



## Report

---

**Date: 6th December 2023**

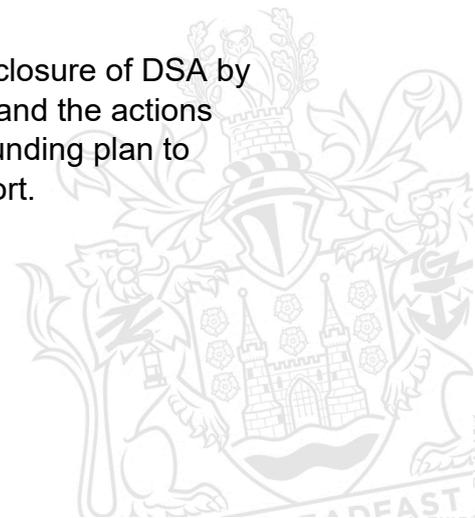
**To: The Chair and Members of Cabinet being taken under Rule 15 of the Constitution**

**Report Title: South Yorkshire Airport City – Outline Business Case**

<b>Relevant Cabinet Member(s)</b>	<b>Wards Affected</b>	<b>Key Decision</b>
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, 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.



4. In September 2023, Cabinet considered an update report, which outlined progress and key findings from the work undertaken to date. This included an update on the Controlled Airspace, Safeguarding Activities, Financial Viability Assessment, Strategic Outline Business Case (SOBC), Land and Property Valuation and Market Engagement exercise. It also highlighted the extent of the re-instatement costs, which are significant due to the full closure of the airport by the current DSA owner and the ceasing of all aviation operations, and that this is an impediment to attracting a prospective investor. 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.
5. Whilst there remains, multiple risks associated with restarting the airport, the work undertaken to date suggests that reopening DSA is feasible and would bring significant economic benefits to Doncaster and the wider region. Since September, further work has been undertaken to produce an Outline Business Case (OBC). The latest economic assessment of options suggests gross benefits in the range £1.0 billion to £2.3 billion attributed to re-opening DSA (2023 prices and net present values), with a primary forecast of £2.0 billion. If the forecast 30-year benefits and passenger numbers and freight expansion are realised, we estimate that almost 5,000 gross direct jobs will be supported under a Central scenario, as well as c. 6,000 gross indirect and induced jobs and c. 4,400 catalytic jobs in surrounding aviation-related development.
6. The OBC has identified that re-opening the airport offers the most favourable balance between benefit and cost and is therefore the preferred option.
7. The overall objective of progressing the funding is to de-risk the project sufficiently to secure an airport operator, that can successfully reopen, operate and develop the airport over the 50-year period, subject to the satisfactory outcome of the procurement. Therefore, this report is requesting approval to submit the OBC to SYMCA as a necessary step in the multi-stage process to access the Gainshare funding earmarked to the delivery of Doncaster's Place Investment Plan.
8. SYMCA will, in accordance with Government funding rules, independently review the business case as it stands at the OBC stage. Subject to this review the SYMCA Board will then be asked to consider progressing the scheme to an in-principal approval and advancement to the Full Business Case (FBC) stage. Any SYMCA commitment to funding will follow on the consideration of an FBC informed by the conclusion of the procurement exercise.
9. The report recommendations build upon those outlined in September 2023 and the outcome of the first phase of the procurement process, with the second

phase about to commence. The overall timescales remain challenging, linked to the implications in relation to the controlled airspace which if removed would significantly delay the programme. This report is considered urgent to maintain the significant project progress thus far and provide confidence to prospective operators, in order to reinstate aviation operations as soon as possible.

10. Given the pace at which multiple activity streams are running it has not been possible to allow the statutory 28 days publication requirements. As such this report is being considered under Rule 15 of the Constitution.

## **EXEMPT REPORT**

11. Whilst this report is not exempt it does contain exempt appendices ref A and B. The appendices 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.

## **RECOMMENDATIONS**

12. It is recommended that the Mayor and Cabinet:
  - a. Approve the submission of the Outline Business Case (OBC) to SYMCA (Appendices A and B – confidential) and subject to approval of the OBC by SYMCA, delegate authority to the Director of Corporate Resources and Section 151 Officer, in consultation with the Mayor to:
    - i) Submit Full Business Case (FBC) submissions to SYMCA, as required to draw down the funding, in accordance with the OBC.
    - ii) Enter into funding agreement(s) with SYMCA, to agree the specific funding terms and conditions.
  - b. Subject to approval of the OBC by SYMCA, include the funding in the Council's capital programme.

