

**GLOUCESTERSHIRE FIRST**



**THE PRESENT AND FUTURE ROLE OF GLOUCESTERSHIRE AIRPORT**

**Executive Summary of the  
Final Report**

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## **EXECUTIVE SUMMARY**

### **Desk top review of previous studies and relevant policy documents (Section 2)**

1. The following documents were reviewed in order to carry out this part of the study:

#### ***Airport studies/reports***

- Report and Survey on the Operation of Gloucester and Cheltenham Municipal Airport by Gloucester City Council (May 1983);
- Report to a Joint Meeting of the Policy and Finance Committee of Cheltenham Borough Council and the Policy and Resources Committee of Gloucester City Council (September 1992);
- Gloucestershire Airport Review of Business Plan by Lincoln Beddows (September 1992);
- Gloucestershire Airport Long Term Viability Report by Beddows and Company (April 1995);
- Gloucestershire Airport Passenger Scheduled Service Study by Avon Aviation Associates (May and September 1998);
- Development at Gloucestershire Airport by Colin Buchanan and Partners (September 1998);
- Gloucestershire Airport Business Plan by Avon Aviation Associates (October and December 1998);
- Runway Licensing Extension Study by Burks Green (August 2000);
- Midwest Air Ltd business plan (December 2000 and April 2001);
- Gloucestershire Airport Review of Development Strategy 2000 – 05 and Business Plan 2000/01 by Hatch Beddows (February 2001);
- Risk assessment on Runway End Safety Areas by D W Sames (March 2001);
- Report on Development Options by Capita Property Consultancy Ltd (January 2002);
- Runway 09-27 Preliminary Engineering Report by Capita Property Consultancy Ltd (not dated, but subsequent to previous work by Capita);
- Airport Development Strategy 1997 – 2007 (October 1997) and Airport Development Strategy 2002 – 07 and Business Plan 2002 – 03 produced by the airport (May 2002);

- Runway 09-27 Airport Board Report (March 2003);
- Runway Safety and Improvement Options by Darren Lewington, Gloucestershire Airport (draft, February 2004).

### ***Economic studies***

- The economic impact of Gloucestershire Airport by Gloucestershire Business School (February 2003);
- The Economy of Cheltenham in 2001 by Gloucestershire Labour Market Information Unit (September 2003).

### ***Policy documents***

- Gloucestershire County Council Local Transport Plan (2000);
- Regional Gateways Strategy – SWRDA (2001);
- Regional Planning Guidance for the South West (RPG10) – GOSW (2001);
- Consultation Document on Future Development of Air Transport in the UK: South West (2002);
- Gloucestershire Structure Plan Third Alteration Deposit Draft – Gloucestershire County Council (2003).

In addition, since this study began the government has issued its new Aviation Policy White Paper, titled The Future of Air Transport. The implications of this policy document are discussed separately in Section 6 of this report.

### **Assessment of the economic impact of Gloucestershire airport (Section 3)**

2. Our conclusions are that currently the airport makes a modest but welcome contribution to the economies of the local impact area. It does this as a direct creator of employment at the airport itself. It has developed a successful niche in the GA market and providing training and maintenance/engineering services to that market.
- 3 The airport is currently expanding and there is good demand for space at the airport for airport-linked activity. The overall employment contribution is currently of the order of 345 to 430 jobs (full-time equivalent). Once the currently planned expansions have taken place, the total employment impact of the airport could rise to 600 to 650 jobs. The airport therefore provides a significant contribution to the local economy.
- 4 The current catalytic impact of the airport is very limited indeed (in terms of inbound tourism and company location decisions). This is largely because of the lack of passenger and freight services out of the airport.

## **The most suitable development strategy for the airport (Section 4)**

### ***Regular passenger services***

- 5 By general consent the Cheltenham and Gloucester area, while well served by the strategic road network, is relatively poorly linked with a number of parts of the country including London. We feel that there would be a significant demand for the development of regular (scheduled) air services to a London airport. This issue is discussed in more detail in Section 6 below.
- 6 The establishment of similar services to key points such as Edinburgh, Glasgow and Dublin would involve greater financial risk, due to the competitive strength of services to these destinations from Bristol and Birmingham airports. This risk would apply particularly during the initial two years of establishing the service. However, local businesses could be well served in these cases if a regular charter operation could be established, initially for the use of a group of co-operating businesses only. If operations on this basis proved successful over a period of a year or more then there would be a more robust business base on which to launch services available to the wider public.
- 7 Both a scheduled London service and charter services of the kind described above would be possible within the existing runway length and operating hour restrictions. However, both would benefit from greater operational flexibility, and a wider range of potential aircraft which could be used, if the aspirations contained in the airport's February 2004 Runway Safety and Improvement Options paper for a limited extension to declared runway lengths could be achieved. Similarly, both categories of service would be more attractive if there was a modest extension to current opening hours so as to allow a full working day at the destination.
- 8 The establishment of such regular services would represent an important benefit to local businesses. They could also result in a modest degree of inward investment/re-location of businesses, particularly if they facilitated links with Europe through a London airport.

