Yorkshire.
2. Prior to its closure, DSA was a major economic asset and a key element of the South Yorkshire region's economic growth and spatial development strategies. The airport is a strategically important piece of infrastructure for passengers and businesses within South Yorkshire and beyond and is an asset of national significance. We have highlighted previously the extensive support from the public and business community to reopen the airport. The SYAC programme continues to have cross-party political backing not only locally but across South Yorkshire (from SY Leaders, SY Mayor; MPs) as well as public support expressed in petitions with around 130,000 signatures calling for the airport to be reopened. Given its strategic importance, economic value and significant growth potential, a plan to reopen the airport is being vigorously pursued.
3. Full Council and Cabinet have already been appraised of the closure of DSA by its current owners, the economic impact of closing the airport and the actions taken to secure its future. In April 2023, Cabinet approved a funding plan to progress the steps necessary to acquire and re-open the airport, including through the use of compulsory purchase powers should it be necessary. Key areas of work planned included negotiations with the current owners regarding

the acquisition of DSA by lease agreement, aerodrome safeguarding, market testing and an investor search, identification and selection of preferred business models, land valuation and land referencing as well as the production of a financial viability assessment and outline business case.

4. Within the context of this report, it is important at an early stage to briefly highlight the context, process and procedure for making and confirming a Compulsory Purchase Order (CPO), which in most cases is governed by the Acquisition of Land Act 1981, as amended by the Planning and Compulsory Purchase Act 2004.
5. Government guidance on the compulsory purchase process is clear that compulsory purchase is intended as a last resort and therefore reasonable steps should be taken in the first instance to acquire land and rights by agreement, although the process may be begun before such steps are exhausted. In the case of DSA, a series of meetings have taken place between CDC and the current landowners, with potential for a deal to acquire a lease of DSA. The advantages of acquiring a lease by private treaty negotiations are:
  - (i) even if the Council makes a CPO, a risk remains that future acquisition may not be authorised – objections can be made and the CPO may not ultimately be confirmed by the relevant, confirming Secretary of State. Pursuing a CPO alone, without a parallel negotiation strategy, would be risky in comparison to an approach that included negotiations.
  - (ii) the timeframe to make a CPO is uncertain and lengthier than may apply to a private treaty deal. To make a CPO, have it confirmed in the face of objections and exercise powers of acquisition in order to make the airport operational could be in the region of three years.
  - (iii) if relying on a lengthy CPO process for acquisition, the value/condition of the property, potential loss of controlled airspace and assets could deteriorate to such an extent that the cost of reinstatement has a material adverse effect upon the prospects of reopening DSA and its contribution to Gross Value Added to the city region economy.
6. CDC recognises that if a voluntary agreement cannot be reached with the current landowners, then CDC will need to make a CPO. There are arguments that active preparation for a CPO should continue in parallel with negotiations. However, this is resource intensive as well as being likely to affect the tone of negotiations at this stage. Officers consider that there is a reasonable prospect that a voluntary agreement to secure a lease of DSA can be reached.
7. This report provides an update on the work undertaken since April 2023 and makes recommendations on the next stages of the project.
8. Key findings from the work undertaken include:

- a. The Financial Viability Assessment (FVA) indicates that, based on delivering a set of core assumptions, the airport has the potential to be successfully reopened, achieving positive Earnings Before Interest, Taxation, Depreciation, and Amortisation (EBITDA) by Year 5 in all scenarios and a positive Internal Rate of Return (IRR).
  - b. The Strategic Outline Business Case (SOBC) is predicated on the same assumptions as the FVA. The economic assessment of options aligned with HM Treasury guidance suggests net benefits of reopening the airport over the 30-year appraisal period to be in the region of £0.8bn-£1.5bn at 2023 prices and net present values. It is estimated that delivery in line with forecasts over this appraisal period (30 years+) would support almost 5,000 direct jobs, as well as c.6,000 indirect and induced jobs and c.5,500 catalytic jobs in surrounding aviation-related development.
  - c. The SOBC indicates that the likely impact of bringing the airport site forward for alternative (non-aviation) uses would be to displace existing and potential investment with no net additional growth in the economy to offset the losses arising from airport closure. Reopening the airport therefore offers the most favourable balance between benefit and cost and is the preferred option. As a conservative estimate this preferred option has a benefit-cost ratio (BCR) of 7:1.
  - d. Informal market engagement has demonstrated that there is interest from multiple potential private sector organisations in reopening and operating the airport on a leasehold or freehold basis.
  - e. However, given that project is in a reopening phase and historically has operated at a loss, there is significant risk associated with the future operating assumptions. Ultimately, CDC will only know the strength of the market appetite for taking risks through a procurement exercise to secure an airport operator. At this point the business case will be updated, and future decisions taken.
  - f. Re-instatement costs are also very significant due to the full closure of the airport by the current DSA owner and the ceasing of all aviation operations. This is an impediment to attracting a prospective investor.
  - g. Therefore, securing an investor/operator is likely to require the Council to de-risk the investment to an appropriate level and to enable an attractive Internal Rate of Return to be achieved, particularly given the large reinstatement costs and the risks associated with reopening the airport and growing aviation operations from a standing start.
9. While there are multiple risks associated with restarting the airport, the work done to date suggests that reopening DSA is feasible and would bring significant benefits to Doncaster and the wider region. It is also preferable to the alternative scenarios identified in the SOBC.
10. Furthermore, CDC has held a series of meetings with the current DSA owners on the content and parameters of a lease. The current landowners are considering our SYAC prospectus and proposals. It is envisaged for the content of this report

that the current landowners will support the decision to enter into a lease agreement with CDC.

11. A map of the proposed leasehold site is shown in Appendix A. The proposed lease area is based on the former Doncaster Sheffield Airport site and the DSA04 Local Plan land allocation intended for airside employment and operational uses.
12. This report outlines the financial implications associated with entering a lease with the current DSA owners and the funding options available, of which the approval would be subject to further decision making. It also, includes proposals to de-risk the project sufficiently to secure an airport operator, subject to satisfactory outcome of the procurement exercise and further decision making that would be required to commit any funding. These costs are further detailed in the report along with the anticipated funding sources. Finalisation of any deal would be subject to detailed commercial negotiations and associated legal and funding agreements.