## **REASON FOR URGENCY – RULE 15 DECISION**

13. The pace of the ongoing discussions and negotiations and the need to establish a way forward with some certainty has meant it has not been practical to provide the 28 days' notice of the decision on the Forward Plan and the forthcoming Christmas and New Year holidays would affect the timescales for implementation if this decision were delayed to a later date. There are specific risks relating to the controlled airspace which if removed could significantly delay the programme. There is also a need to ensure the approval of the submission of the OBC to SYMCA for the relevant funding approvals, be agreed quickly to ensure progress continues to be made to achieve our ambition of opening the airport. This decision is therefore being taken in accordance with Access to Information Rule 15 General Exception detailed within Part 4 of the Council's Constitution.

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

14. 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. The report highlights economic benefits expected to be more than £1.0 billion in addition to the significant level of direct and indirect jobs that will be created from the presence of an operational airport.

## BACKGROUND

15. Within the Cabinet Report dated 20th September 2023, we highlighted how CDC had commissioned a range of independent experts to advise on the potential to reopen DSA including undertaking a financial viability assessment (Ernst & Young) and producing both an Outline and Strategic Outline Business Case (Jacobs UK Ltd).

16. The project brief for the above considered whether market failures exist in relation to DSA, if there is a rationale for public sector intervention, the costs and benefits of different intervention options, and their future deliverability. Utilising this key evidence has assisted in the production of an SYMCA Outline Business Case for the reopening, operation and development of DSA.

17. The findings from the OBC describing the economic rationale for public intervention are strong. The economic assessment of options aligned with HM Treasury guidance suggest gross benefits in the range £1.0 billion to £2.3 billion attributed to the preferred option (2023 prices and net present values), with a primary forecast of £2.0 billion. These relate to the place-based impacts of increased employment and resulting welfare gain, plus land value uplift, journey time savings for airport users and regeneration uplift for nearby residential communities. Applying a net additionality rate of 75% to these gross benefits generates net additional benefits in the range £0.7 billion to £1.7 billion (2023 prices and values), with a primary forecast of £1.5 billion. If the forecast 30-year benefits and passenger numbers and freight expansion are realised, we estimate that almost 5,000 gross direct jobs will be supported by the do something / preferred option under a Central scenario, as well as c. 6,000 gross indirect and induced jobs and c. 4,400 catalytic jobs in surrounding aviation-related development.

18. The economic appraisal demonstrates that the preferred option (re-opening the airport) represents excellent value for money. Combining the Benefit Cost Ratio (BCR) of 11:1 in the Central scenario, and the wide range of significant wider and qualitative economic impacts, the project has the potential to transform Doncaster's economy, support the levelling up agenda and underpin enhancements to societal well-being.

19. Therefore, reopening of DSA, underpinned by long term sustainable growth, is a key lever that CDC can utilise to ameliorate the prevailing socio-economic frailties, supporting enhanced well-being as a result. The rationale for intervention in the OBC documents failures over the long term in the local labour market exacerbated by the loss of jobs at the airport, long-standing weakness in labour demand, out commuting for better paid jobs, and low levels of qualifications and therefore wages among the local population.

## **Funding**

20. The Gainshare (grant-based investment funding) allocation for South Yorkshire through the Devolution Deal is £30m per annum for a period of 30 years. This consists of 60% capital and 40% revenue funding and is to be invested in the delivery of the MCA and LEP's strategic and economic priorities. On the 3 March 2022, a decision was approved to allocate 80% of the funding on a population basis, this resulted in an £83m capital allocation (£3.2m per year) and £55m (£2.1m per year) revenue allocation for Doncaster.

21. To access Gainshare funding a detailed Outline/ Full Business Case needs to be produced, assessed and then approved by SYMCA; attached within this report (Appendices A, B and C) is Doncaster's Gainshare funding application which describes the requirement to access both revenue, and capital expenditure for the development of land, buildings and supporting infrastructure on the DSA site, it is the intention, post Cabinet approval, that this application will be submitted to SYMCA. A summary of the headline estimated costs included in the SYMCA OBC are provided in Appendix A.