### ***Regular freight services***

- 9 The establishment of regular freight services appears difficult, both due to the existing operating hours and to the runway length restrictions. Express parcels operations would only be practical if opening hours were extended to 2300 – 2400. While this would provide a marginal business benefit to the airport it would be unlikely to result in any net benefit to local businesses, since it would be unlikely to result in any improvement in the level of service already received from parcels integrator companies.
- 10 The airport has importance for the transport of horses, particularly in connection with the National Hunt Festival. We have heard of at least one operator which has in the past used Gloucestershire for the transport of horses but which has abandoned its use because of the operating restrictions imposed by the available runway length. This provides a further reason to explore the possibilities for a reduction in these restrictions, so as to make better use of the existing runway length.

### ***Overall viability***

- 11 The Airport has seen a significant transformation in recent years, with a number of important improvements being made to the quality of buildings, the facilities on offer and general airport safety. It now presents a far more professional, clean and efficient image than was the case ten years ago.
- 12 The benefits of this work are now becoming apparent, with an increasing level of retained profit, and improved dividends paid to shareholders, in each of the past three financial years.
- 13 With around 84,000 annual aircraft movements, Gloucestershire Airport is now probably among the top two or three most important general aviation airports in the country. Given that general aviation capacity is under pressure at many larger UK airports, the business prospects for the airport are extremely good, since there is every indication that demand for its facilities will continue to grow. In this overall situation there is every prospect for a sustained period of profit and dividend growth.

### ***Benefits to be gained from a greater available runway length***

- 14 The discussion around this issue has evolved considerably since work on this study began. At the start of the study the focus was on carrying out works which would remove the rising ground at the eastern end of the runway. The cost of these works were estimated at around £5 million, and the conclusion which we expressed in our Preliminary Report was that the extent of the operational benefits which would be gained from carrying out the works would not at this stage justify the costs involved.
- 15 More recently, the airport has explored more cost effective options for increasing the useable (declared) length of the runway. These focus more (but not exclusively) on the western end of the runway and envisage an increase in the Landing Distance Available (LDA) to 1,199 metres in both directions from the current 997 metres or 1,153 metres (depending on direction of use) with the Take-Off Distance Available (TODA) remaining unchanged at 1,319 metres. The increase in LDA would represent a considerable benefit in terms of the airport's ability to be used by a number of corporate jet aircraft. It would make the airport attractive once more to former users which have moved to other airports since the reduction in the LDA imposed by the CAA in 2002 in order for the airport to comply with new safety requirements. It is expected that the technical and cost assumptions underlying this proposal will be assessed independently in the near future.
- 16 If "base level" scheduled and/or charter operations as described in paragraphs 5 - 7 were developed and grew to such an extent that larger aircraft were required, then the question of the more extensive works at the eastern end of the runway would need to be revisited at that point. These could potentially increase the LDA further, probably to around 1,300 metres. This would facilitate operations with small jet aircraft which would be more attractive to passengers than the small turboprop aircraft to which operations would be restricted by a LDA of 1,199 metres.
- 17 As far as the core general aviation activity is concerned, there is no clear business case to carry out the runway length improvement works. However, the safety of existing users of the airport would be improved and for this

reason alone further consideration will need to be given to the airport's proposals once they have been independently assessed.

### ***Runway resurfacing***

- 18 The task of resurfacing the runway is some time overdue. The condition of the runway is very variable along its length and in places there are dips in its surface in which puddles can accumulate during wet weather. This condition can lead to the risk of aircraft aquaplaning during take-off. Wet weather performance of the runway is also impeded by poor adhesion levels in places.
- 19 The situation with respect to resurfacing has also developed during the course of this study, and we were informed that shareholder authority had now been granted to proceed with the resurfacing of the runway when we met with the airport Board on 3 March 2004. The resurfacing which is proposed will address the problem of the dip in the runway and also provide a porous friction surface which would improve aircraft braking performance in wet weather. We regard this work as being of paramount importance and of the highest priority.