### **EXEMPT REPORT**

13. Whilst this report is not exempt it does contain an exempt appendix ref A. The appendix is not for publication, because it contains exempt information by virtue of Paragraph 3 (information relating to the financial or business affairs of any particular person (including the authority holding that information) of Part 1 of Schedule 12a of the Local Government Act 1972, as amended.

### **RECOMMENDATIONS**

14. It is recommended that the Mayor and Cabinet:
  - i) Note the work that has been undertaken since the last cabinet report.
  - ii) Delegate the decision to sign the head lease with the current owner of DSA, subject to funding being secured by CDC, to the Director of Corporate Resources in consultation with the Mayor.
  - iii) Note the commencement of the formal procurement process.
  - iv) Approve in principle CDC commitment to the reinstatement costs subject to detailed asset condition assessment being concluded, funding being secured by CDC and an airport operator being appointed.
  - v) Agree that the outcome of the procurement exercise is reported back to Cabinet which will inform the decision to proceed with or cease the SYAC programme.

### **WHAT DOES THIS MEAN FOR THE CITIZENS OF DONCASTER?**

15. Securing the future of DSA as an operational airport is predicted to bring significant benefits to Doncaster and the wider region in the form of skilled

employment, inward investment, tourism, economic growth and increased economic resilience.

## **BACKGROUND**

16. South Yorkshire Airport City (SYAC) is the programme to reopen DSA and develop a cluster of high value economic activity which complements traditional aerospace functions, including logistics. SYAC would be able to incorporate employment, retail, and leisure opportunities with excellent transport links, supporting new inward investment into Doncaster and South Yorkshire.

17. Prior to its closure, DSA was a major economic asset and a key element of the South Yorkshire (SY) region's economic growth and spatial development strategies. The airport is a strategically important piece of infrastructure for passengers and businesses within South Yorkshire and beyond and is an asset of national significance. Given its strategic importance, economic value and significant growth potential, a plan to reopen the airport is being vigorously pursued.

18. In April 2023, Cabinet approved a funding plan to progress the steps necessary to acquire and re-open the airport. The key pieces of work undertaken are summarised below:

### **Development Work**

#### Financial Viability Report

19. Ernst & Young LLP (EY) were engaged by the City of Doncaster Council (CDC) to provide an initial Financial Viability Assessment (FVA) for DSA, to inform decision making in relation to the proposed acquisition or lease of the airport; with the potential to resort to a Compulsory Purchase Order ('CPO') should it be necessary as a means of last resort.

20. The objectives of the FVA are:

- To present a set of options and accompanying recommendations, to demonstrate whether there is a financially viable option in re-opening the airport that warrants further assessment.
- To inform additional development work, market testing and a future investment strategy.

21. To make an assessment, EY developed a financial model that determined the operating forecast for DSA and key financial outputs including revenue, operating costs, EBITDA and cash flow. The model used a set of operating assumptions provided by CDC's external aviation advisers. EY provided challenge and high-level benchmarking of the operating assumptions. Three operating cases were developed to support the financial viability assessment to account for some of the

variation and uncertainty in the underlying assumptions (Optimistic, Base and Pessimistic). The FVA also accounted for scenarios involving acquisition of the airport by both long-term lease and Compulsory Purchase Order. Purchase and lease valuations were based on the Property Cost Estimate report compiled by CBRE.

22. The FVA aims to understand how the proposed business model relates to the financial health and future performance of the airport. It covers three key areas:
  - EBITDA and cash generation projections.
  - Revenue and operating cost assumptions.
  - Return on investment quantification.
23. The FVA finds that, based on the operating plan scenarios and assumptions, the airport has the potential to be successfully re-opened.
24. Forecasts indicate that the airport can potentially grow throughput to two million passengers per annum by year 10, which is considerably higher than the annual passenger numbers achieved historically.
25. A positive EBITDA could be achieved by Year 5 under all operating cases (Optimistic, Base and Pessimistic) delivering a positive Internal Rate of Return on investment (IRR) when the assumed costs are included.
26. The airport site also offers several additional opportunities for development – specifically regarding additional commercial space that can be developed on the site (particularly on the DSA04 land allocation). Opportunities include a Maintenance Repair and Overhaul (MRO) facility, aircraft manufacture, general aviation including flight training, warehousing and commercial space. These additional opportunities present potential upsides to the current business plan and may come forward as part of what the market has to offer and take risk on.
27. However, given that the SYAC project is in a pre-opening/re-opening phase, and historically DSA has operated at a loss, there is risk associated with the future operating assumptions.
28. Given the historical trading position of DSA and the significant operating risks associated with re-opening the airport, it is unlikely that external debt financing will be accessible to any private investor. Therefore, the re-opening of the airport will require significant investment to support the up-front capital.
29. The Internal Rate of Return (IRR) is the expected compound annual rate of return that will be earned on a project or investment. An IRR is used to estimate the profitability of an investment. Once the Internal Rate of Return is determined, it is typically compared to a company's 'hurdle rate' or cost of capital, to help determine whether the project represents a good investment. It is a key factor in

commercial investment choices although other quantitative and qualitative factors are also considered in any final investment decision.

30. Based on the report produced by EY, it is anticipated that private sector equity investment return expectations for an airport investment are for an IRR c.15-20% for a project with start-up characteristics (i.e., brand new airport with significant capital risk). This compares to c.8-12% for a steady state operational airport. Note these assessments are not market tested and are subject to availability of debt financing. Under all scenarios it has been assumed there is only one investor.
31. The FVA suggests that, while a positive rate of return can be achieved, public sector support is likely to be required to increase the IRR to a level that is appealing to private sector investors. This view has been confirmed by the feedback received as part of the early market engagement exercise.
32. Options relating to public sector support have therefore been considered in the form of contributions to start-up costs and/or lease payments.
33. Further details of the estimated reinstatement costs, Internal Rate of Return and associated public funding options are included in Appendix A.

