EXECUTIVE SUMMARY

The Context to the Study

1. The key aims of this report are threefold.

- Firstly, to review the context and recent history of Plymouth City Airport (PCA), assess its operational constraints and estimate the market for its services.
- Secondly, to establish the importance of PCA to the local economy including inward investment and economic implications for the future.
- Thirdly, to establish the aviation options available for the continuation of airport activities on the current site as well as possible cessation of operations and assess the financial implications including risks of each option to Plymouth City Council (PCC).

2. PCA's loss of the Heathrow connection in 1997 signalled the beginning of a decline in the strategic importance of the airport for the Plymouth economy. This decline has recently accelerated with the loss of the LGW connection in early 2011.

3. With the introduction of regional air services by Air Southwest (ASW) in the 2000's, PCA's passenger traffic upheld at around 100,000 passengers/year, peaking at 125,000 in 2009. However, this fell in 2010 to just under 100,000 passengers and, with the withdrawal of the Gatwick service and the general decline in demand, the forecast outturn for 2011 is likely to be a maximum 50,000 passengers.

4. These passenger numbers need to be placed in the context of how PCA has performed relative to the other South West airports (Bristol, Exeter and Newquay). In 1995, PCA accounted for just over 5% of all passengers handled in SW airports. In the period 1995 to 2010, passenger numbers through SW airports more than trebled. At PCA numbers remained static so, by 2010, PCA only accounted for 1.4% of traffic. With the loss of the Gatwick route, PCA's share will fall to well under 1% of SW traffic in 2011.

5. The short runway at PCA severely restricts aircraft types to short runway capable 19–50 seater turboprops and this has prevented PCA participating in the low cost and holiday charter market that has developed in the past 20 years and/or attracting other airlines needing a longer runway. Of the 19–50 seater short runway capable turboprops that can operate into/out of PCA only two are still in production with no new models in development. Whatever decisions are taken now the long term future for PCA as a commercial airport would appear to be very limited.

The Economic Importance of PCA

6. The economic importance of PCA has also declined and currently represents a very small element of connectivity to/from Plymouth. Business travellers have adapted to the loss of the Heathrow service and are now adapting to the loss of the Gatwick service. There are no signs that the inability of PCA in the last 10 years to meet local demand for air travel has resulted in a diminution of travel to/from Plymouth and/or has had a knock-on impact to the local economy. Our research confirms that companies have adapted to the declining role of PCA and the actual usage of PCA by local companies is now very low.

7. We estimate that there was a latent demand for some 350,000 trips at PCA in 2010 and some 250,000 of these trips from PCA were effectively diverted to other regional airports and other modes.

8. Whilst there is an understandable aspiration amongst the business sector in Plymouth to retain services at PCA, there is also an acknowledgment that the use of PCA by the vast majority of local companies had been minimal in recent years. There is the perception of PCA being more important to the City in general than to specific companies in particular.

9. There is no evidence that the declining importance of PCA has detrimentally effected inward investment. For the recent inward investor firms, the investment decision in all cases was made on the basis of the attractiveness of the asset/business being acquired. The existence of PCA and its air services were not factors in the decision. We cannot identify any evidence that the closure of PCA would have a significant impact upon future inward investment decisions.

10. To address the question of the importance of PCA to the local economy, we contacted 25 prominent companies operating in Plymouth and asked them about their use of and reliance on PCA and its air services. These firms included the City's largest employers and those with the greatest use of/need for regional, European short haul and international long haul travel.

11. The main conclusion of our enquiries to companies is that at its present level of operation Plymouth City Airport and its air services are no longer of material importance to the companies operating in and around the City.

12. The number of jobs on the airport a few months ago was estimated to be some 120, but this is falling as ASW (following its 2010 takeover by Eastern Airlines) relocates activities to its base at Humberside Airport and we believe that the total on airport employment is now probably closer to 100 (mid 2011).

13. At present levels of usage, the time saving and journey cost benefit to business travellers of using PCA (compared with alternatives e.g. Exeter Airport) is estimated to be some £1.3 million/year. Using PCA's busiest year (2009) as the air traffic baseline this benefit was worth some £3.3 million/year. Including the estimated additional access costs incurred by leisure travellers raises these benefits to £1.7 million/year (2011 traffic base) increasing to £4.3 million/year with the 2009 traffic base line. However, this needs to be placed in the context of a 2008 GVA level of £4.2 billion for Plymouth.

Connectivity

14. Over half the businesses contacted articulated a need for good connectivity with London, with the preference being for rail connectivity and improved train services. For Plymouth businesses, the Plymouth to London early morning services were reported to be satisfactory but there was great dissatisfaction with the London to Plymouth early morning services used by visiting business partners and colleagues from London offices.

15. For European and international connectivity, London Heathrow is the preferred airport with some use of Bristol. Exeter has very few European business destinations hence its limited use for European travel by the responding businesses. But Exeter does have a good range of UK destinations and existing PCA users indicated they would transfer to Exeter if/when PCA closes.

16. Given the range of alternatives for London, European, international and UK regional connectivity, the loss of the already severely diminished PCA air services is not expected to reduce Plymouth businesses' overall competiveness to any significant extent. The availability of other regional airports and other modes of travel will continue to provide adequate alternatives in the event of a cessation of services at PCA.