### ***Closure***

- 20 The closure option appears untenable because:
- Green Belt policies appear to present an insurmountable barrier to re-use of the land for housing, particularly given the vibrant state of the airport business at present;
  - Even if Green Belt policies could be overcome, there would be no means of forcing airport tenants to vacate the site unless suitable compensation could be agreed. Such compensation is likely to be significant, and could negate the financial gain from the sale of the site to a developer;
  - It cannot be assumed that more than around half of the existing Gloucestershire Airport business would be prepared to transfer to Kemble, so that a number of jobs and, possibly in consequence, also skilled labour would be lost to the county;
  - Closure with no contemplated re-use would result in a net cost to the shareholders.

### ***Shareholder cohesiveness***

- 21 At one time, many UK regional airports were owned by local Councils. In many cases this resulted in difficulties for the airports in gaining the funding required for infrastructure improvements. These difficulties were due partly to a lack of availability of funds in the case of larger projects and to policy differences between co-shareholders in cases of multiple ownership.
- 22 It would not be unfair to observe that local authority-run airports were not, on the whole, efficiently run. They were rarely particularly commercially driven in terms of seeking new business, and they were invariably cost-inefficient through being tied to restrictive working practices. In addition, conflicting shareholder objectives hindered decision-making in cases of dual or multiple ownership. Local Councillors, or Council nominees, often had no knowledge of the aviation industry and an inadequate grasp of business generally. They

consequently tended to make poor airport directors. Indeed, there is no obvious reason to expect that anything else would have been the case.

- 23 The 1986 Airports Act laid the foundation for a remedy to this situation by providing the framework for the transfer of the control of local authority airports from those authorities to public airport companies. This was intended to provide a first step towards subsequent partial or complete privatisation. The privatisation option was taken up by increasing numbers of authorities, which recognised that the benefits which their airports could produce for local communities would be improved under private sector management freed of public sector borrowing constraints and decision making processes.
- 24 The result has been a substantial realignment in the ownership profiles of regional airports. Today the only significant airports remaining in wholly local authority ownership are Manchester and Leeds/Bradford. With those and a handful of other exceptions, Gloucestershire is now one of the largest UK airports remaining in public ownership.
- 25 For Gloucestershire Airport to continue to prosper, it will need both shareholders and a Board which are united in their purpose and which seek to maximise the airport business and its contribution to the local and regional economy, while paying due regard to legitimate environmental and neighbourhood concerns.

### ***Sale of the airport***

- 26 There are three circumstances in which the sale of the airport might be contemplated. The first would be the situation in which the business continues to grow, including the successful establishment of regular passenger services in the way suggested earlier in this section, such that traffic development was being tangibly hindered by the runway operating restrictions in a manner which does not currently obtain. In these circumstances the shareholders might regard the further development of the airport as desirable but feel that the capital expense associated with the runway works was beyond their means.
- 27 In this case the logical outcome would be for a private sector investor to be sought who would undertake to make the necessary investment and enter any appropriate covenants designed to ensure that the airport remained in operation and that a progressive business growth strategy was pursued.
- 28 The second circumstance would exist in a situation in which it was recognised that the shareholder cohesiveness referred to in paragraph 25 above did not exist and had no reasonable prospects of existing. In this case a decision to place the airport on the market would be no more than a pragmatic decision taken in the cases of a significant number of other multiply-owned UK airports.
- 29 The third circumstance could simply be a recognition on the part of the shareholders that:
- The airport has at last reached a level of maturity and financial stability in which a sale could be realistically contemplated;
  - The sale of the airport would remedy a situation in which its continued public sector ownership was an exception to the general rule;

- A sale would represent a one-off capital gain and, in the event of a retained minority ownership, a continuing income stream;
- A sale could take place in circumstances which provided assurance that the contribution of the airport to the local and regional economy would continue.

30 If the shareholders choose to consider the possibilities of a sale, they will of course need to seek advice on the form of sale which best meets their needs and requirements. In very simple terms, three forms of sale, or different permutations thereof, might be contemplated:

- An outright sale;
- The sale of a majority stake, with either or both of the existing shareholders retaining a minority, either individually or jointly;
- Retention of the existing ownership structure, but with the sale of a long-term operating lease.

### **The environmental impact of the airport (Section 5)**

31 In the case that there are no major alterations to the nature of the airport's business, the environmental situation is likely to remain fairly stable with any adverse effects arising from increases in activity due to natural growth being, to a large extent, offset by the positive impact of newer technology as this is progressively introduced.

32 Any extension to the opening hours of the airport could be expected to result in an increase in the level of noise complaints, particularly if this was to impinge on what was regarded as sleep hours for the local community.

33 The environmental implications of an extension to the useable runway length are mixed. If an extension facilitated by the combination of works proposed in the February 2004 Runway Safety and Improvement Options paper was possible, the runway thresholds at both ends of the runway could be moved nearer to the ends of the runway. In these circumstances aircraft on approach to the new runway thresholds would be closer to the ground and hence perceived noise levels could be higher.