#### Strategic Outline Business Case

34. In mid-2022 the current owners of DSA, reviewed the future of the airport and concluded that DSA was no longer commercially viable. The current owners expressed a wish to close the airport and develop the site for alternative uses to complement their ownership of adjoining sites (known as GatewayEast). A year on, DSA has closed leaving South Yorkshire as the largest European city region without a commercial airport.
35. Doncaster and the wider South Yorkshire region has a long-standing challenge in balancing economic, social and environmental well-being. A multi-generational transition away from primary and traditional manufacturing industries remains the dominant economic and social factor. The demand side of the labour market (firms/employers) remains fragile, and the supply side of the labour market faces numerous difficulties such as a weak skills base, especially at level 3 qualifications and above.
36. DSA is a key infrastructure asset in terms of:
  - Direct employment benefits.
  - International image and connectivity for leisure, business and freight operations.
  - Attraction of private investment and jobs/skills at level 3 and above.

- The potential to grow green industries including future aviation and specialist fuels/materials.
37. Following an assessment of the economic impact of DSA closure (Steer Economic Development, 2022), CDC commissioned Jacobs UK Ltd to produce a Strategic Outline Business Case (SOBC) and Outline Business Case (OBC) relating to the potential re-opening of DSA. These business cases follow His Majesty's Treasury (HMT) 'Green Book' guidance to understand whether there is a case for public sector intervention in relation to the airport.
38. HMT's five case model covers the strategic, economic, commercial, financial and management cases for intervention. It leads initially to a SOBC which sets out the rationale/strategy for intervention, the options for doing so, costs and benefits and issues around risk, financial delivery and management of the project. The business case is not a green light for intervention. Rather it is a mechanism to support decision-making in relation to potentially bringing the airport back into use.
39. The SOBC assesses the market failure and a range of potential options to address the need. As such, the DSA SOBC has considered several intervention scenarios prior to shortlisting three core scenarios for further examination:
- Re-open the airport ('Do Something' Option)
  - Allow the site to be developed by the landowner for alternative non-aviation uses ('Do Minimum' Option); and
  - No investment or change in land use at the Airport Operational Site takes place ('Do-Nothing' baseline option).
40. The Strategic Outline Business Case (SOBC) is predicated on the same assumptions as the FVA. Following assessment, the SOBC has identified that re-opening the airport offers the most favourable balance between benefit and cost and is therefore the preferred option.
41. The economic assessment of options suggests gross benefits in the region of £1.1bn to £2.0bn attributed to the preferred option over the 30-year appraisal period (2023 prices and net present values). These relate to the place-based impacts of increased employment and resulting welfare gain, plus land value uplift. Applying a net additionality rate of 75% to these gross benefits generates net additional benefits in the region of £0.8 billion to £1.5 billion (2023 prices and values). If the forecast 30-year benefits and passenger numbers and freight expansion are realised, Jacob's estimate that almost 5,000 direct jobs will be supported by the do something/preferred option, as well as c.6,000 indirect and induced jobs and c.5,500 catalytic jobs in surrounding aviation-related development.



42. For costs and impacts that can be monetised, a Benefit Cost Ratio (BCR) measures how much benefit can be expected for each unit of cost (investment). This in turn gives an indication of the Value for Money (VfM) of a scheme. A BCR lower than 1 indicates poor value for money (reflecting that the monetised benefits are lower than investment costs) while a BCR greater than 4 indicates very high value for money. The BCR for re-opening the airport has been calculated to be 7.
43. The economic appraisal therefore demonstrates that the Re-opening 'Do Something' option represents excellent value for money. Combining the Benefit Cost Ratio (BCR) of 7:1 on even the most conservative scenario, and the wide range of significant wider and qualitative economic impacts, the reopening of DSA has the potential to transform Doncaster's economy, support the levelling up agenda and underpin enhancements to societal well-being.
44. In many areas, a shortage of development land is a barrier to economic growth but in Doncaster an ample supply of quality land is designated for employment in the Local Plan. Additional large scale employment land allocation is therefore expected to result in an oversupply of employment land. The likely impact of this would be to displace existing and potential investment with no net additional growth in Doncaster's or South Yorkshire's economy to offset the losses arising from airport closure.
45. "Displacement" is where the proposed project or policy will replace existing economic activities, potentially leading to a loss of jobs, market share, or investments in other sectors. In this instance, additional land supply is unlikely to generate additional demand; it will just result in land demand moving from one place to another.
46. Whilst the 'Do Minimum' (alternative use) option may unlock substantial gross economic benefits, these are expected to be undermined in net additional terms due to this displacement of investment activity from other sites in Doncaster to the DSA site. Displacement is much less under the 'Do Something' option because much of the economic activity unlocked under this option depends on a functioning airport. As a result, the scale of net additional economic impacts is much greater in the 'Do Something' option than in the 'Do Minimum' option.
47. Taken together, the 'Do Something' option to re-open the airport is expected to:
- Create more jobs and resulting productivity gains than the 'Do Minimum' (alternative use) option.
  - Provoke less displacement of potential investment, job creation and productivity gains than the 'Do Minimum' option.
  - Unlock jobs and resulting productivity gains at a faster rate than the 'Do Minimum' option.
  - Create higher value, more productive jobs than the 'Do Minimum' option.

48. It should also be noted that the local supply of housing is performing well against the planning target as set out in the Local Plan. Any change to associated strategic policies (such as those that would be required in the case of DSA and the Airport Policy Area to allow alternative uses) would require a robust evidence base as mandated by national policy.

49. Furthermore, there could also be significant wider and intangible impacts of re-opening the airport, such as:

- Restoring international connectivity for South Yorkshire, which is currently the biggest City Region in Europe without an airport.
- Reinforcing resilience in the UK's aviation network by reinstating capacity that would otherwise be permanently lost.
- Protecting DSA's historic and ongoing contribution to national security, not least through its legacy and recent use by MoD as well as its role in supporting the response to the COVID-19 pandemic.
- Other benefits including reduced travel time (to airports) for airport users and increased tourism.