22. To note - recognising the pressing needs re: Controlled Airspace (detailed below) and providing greater certainty to the market through the detailed procurement stages, it is imperative we secure the Gainshare resources at the earliest opportunity to assist in the expedient re-operation of the Airport. The funding required outlined in Appendix A is fully dependent on the outcome of the condition survey and procurement process.

23. SYMCA will assess the appended business case in the manner prescribed by Government funding rules. Subject to this process the SYMCA Board will then be asked to consider approving the project in-principle. This in-principal approval allows for progression of an FBC that can be concluded on completion of the procurement exercise and the finalisation of funding requirements.

24. SYMCA will continue to be kept apprised of the position and the Full Business Case submitted at the appropriate time to obtain the required funding, post the closure of the procurement and informed by the contract agreement.

25. If the procurement process is unsuccessful and indicates that the airport will not be viable, Doncaster will not proceed to submitting an FBC to SYMCA.

## **Managed Controlled Airspace**

26. On the 14th September 2023, the Rt Hon Mark Harper (Secretary of State for Transport) wrote to both Ros Jones (Mayor of Doncaster) and Oliver Cppard (Mayor of South Yorkshire) specifically on the issue of DSA unmanaged airspace; the correspondence highlights the Civil Aviation Authority's (CAA) proposal to reclassify DSA's controlled airspace has been requested to be called in for determination and that Department for Transport (DfT) appreciate CDC/ SYMCA collective view that the current DSA airspace arrangements should remain as they are until the future of DSA is better clarified. Currently recognising the key pivotal point in the programme; (negotiations with the current landowner, the live procurement process and approval sought for access to Doncaster gainshare allocation), CAA had been informed by DfT to delay responding to the call-in request, this stance by Government is extremely helpful, however we recognise the temporary nature of this decision, given un-managed airspace is usually removed thus securing the gainshare funds in the most expedient manner to support in part the management of the airspace is a key and a deliverable action within the SYAC programme.

## **Investment Zones**

27. In parallel with this report, Cabinet are considering a report on Investment Zones (IZs) (6th December 2023); the report highlights the role SYMCA are undertaking in leading the activation of IZ's amongst South Yorkshire, in addition to describing in greater detail how the four opportunity sites have been selected within Doncaster, of importance to note, Gateway East is the number one priority site (subject to an agreement on the operational status of Doncaster Sheffield Airport and the South Yorkshire Airport City programme).

28. In addition to the above, Gateway East has been proposed as a potential Business Rates Retention zone which would last 25 years from the point of designation. This is subject to an agreement on the operational status of Doncaster Sheffield Airport and the South Yorkshire Airport City programme. Only two sites are being proposed for business rate retention across South Yorkshire, with the other being in Sheffield. The Doncaster zone is the largest of the two South Yorkshire business rate retention zones.

## **OPTIONS CONSIDERED**

29. The scale of the endeavour required to acquire and reopen the airport is considerable, thus the options considered in relation to this report are set out below:

30. Do Nothing: The City of Doncaster Council could determine to do nothing and not pursue funding; this is not recommended based on rationale contained within this report.

31. Progress Outline Business Case and submit to SYMCA: This is the preferred option for the reasons detailed in the report, to deliver the benefits outlined in the Outline Business Case (OBC).

## REASONS FOR RECOMMENDED OPTION

32. 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

33.

Great 8 Priority	Positive Overall	Mix of Positive & Negative	Trade-offs to consider – Negative overall	Neutral or No implications
 <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>	✓			
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.				
 <b>Building opportunities for healthier, happier and longer lives for all</b>				✓
Comments: No direct impact.				
 <b>Creating safer, stronger, greener and cleaner communities where everyone belongs</b>	✓			
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				
 <b>Nurturing a child and 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.