PCA Options

17. Following detailed discussions, 5 options for the future of PCA were assessed in terms of future financial risk.

18. The **continuation of PCA in its present mode** (Option 1) of offering scheduled services with 50 seater aircraft is expected to require subsidy of at least £1 million/year. The downside risk is of further reductions in air services to fewer cost covering routes coupled with the difficulties in identifying an airport operator willing to assume complete financial risk for PCA and the evident problems of attracting new airlines. The upside risk is the long term potential development of Northolt[1] boosting PCA usage by at least 40,000 passengers/year and reducing the annual operating loss. Overall the financial risk exposure of Option 1 to PCC/new operator is assessed to be high.

19. A **licensed airport for 19 seater scheduled service aircraft** (Option 2) could be operational cost covering. Cost coverage will depend on the retention of the military at PCA. The downside risks include the difficulty in identifying an airport operator willing to assume complete financial risk for PCA, the evident problems of attracting new airlines to provide routes over a sustained period and an inability to generate the passenger revenues envisaged. The upside risk is the long term potential development of Northolt boosting PCA usage. Overall the financial risk exposure of Option 2 to PCC/new operator is assessed to be medium/high.

20. An **unlicensed airfield with no scheduled services** (Option 3) could be cost covering and may show a modest surplus but would be largely dependent upon continuing military activity. There are no significant downside risks. The upside risk is the development of Northolt attracting an airline to establish a Plymouth – Northolt service encouraging PCA to upgrade in future to Option 2. Overall the financial risk exposure of Option 3 to PCC/new operator is assessed to be low.

21. **Mothballing the airport** (Option 4) is expected to cost £150,000/250,000/year - but will obviously generate no revenues[2] to offset these costs. Overall the financial risk exposure of Option 4 to PCC is assessed to be low/medium.

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[1] There is currently a considerable amount of public and private sector activity seeking to resurrect Northolt Aerodrome as a potential destination for UK domestic flights – see report for further details.

[2] There is a possibility that the military helicopter (FOST) operation could be maintained during a mothballing period generating reasonable income streams for 3/5 years, though this would involve increased costs.

22. **Closure of PCA** (Option 5) is expected to cost £50,000/£100,000 initially and some £20,000/year until the site is transferred into new use. Overall the financial risk exposure of Option 5 is assessed to be very low.

23. In reviewing these options, there are three non-operational concerns that could overwhelm any financial considerations from purely an operating perspective. The first of these concerns relates to the value of the existing lease of the site. It is evident that the current leaseholders have assumed an asset value for the PCA lease in their company accounts. Without taking a view on this matter, we have not included any costs of lease transfer in the operating costs and revenues summarised above.

24. The financial viability from solely the perspective of cost recovery of Options 2 and 3 outlined above depends crucially on any the lease transfer costs of PCA's airport operating lease being low (in the very low £'000s). It is clear from the nature of the airfield/airport operations envisaged under Options 2 and 3 (and the indicative financial viability) that neither option could bear the cost of lease transfer if this is high (£ millions).

25. The second of these concerns is rental arrangements and charges relating to the PCC owned Derriford site and we have assumed that the current rental arrangements for the site would remain unaltered and given the current turnover formula have assumed that a new operator would not be required to pay a rental in the foreseeable future.

26. The third of these concerns is Rateable Value and business rates levied on PCA. At present, the rates levied are just under £170,000/year. Advice from the Valuation Officer is that reduced operations at PCA will not lead to any reduction in Rateable Value and rates levied in the absence of demolition of redundant buildings. We have not considered building reconfiguration to reduce Rateable Value but business rates at existing levels are not affordable within Option 2 and barely affordable within Option 3[3].

27. Furthermore, it will be noted that the continued presence of the military (FOST) has been assumed in all the operating options (1, 2 and 3) and could even be retained with option 4. We are not able to comment on the robustness of these assumption, but we have included the impact of the loss of this business in our consideration of the risks associated with each option as the FOST income represents a high proportion of Options 2 and 3 income streams.

28. We have attributed no opportunity cost to the PCA site at Derriford given that it is currently scheduled for airport use in the Northern Corridor Area and in the Plymouth Local Economic Strategy 2006-21. That said, the site clearly has significant development value if permission is granted for non-aviation use and has the potential to enhance the mid to long term growth rates of economic development in the Corridor.

[3] We have assumed much lower rates appropriate to the operational level of each option.

Conclusions

29. If there is a political/business consensus to retain airport operations, it could be possible to operate a very limited scheduled passenger airport or a general aviation airfield that could be broadly cost covering, though the likelihood of commercial profitability is low to non-existent. However, as stated above in paragraph 23, any one of three non-operational concerns could overwhelm the financial considerations from purely an operating perspective.

30. A number of parties have expressed interest in taking over the operation of PCA, but we cannot vouch for the robustness of any of these approaches and they all involve a reduced level of activity compared with recent operations at PCA[4].

31. However, the retention of any financial risk by PCC in any of these options is difficult to justify and the willingness of prospective new airport operators to assume total financial risk at any level of airport operations needs to be robustly tested and validated.

32. We have concluded that in the absence of any meaningful positive economic contribution to the City of Plymouth, we are unable to identify an economic rationale for PCC to underwrite the commercial risks involved in maintaining any scale of airport operations at PCA.

[4] At the time of completing this report, PCC will be receiving the results of a marketing testing exercise.