50. It should be noted that these benefits may be partly offset by an increase in UK carbon emissions and adverse effects from aircraft noise. As part of the master-planning development, consideration will be given to the environmental implications and investment that could lessen the environmental impact of DSA. In addition, there is now a rising awareness of Environmental Social Governance (ESG). The UN sustainable development goals are placing pressure on aviation to improve sustainability and the UK Government has published its own Jet Zero Strategy which sets out the framework and plan for achieving net zero aviation by 2050. Regulators worldwide are implementing carbon reduction goals that are shaping the future for operations and the passenger experience. Sustainability also encompasses topics such as noise, air quality, water resources, and biodiversity. As part of the SYAC Programme, and in line with Doncaster's own stated ambitions, opportunities to develop a 'Green City' airport will be further explored, including testing the market appetite and commitment to be a leader in this field.

51. The financial case in the Strategic Outline Business Case (SOBC) aligns to and builds on the work undertaken by EY. It identifies potential ways the public sector could help de-risk the project and achieve higher Internal Rate of Return, making the project more attractive to private investors.

52. The analysis so far suggests – as a minimum – that with limited public intervention the available returns might be sufficient to attract a private operator/investor. In the next stages of the Business Case (the transition from SOBC to Outline Business Case (OBC)) the financial case will be further developed.

53. The Commercial Case in the SOBC seeks to demonstrate the potential for a viable procurement route and a well-structured deal between the public sector and service providers for the preferred option. This will be realised through establishing:
- Potential commercial delivery models set within the context of CDC's existing commercial and procurement strategies.
  - Market testing to determine market appetite to deliver the project.
  - Key delivery partners in the project development and delivery phase; and
  - Identification of a preferred procurement strategy.
54. During the period leading to acquisition or leasing of the DSA site, and then prior to sale to an investor, CDC will be the main actor in the process of re-opening.
55. CDC aim to establish a new, sustainable ownership and operating model for DSA. The priority is to deliver an operating model that balances the commercial, economic and social priorities of stakeholders whilst supporting development of a financially viable, long-term infrastructure asset for South Yorkshire.
56. Several models for ownership and delivery have been considered as part of the SOBC and the steps detailed above have been progressed.
57. The SOBC Management Case seeks to establish that the reopening of DSA can be successfully delivered by CDC and its partners, underpinned by robust arrangements for management, governance, and monitoring and evaluation. Within this context, the Management Case considers:
- The organisation and governance structures responsible for delivering the project, as well as the roles and responsibilities of key individuals.
  - The presence of appropriate assurance processes.
  - Residual risks and appropriate mitigation strategies.
  - Requirements for monitoring and evaluation.
58. CDC has a depth of management resources and technical expertise both in-house and through externally commissioned major firms. The arrangements outlined for delivery and for post-implementation evaluation are robust, even though many details remain to be determined. Further details on the Management Case will be provided at OBC stage.

#### Draft Airport Masterplan

59. The International Air Transport Association is the trade organisation representing over 300 world airlines and supports aviation related activity including the formation of policy on aviation related issues. It recommends that all airports should develop a masterplan to guide future infrastructure development in a

logical, sustainable and efficient manner. This also reflects the UK Government White Paper *The Future of Air Transport* (2003). Airports that lack a masterplan risk developing capacity enhancements that are incompatible, misconceived, incorrectly sized and poorly located, resulting in wasteful capital expenditure or restrictions in growth.

60. The current owners of DSA previously produced a masterplan for the airport. This was expected to be updated in 2021/22 however given the implications of Covid the production of this work was delayed. Given the context of the SYAC programme, an aviation masterplan specialist (Northpoint Aviation Advisors) was commissioned to assist CDC in understanding the potential growth opportunities DSA presents. Whilst CDC recognises that the potential private sector operator may have differing views on growth, the objectives of the work commissioned include:

- To provide a framework for long-range planning (30 years aligned to FVA).
- To graphically present preferred airport development concepts.
- To define the purpose and need for development projects.
- To comply with all applicable CAA requirements.
- To illustrate that the assumptions in the FVA and SOBC could be accommodated, and that the airport site therefore had the infrastructure to achieve its mission.
- To assure compatible land use development.
- To identify facility requirements for all airport users.
- To provide a benchmark for assessing the quality of future procurement submissions on DSA

61. The production of a masterplan should be compatible with CDC environmental sustainability goals, minimising environmental impacts where possible and presenting new opportunities for sustainable aviation practices; whilst also ensuring the plan maintains a balance between airport development needs and community impact.

62. It is also important to stress that the production of a masterplan is a snapshot at that point in time and will only be implemented as warranted by the future investment and decisions made by the airport operator.

### Market Engagement Exercise

63. On 23rd of June 2023 the Council began a targeted informal market engagement exercise. This exercise was a precursor to a formal procurement process. It aimed to ascertain whether there is industry interest in the opportunity to invest in and operate DSA and the key factors that would impact potential investors.

64. The exercise included a market engagement event held in Doncaster on 12<sup>th</sup> July, an associated questionnaire and follow up one-to-one interviews. Eleven

organisations declared an interest in the event with six completing an associated questionnaire. Subsequently, four additional organisations have declared an interest in DSA.

65. The evidence from this market engagement exercise provided clarity on several issues. Market feedback suggests that if CDC is to shape and construct a commercial proposition that is likely to attract the required quality and capacity of operator, de-risking the airport proposition on several fronts is likely to be necessary. This includes considering:

- A willingness and commitment from CDC to invest in reinstatement costs. In the procurement phase, a strong intent by CDC on this issue will provide significant reassurance to potential investors/operators.
- A rent-free start up period (potentially 6 months to 2 years).
- Continued involvement of CDC in the programme i.e., strong client management.
- Freedom for operators to modify and develop the DSA site without being excessively constrained; and
- Greater clarity and certainty regarding the future of the airspace associated with DSA.

66. Furthermore, the outline timeframes proposed for procurement were perceived by the market to be ambitious partly due to the need to understand financial viability and/or have access to key CDC studies.

67. A lack of detailed site condition information may also deter bidders. Alternatively, bidders will account for the associated risk or ask for greater public sector support in their proposals.

68. In response to the evidence collected, CDC has commissioned an asset condition survey which will be accessible to those organisations that progress through the procurement process.

69. The purpose of the asset condition assessment is to provide CDC and potential market operators with detailed analysis of the condition of individual assets on site (built and infrastructure assets) including an assessment of the terminal, air traffic control tower, hangars, runway, car park and fire station.