**Fair & Inclusive**



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: 22.11.23]**

- 34. 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.
- 35. A procurement process is being carried out by the Council to identify an airport operator with the ability and resources to restore commercial aviation operations at the airport. The Council recognises the challenges associated with restarting operational activities after an extended period of airport closure including the requirement to recruit new staff, restore essential infrastructure 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 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.
- 36. Further detailed legal advice will be required in relation to any funding terms and conditions which may be required by SYMCA.

**Financial Implications [Officer Initials: MS | Date: 22 November 2023]**

- 37. As stated above the Council's uncommitted gainshare allocations are £83m capital (£3.2m per year) and £55m revenue (£2.1m per year).
- 38. The OBC requests a significant sum from the Council's gainshare allocations. The OBC also includes £3.1m for development costs that will be funded from Local Growth Fund rather than Doncaster's gainshare allocation. Allocating a significant sum to the SYAC project means it will not be available for other Doncaster projects.
- 39. The OBC includes a small amount of match funding which will only be needed if the full amount of gainshare and Local Growth Fund is required. It is possible

that this could be funded from other funding received from SYMCA and these options will be explored if it looks likely that this funding will be needed. Any further request to SYMCA for funding would be subject to the usual SYMCA business case and governance processes, with approval required by the SYMCA Board.

40. As stated above, the FBC will be produced after the procurement of an operator and will include updated estimated costs.
41. All funding from SYMCA is subject to a funding agreement which will include terms and conditions that the Council will need to comply with to avoid clawback. These will need to be reviewed and understood before the funding agreement is signed. The recommendations above include a delegation to the Director of Corporate Resources and Section 151 Officer, in consultation with the Mayor to sign-off the funding agreement.
42. More detailed financial implications are included in Appendices A to C.

#### **Human Resources Implications [Officer Initials: RH | Date: 21/11/23]**

43. 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: \_CF\_ | Date: 21/11/23]**

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

#### **RISKS AND ASSUMPTIONS**

45. The process to re-open DSA carries substantial risks which will need to be appropriately monitored and mitigated where possible.
46. 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.
47. 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.

48. 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.
49. All risks related to contracting with a third party to operate/develop the airport will be mitigated via robust contracting practices and terms.
50. 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 several months, there is a risk that market conditions (demand from consumers; supply from airlines) may have altered.
51. There is a risk that there is insufficient funding to meet the costs arising from the procurement process.
52. 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.
53. 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**

54. 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 2022 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.
55. 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.
56. In addition, 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**

57. Previous reports and relevant background papers include:

- Doncaster Sheffield Airport, report to Council, 17<sup>th</sup> November 2022 (partially exempt).
- South Yorkshire Airport City: Programme update and financial approvals, report to Cabinet, 12<sup>th</sup> April 2023 (partially exempt)
- 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, 19<sup>th</sup> May 2023.
- South Yorkshire Airport City Update, report to Cabinet, 20<sup>th</sup> September 2023 (partially exempt)
- [South Yorkshire Renewal Fund Investment Strategy.pdf \(southyorkshire-ca.gov.uk\)](https://www.southyorkshire-ca.gov.uk), 3<sup>rd</sup> March 2022.

58. 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
- Gainshare funding a detailed Outline/ Full Business Case (Appendices A, B and C)

## **GLOSSARY OF ACRONYMS AND ABBREVIATIONS**

59. 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
- DfT – Department for Transport

- DSA – Doncaster Sheffield Airport
- DSAL – Doncaster Sheffield Airport Limited
- EBITDA – Earnings Before Interest, Taxation, Depreciation and Amortisation
- EY – Ernst & Young LLP
- FBC – Full Business Case
- FVA – Financial Viability Assessment
- GVA – Gross Value Added
- IRR – Internal Rate of Return
- NOTAM – Notices to Aviation
- OBC – Outline Business Case
- PCE – Property Cost Estimate
- SYAC – South Yorkshire Airport City
- SYMCA – South Yorkshire Mayoral Combined Authority

## **REPORT AUTHOR & CONTRIBUTORS**

### **Chris Stephenson**

Senior Policy and Insight Manager

### **Faye Tyas**

Assistant Director of Finance

### **Holly Wilson**

Head of Procurement

### **Amy Julian**

Project Manager

### **Christian Foster**

Strategic Programme Lead - Doncaster Sheffield Airport

### **Debbie Hogg**

**Director of Corporate Resources**