70. The condition assessment will determine and advise on the condition of the asset, its anticipated economic life, whether future maintenance is required on a particular asset, if so, what is required, the anticipated cost and a proposed timeframe.

71. The document will also determine any current and potential health and safety implications for existing assets and the operational (functional) lifespan for identified assets.

72. The procurement for the asset condition survey is currently out to tender.

### Land and Property Valuation

73. In March 2023, CBRE prepared a Property Cost Estimate (PCE) for the Council to inform decisions in connection with the proposed acquisition of DSA, with potential resort to compulsory purchase.

74. A PCE is an estimate of the likely statutory compensation payable to parties who have an interest in property that is proposed for acquisition by compulsory purchase, or whose interest in a property may suffer a reduction in value. Compensation is estimated having regard to statutory entitlements and relevant case law, which together are commonly referred to as the "Compensation Code".

75. This was a desk top produced report and the PCE may need to be further evolved and reviewed to continually refine methodology, capture shifts in market trends, and keep aligned the property to be acquired with changes to the scheme proposals.

76. Using established valuation methodologies there are two options for core scenarios, with a third possibility being fruition from any expressed market interest involving a credible purchaser or purchasers with known proposed purchase amounts. The two options are:

77. Approach A: Adopting CDC's position predicated on the 'CPO Statement of Case' which will set out a business plan and details of the operational model to be adopted, a Development Appraisal has been completed from which is derived the residual value for 'property'.

78. Approach B: Adopting the current landowners position predicated on airport use being non-viable with a medium to long term potential for development / redevelopment on part(s) of the site the remainder becoming agricultural and/or open space and/or some other use e.g., a solar farm.

79. There are a range of land values arising from these methodologies. Due to commercial sensitivities the relevant details are contained within Appendix A.

80. In addition, the PCE and valuation work undertaken by CBRE has also been used to inform potential lease values assumed in the financial viability report and negotiations with the current landowners. Due to commercial sensitivities the relevant details are contained within Appendix A

### Safeguarding Activities

81. In addition to the work described above, the Council has undertaken several pieces of work which aim to safeguard the airport from any proposed activities which could undermine the intended re-opening of DSA.
82. Following closure of the airport, CDC commissioned aviation specialists to advise and respond on behalf of CDC to any relevant planning applications that may have implications for the future operation of the airport on and off site. Known as aerodrome safeguarding, this role would usually be undertaken by the airport operator but has been taken on by the Council during the interim period. To date, no planning applications have been submitted which are of concern to the future operation of DSA.
83. In addition to aerodrome safeguarding arrangements, on 1<sup>st</sup> June 2023 Doncaster Council made an immediate Article 4 Direction removing permitted development rights related to the demolition of buildings at DSA. This followed the development of a robust evidence base including an assessment of need and consultation with relevant landowners and the public.
84. The Article 4 Direction aims to ensure the airport is protected by requiring planning permission to be granted on application for the demolition of any building within the defined airport area. This ensures that airport infrastructure, assets and buildings are left in place so that the airport can re-open in a timely and cost-effective manner. An Article 4 Direction was considered expedient and necessary in the interests of the proper planning of the area. The Article 4 Direction does not prohibit demolition of buildings but means that any proposal to demolish a building within the defined area at DSA must be the subject of an application for planning permission so that where demolition is contemplated, it is only undertaken with the oversight of the local planning authority.
85. The immediate Article 4 Direction expires six months after it comes into force unless the Council confirms it before this date. To consider whether the Article 4 direction ought to be confirmed, the Council provided an opportunity for further representations to be made. This further consultation window has now closed, and Council Officers are progressing the confirmation process before the deadline of December 2023.

#### Controlled Airspace at DSA

86. Airports need Controlled Airspace to facilitate commercial flights. Many commercial airlines are reluctant to use airports that do not have this 'controlled' access/egress to the main en-route airways system, principally due to concerns about the default Class G airspace being used by light aircraft that have generally low levels of conspicuity.
87. Based on the nature and volume of aviation activity carried out at DSA under the former aerodrome licence:

- A volume of controlled airspace around DSA was approved by the Civil Aviation Authority (CAA); and
- DSA was required to ensure that an air traffic service (ATS) was provided for aircraft entering the controlled airspace.

88. Following its closure, DSA is no longer providing an Air Traffic Service. To ensure safety, the CAA has made aviators aware that the airspace currently marked on aviation charts as controlled (and therefore actively serviced by an air traffic control unit) is in fact not controlled or benefitting from such a service. The method used to achieve this is known as a NOTAM. However, this is a time limited measure and to remove the current controlled airspace structure from aviation charts the CAA has decided to put forward an Airspace Change Proposal (ACP).

89. These potential changes to the current airspace risk undermining the process of re-opening DSA and achieving our economic plans. While a new ACP could be put forward to reinstate the controlled airspace at DSA, this will be time-consuming and expensive, and introduces uncertainty over the form of future airspace arrangements. In turn, this risks deterring new investors and operators.

90. The ACP process has seven steps. During the consultation stage (Step 3) and throughout the process, CDC has been vocal in calling for the temporary extension of the current airspace arrangements, while plans to re-open DSA are progressed. We believe there are several compelling reasons to do so, including:

- The airspace is currently safe and secure using the NOTAM (notice to airman) procedure and there is no urgent safety need to reallocate the airspace.
- There is no time-bound major aviation or economic opportunity that would be lost by deferring reallocation.
- Removing the airspace prematurely will undermine plans to re-open DSA which would have demonstrable negative economic consequences.
- Reallocating airspace now may prove to be a redundant exercise but will mean significant time and financial penalties are incurred in the coming months and years.
- Ongoing activity to remove and subsequently reallocate airspace will result in unnecessary disruption and uncertainty for local communities.

91. Another certified Air Navigation Service Provider (ANSP) could manage part or all the current airspace construct. During the consultation, Leeds Bradford Airport has requested the CAA allow them to manage the extant DSA Control Areas (CTA) 8 & 10. In addition, Leeds Bradford Airport has requested that the base of CTA 8 be raised to 4500ft but is also content to manage this airspace “as is”.

92. The current step (Step 5b) relates to the final ACP decision. During this CAA Assessment Step, “the CAA reviews and assesses the airspace change



proposal. The CAA may request minor changes to the proposal. The CAA prepares assessment papers to inform and provide guidance to the airspace change decision-maker.”

93. The step also provides an opportunity for the public/stakeholders to request that the final decision in relation to this airspace change proposal be ‘called-in’ and made by the Secretary of State for Transport, rather than the CAA.

94. Anyone can ask the Secretary of State to call-in a proposal and numerous feedback requests have been made to this end by members of the public. CDC has also submitted a request that the Secretary of State call-in the decision for the reasons outlined above and because:

- CDC is in active negotiations to acquire the airport from the current DSA owners and with potential investors/operators. Any intervention to change the airspace currently risks undermining these negotiations.
- DSA is of strategic national importance and plays an important role in UK aviation resilience.
- No noise assessment has been undertaken as described in the call-in guidance.
- The ACP is sponsored (proposed) by the CAA. We believe it is inconsistent with good governance that an ACP of this nature be assessed and determined by the body proposing it, and we are unaware of any such precedent.

95. The Secretary of State for Transport has been provided with a technical assessment by the CAA and is currently considering whether to call in the ACP decision. There are no definitive timescales for this decision, which could be forthcoming at any time.

96. While there are no guarantees as to the outcome of the current ACP, a swift resolution of the future of the airport would support the case for retaining the current controlled airspace arrangement.

### **Progress update on land negotiations**

97. CDC has been negotiating with the current owners of DSA throughout 2023 on a potential lease agreement for the airport and associated land.

98. Although discussions remain ongoing, CDC is optimistic that an agreement with the current owners of DSA can be reached. Due to the commercial sensitivities associated with the ongoing negotiations and a proposed deal, further information is contained within Appendix A.

### **Next steps: Preferred option and proposed procurement process**

99. Considering the information detailed above, CDC must now determine whether to progress a formal procurement process with the intention of securing an investor/operator for DSA.
100. If the decision is to progress to a formal procurement process for a provider to operate and develop the airport in accordance with the aspirations of the Council and Region i.e. economic regeneration, a competitive process will be required to ensure risks are mitigated and any contract is let in a fair and transparent manner.
101. The Council wishes to exploit the airport site for purposes of providing an airport or other terminal facilities to carriers by air. In addition to the overarching legislation, the Council are accountable to the citizens of Doncaster and must ensure adherence to their internal governance procedures on letting contracts to third parties ensuring best value and delivery of 'fit for purpose' services that deliver both social and environmental objectives.
102. Under the legislation the specific process proposed to deliver this agreement is the Competitive Procedure by Negotiation (CPN). The CPN process has been chosen because:
- This is a compliant route to market for the Council.
  - The process allows for the Council to shortlist from potentially a high number of interested parties with a set of minimum requirements that a provider must be able to demonstrate.
  - The process allows the Council to negotiate on key points although the evaluation criteria cannot change.
  - From the processes available this process allows for adaptation design or input from the providers.
103. The CPN process involves a minimum of two formal stages.
- The first stage is the 'Request to Participate' stage, this involves the Council releasing information to the open market via the Council's transparent tendering system relating to the contract available along with the aspirations. Potential candidates would need to submit a request to participate which the Council proposed in a selection questionnaire (SQ), this will set out the minimum requirements that the provider would need to meet to be able to bid for the contract. This would have standard information on the provider with required accreditations, licencing etc and would also set minimum requirements around their economic and financial standing and technical and performance. This stage acts as a shortlisting stage and the Council will shortlist to a maximum of five. The successful bidders would then be invited to stage two.
  - Stage two is the 'Invitation to Tender'. The tender will clearly set out the specification of requirements, form of contract. This is where bidders will

answer to questions as described so that these can be evaluated. The tender will be made up of both commercial (quantitative) questions, qualitative questions on service delivery against the specification/aspirations and demonstrate social value and environmental commitments on the contract. At this stage, the Council may have a lease term agreed at which point how this passes down to and are signed up by the bidders will be explored.

104. The Council may be able to have a preferred bidder after evaluating stage two but if not, the Council has the discretion to go to stage three and negotiate the offer with bidders, then after the negotiation the Council would ask for best and final offers, these would be evaluated, and preferred bidder would be chosen.
105. The proposed timescale for the above process is as follows although this is a complex process and additional time may be required to achieve the Council's outcomes

<b>Stage 1:</b> Advertise the Contract Opportunity asking interested parties to complete a Selection Questionnaire (due diligence/minimum requirements)	End of Sept 23
Evaluate the Selection Questionnaire and shortlist against the minimum requirements	Sept > Nov 23
<b>Stage 2:</b> Distribute the Invitation to Tender (ITT) to shortlisted candidates	Nov 23
Deadline for the candidates to submit the ITT	Jan 24
Evaluation of the ITT submissions	Jan > Feb 24
Award or enter Negotiations (if negotiations are required then there will be follow-on actions and the award will be delayed)	Feb/ March 24

106. The Council will reserve the right throughout the procurement process to not award the contract and make clear that all bid costs are non-recoverable.
107. Key stakeholders form part of the procurement project group and have the relevant expertise required.

## OPTIONS CONSIDERED

108. The scale of the endeavour required to acquire and reopen the airport is considerable. Council and Cabinet have previously supported the use of all appropriate legal remedies to secure the future of DSA including the use of a Compulsory Purchase Order, should it be required. The use of compulsory purchase powers is, however, a means of last resort and efforts have focussed on acquisition by negotiation. The options considered are set out below:

109. Do Nothing: The City of Doncaster Council could determine to do nothing and not pursue the proposed acquisition; this is not recommended based on rationale contained within this report.
110. Negotiate with the current owners of DSA for preferred purchase: The option of negotiating with the current landowners on a purchase price prior to incurring significant costs for both parties have been explored. Representatives of the current owners of DSA have been clear that the freehold of the airport site is not for sale, and this is therefore not an option.
111. Negotiate with the current owners of DSA for a preferred lease: Meaningful and detailed discussions have taken place with the current owners of DSA with the intention of agreeing a long-term lease that could provide a basis upon which to achieve our objectives. This is the preferred option.
112. Compulsory Purchase Order process: To prepare for a potential CPO if negotiations with the current owners of DSA are unsuccessful. This is not currently recommended due to the negotiations with the current owners of DSA for a leasehold arrangement. CPO remains a potential option should the leasehold contract not be realised however it is recognised that achieving an agreed position with the current owners of DSA on a lease is the most economic and timely solution and is likely to provide a re-opened airport in the shortest possible timescale.

## REASONS FOR RECOMMENDED OPTION



113. The report highlights the strategic importance of DSA and the major economic development potential associated with the airport. Prior to its closure DSA made a very significant direct and indirect contribution to the local economy and local communities. Successful delivery of SYAC programme has the potential to dramatically increase the economic impacts associated with DSA and secure catalytic economic change. Given the weight of public support for reopening the airport, the scale of the economic opportunity it presents, and the outcomes of the work undertaken to date, it is recommended that Cabinet support the report recommendations.

## IMPACT ON THE COUNCIL'S KEY OUTCOMES

114.

<b>Great 8 Priority</b>	<b>Positive Overall</b>	<b>Mix of Positive &amp; Negative</b>	<b>Trade-offs to consider</b> – Negative overall	<b>Neutral or No implications</b>
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 <b>Tackling Climate Change</b>		✓		
<p>Comments: Airports are a significant contributor to global carbon emissions with a negative overall impact on climate change. However, the airline industry is undergoing significant transformation in carbon neutral practices and, on a number of levels, airports can exploit opportunities which impact positively on the environment. Re-opening DSA is also likely to reduce the number of journeys from the region to other airports therefore reducing associated emissions. It is the intention of CDC to undertake an environmental assessment to ensure we maximise every opportunity to have a green city airport.</p>				
 <b>Developing the skills to thrive in life and in work</b>	✓			
<p>Comments: Reopening DSA and delivering the associated economic development opportunities would support our plans to improve skills levels and continue the trajectory of upskilling residents of Doncaster.</p>				
 <b>Making Doncaster the best place to do business and create good jobs</b>	✓			
<p>Comments: The presence of a successful international airport coupled with Doncaster's city status and existing economic assets will be a significant benefit in attracting new inward investment opportunities and foreign direct investment.</p>				
 <b>Building opportunities for healthier, happier and longer lives for all</b>				✓
<p>Comments: No direct impact.</p>				
 <b>Creating safer, stronger, greener and cleaner communities where everyone belongs</b>	✓			
<p>Comments: Development of the Local Plan residential allocation of up to 1200 new homes adjacent to DSA is dependent on the presence and growth of an operational airport. If the airport remains closed there is no policy support for this development</p>				
 <b>Nurturing a child and</b>				✓

<b>family-friendly borough</b>				
Comments: No direct impact.				
 <b>Building Transport and digital connections fit for the future</b>	✓			
Comments: A new railway station is proposed to deliver rail access to the airport. This would also benefit existing residents and businesses as well as new developments, but is unlikely to come forward as envisaged and may not ultimately be deliverable if the airport remains closed.				
 <b>Promoting the borough and its cultural, sporting, and heritage opportunities</b>	✓			
Comments: Since the 1940's Doncaster has had a strong aviation presence. Retaining the aviation operation at DSA continues this rich heritage link to Doncaster and provides international access to local and regional cultural and sporting opportunities.				
<b>Fair &amp; Inclusive</b>	✓			
Comments: DSA and the supply chain opportunities associated with SYAC will provide wide ranging workforce opportunities that will be particularly valuable as we seek to grow a fair and inclusive economy.				

**Legal Implications [Officer Initials: \_SRF\_ | Date: \_\_29.08.23\_\_]**

115. Section 1 of the Localism Act 2011 provides the Council with a general power of competence, allowing the Council to do anything that individuals generally may do. Section 111 of the Local Government Act 1972 gives the Council the power to purchase goods and services.
116. The Council has the power to acquire assets including land under section 120 of the Local Government Act 1972 but should exercise these powers under the principles of achieving best value. The intentions expressed within the body of the report are to achieve an agreed lease with the landowner and detailed legal advice will be required on the terms of any lease for the site and of any sub-lease to an appointed operator.
117. As a public body the Council are subject to procurement legislation and the procurement of a partner to operate the airport must adhere to the legislative

requirements. The Council will be undertaking a procurement exercise in line with the Utilities Regulations 2016. These regulations apply where a contracting authority (the Council) seeks to procure works, services or supplies for the purpose of carrying out a “utility activity” where the total contract value exceeds £426,955 (supplies/services) or £5,336,937 (works). This is specified in Regulation 13 of the UCR2016 that states, where an “utility activity” is related to the exploitation of a geographical area for the purpose of the provision of airports or maritime or inland ports or other terminal facilities to carriers by air, sea or inland waterways.

118. The Council recognises the challenges associated with restarting operational activities after an extended period of airport closure including the requirement to recruit new staff and invest in new operations. In the event that the appointed operator requires financial assistance from the Council or other public bodies to reopen the airport, either by way of discounted or rent-free periods, loans or capital contributions, these may give rise to Public Subsidy considerations and further detailed and bespoke legal advice will be required as the commercial arrangements are developed with bidders in order that the Council fully understands the limits of any possible interventions.
119. Depending upon the nature of the final commercial terms agreed with the current landowners and with any appointed airport operator, there will be a requirement for further decision making in accordance with the Council’s constitution in respect of the Council’s financial commitments to this project and this will be updated and advised upon as required.
120. As the project develops, significant further legal advice will be required across several disciplines including commercial law, property law, subsidy control advice, procurement and infrastructure law.

### **Financial Implications [Officer Initials: MS | Date: 29/8/23]**

121. The recommendations above include commitment to meeting the lease and reinstatement costs subject to funding being secured. In both cases significant costs are involved and the funding has yet to be secured.
122. Lease  
The lease costs are subject to negotiation and are very likely to involve a significant annual sum. Once an operator is appointed, and after any rent-free period, the expectation is that the operator will pay a rent to the Council to cover the Council’s obligations under the lease. The procurement process will inform whether the full costs of the lease can be passed on to the operator. At which point the financial implications of this process will be outlined to Cabinet to be considered as part of the decision to award or not. There is a risk that the Council enters into the lease but does not successfully procure an operator.

123. Options for funding any gap are being explored in conjunction with South Yorkshire Mayoral Combined Authority (SYMCA).

124. Reinstatement costs

As stated above the reinstatement costs are still under review but will be a significant sum and the market engagement exercise suggests that the Council will need to meet these costs in order to attract an operator.

125. Analysis of the costs shows that they are a mixture of capital and revenue costs. This impacts on how the costs can be funded. As referred to above, the results of the procurement process will be outlined to Cabinet to be considered as part of the award or not to award decision. That consideration will include whether or not the Council will fund the reinstatement costs (and add them to the capital programme).

126. The plethora of options for funding the reinstatement costs are being explored in conjunction with South Yorkshire Mayoral Combined Authority (SYMCA), more details on this are contained with Appendix A.

127. Supporting the airport represents a significant long-term commitment for the Council. Where external funding is used it will generally mean less external funding is available for other priorities. If external funding is applied for and offered to the Council, then acceptance is likely to be a key decision.

128. More detailed financial implications are included in Appendix A.

**Human Resources Implications [Officer Initials: RH | Date: 29.8.23]**

129. There are no immediate HR issues in relation to this cabinet report, however further discussions and due diligence work will be needed prior to lease negotiations to understand current staffing working at DSA and any potential impact this may have.

**Technology Implications [Officer Initials: \_\_ | Date: \_\_\_\_\_]**

130. Given the context and nature of this report technological implications have not been sought.

**RISKS AND ASSUMPTIONS**

131. The process to re-open DSA carries substantial risks which will need to be appropriately monitored and mitigated where possible.

132. Given the current stage of project development and the level of uncertainty, risks are heightened. It is therefore of paramount importance that CDC engage in risk transfer strategies to ensure that risks are borne primarily by the private sector.



133. CDC has high level ambitions to secure a lease with the current owners of DSA and secure an operator that is willing and able to deliver a viable airport. In the context of historical losses this is a significant challenge. We have sought to secure aviation expertise to minimise the process risk but there is risk that a lease may not be secured with the current owners of DSA or that the market may not view this positively. The ultimate deal with a bidder may be unaffordable or unpalatable given the other priorities of CDC.
134. CDC has limited knowledge of the airport assets and the condition of them. The asset condition survey will help mitigate some of this risk.
135. There is a risk from the procurement process that the contract offered does not attract interest and that the market fails to tender resulting in a failure to award.
136. All risks related to contracting with a third party to operate/develop the airport will be mitigated via robust contracting practices and terms.
137. There are risks in relation to the forecast operating assumptions that have been developed and provide the current basis of the Financial Viability Assessment. Given the airport has been closed for a number of months, there is a risk that market conditions (demand from consumers; supply from airlines) may have altered.
138. There is a risk that there is insufficient funding to meet the costs arising from the procurement process.
139. There is a risk that the existing controlled airspace arrangements could be lost, which may have an impact on the ability to attract investors/operators.
140. There is a risk that should an Airspace Change Proposal (ACP) be required upon losing the current airspace arrangements, the lead in time to reopening the airport will be increased, as well as incurring additional costs and the possibility of the airspace not being granted in the previous form.

## **CONSULTATION**

141. On 13th July 2022, the Board of Doncaster Sheffield Airport Limited (DSAL) publicly announced a review of strategic options for the airport, after concluding that aviation activity on the site may no longer be commercially viable. On 26th September following a period of consultation, the current landowners announced that the strategic review had ended and that it would begin winding down the provision of aviation services at DSA. Both during and following this period, representations have been received from the public, businesses and other bodies via petitions, questionnaires, public meetings and through direct representations.

142. A consultation on the principle of making an Article 4 Direction was undertaken in April and May 2023, which received 271 responses, the majority of which being from members of the public. Of these, 261 (96.3%) were supportive of the actions proposed, with just 4 (1.5%) opposed, and the remainder neutral. A further consultation was also undertaken to confirm the Direction.

143. The CAA has consulted on proposed changes to the airspace at DSA which elicited a significant number of responses from the public with a majority supportive of the need to reopen the airport and retain the airspace.

## **BACKGROUND PAPERS**

144. Previous reports and relevant background papers include:

- Doncaster Sheffield Airport, report to Council, 17th November 2022.
- South Yorkshire Airport City: Programme update and financial approvals, report to Cabinet, 12th April 2023
- The making of an immediate Article 4 Direction removing permitted development rights related to the demolition of buildings at Doncaster Sheffield Airport. Report to Councillor Nigel Ball, Cabinet Member for Public Health, Leisure, Culture and Planning, 19th May 2023.

145. The following background papers are not for publication, because they contain exempt information by virtue of Paragraph 3 (information relating to the financial or business affairs of any particular person (including the authority holding that information) of Part 1 of Schedule 12a of the Local Government Act 1972, as amended.

- Property Cost Estimate report, CBRE, March 2023.
- Doncaster Sheffield Airport Financial Viability Report, Ernst & Young LLP, June 2023
- Doncaster Sheffield Airport – Strategic Outline Business Case, Jacobs UK Ltd, June 2023
- Map of proposed leasehold site (Appendix A)

## **GLOSSARY OF ACRONYMS AND ABBREVIATIONS**

146. Below are the acronyms and abbreviations used in this report:

- ACP – Airspace Change Proposal
- ANSP – Air Navigation Service Provider
- BCR – Benefit Cost Ratio
- CDC – City of Doncaster Council
- CAA – Civil Aviation Authority
- CPN – Competitive Procedure by Negotiation

- CPO – Compulsory Purchase Order
- CRSTS – City Region Sustainable Transport Settlement
- CTA – Control Area
- DSA – Doncaster Sheffield Airport
- DSAL – Doncaster Sheffield Airport Limited
- EBITDA – Earnings Before Interest, Taxation, Depreciation and Amortisation
- EY – Ernst & Young LLP
- FVA – Financial Viability Assessment
- IRR – Internal Rate of Return
- NOTAM – Notices to Aviation
- OBC – Outline Business Case
- PCE – Property Cost Estimate
- SOBC – Strategic Outline Business Case
- SYAC – South Yorkshire Airport City
- SYMCA – South Yorkshire Mayoral Combined Authority

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