34 However, this need not necessarily be the case. Some larger aircraft which would newly be able to use the runway have noise outputs no greater than, or lower than, the larger corporate jet types which currently use the airport. In addition, it would be possible to introduce a procedure whereby smaller aircraft which did not need the additional landing distance provided could continue to land at the existing thresholds, such that perceived noise would be no greater than at present.

### **Additional issues covered in phase 2 of the study (Section 6)**

#### ***The Aviation Policy White Paper***

35 The new Aviation Policy White Paper provides a number of indications which are supportive of Gloucestershire airport:

- i) It recognises that the airport plays an important local role in respect of business aviation;

- ii) It emphasises the importance placed on regional airports in bolstering local economies by attracting business, generating employment and attracting inward investment;
- iii) A clear statement is made to the effect that it is government policy to encourage the growth of regional airports to serve regional and local demand;
- iv) English Regional Development Agencies are being encouraged to establish new route development funds, for use in cases where it is thought that new routes could assist regional development and reduce regional isolation;
- v) There is an indication that some limited public funding may be available to assist small local airports to invest in new capacity;
- vi) The possibility of government applying Public Service Obligation protection on runway slots at London airports is raised: this could greatly assist Gloucestershire airport in establishing a service to London.

### ***Options for capital development***

- 36 Since this study began, thinking on the options for capital development has evolved significantly. As far as we can see no serious thought is now being given to the major earthworks project at the eastern end of the runway which had previously been considered.
- 37 Instead, a more modest proposal is now being made by the airport. This would allow a Landing Distance Available of 1,199 metres and a Take-off Distance Available of 1,319 metres as at present, while improving the overall compliance of the airport with CAA safety requirements. It is expected that this proposal will be assessed independently in the near future.

### ***The need for a risk assessment***

- 38 It is a CAA requirement that airport operators carry out Runway End Safety Area risk assessments annually. We have established that an assessment took place in 2001 and we understand that an assessment took place in 2002, although we have not seen the report on it. As far as we are aware at the time of preparing this report, no assessment took place in 2003.

### ***The possibility of a service to a London airport***

- 39 Relatively poor surface links between the Cheltenham and Gloucester areas and London mean that a service to a London airport could be attractive, particularly if it were to either Heathrow or London City airports. There are runway slot issues in both cases: limited slots would presently be available in the case of London City but much more difficult at Heathrow. The latter situation might change in the medium term if changes in operating practices which have been mooted are made.
- 40 The establishment of a London service could be made easier if the possibilities of protected runway slots and route development funds as noted in paragraph 35 iv) and vi) above are realised.

### ***The use of Kemble airfield as an alternative to Gloucestershire airport***

- 41 A wholesale transfer of the aviation operations currently based at Gloucestershire airport to Kemble does not appear to be a practical or advisable proposition because:
- i) Kemble would not be a convenient location for a large number of existing Gloucestershire airport users;
  - ii) At present the air traffic control service at Kemble is less comprehensive than that at Gloucestershire airport;
  - iii) Kemble currently has very limited available hangarage for new based operators;
  - iv) The situation of Kemble in an area of very congested airspace means that an influx of new traffic on the scale of that currently using Gloucestershire airport could be very difficult to accommodate without an inherent risk of delay or even diversion.

### ***The benefits accruing from a sale***

- 42 There are a number of potential benefits relating to airport privatisations in general. These are:
- i) a reduction in the need for public sector investment;
  - ii) free access to commercial and financial markets;
  - iii) a possible improvement in efficiency and greater competition;
  - iv) a possible increase in an organisation's ability to diversify;
  - v) wider share ownership.

Not all of these factors would necessarily apply in the case of a sale of an airport of Gloucestershire's size. More specific benefits which could apply in the case of Gloucestershire may broadly be regarded as falling into two categories, financial and organisational.

#### **Financial benefits**

- 43 There are a number of potential financial benefits, both for the shareholders and for the airport. For the shareholders the most obvious benefit would be the one-off proceeds of the sale. The shareholders would also receive an indirect financial benefit through the removal of the liability to finance future major infrastructure requirements. While relatively minor projects and routine maintenance are funded through the airport's profit and loss account, it is necessary for more major expenditure, such as the imminent runway resurfacing, to be financed by the shareholders, either directly or through loans. The sale of the airport would remove this liability, freeing up funds for other, perhaps more socially inclusive, purposes.
- 44 These benefits would need to be set against future dividends which would be foregone. However, although dividend payments in recent years have improved significantly over those in the past they need to be put in the context of future expenditures which would be avoided. As an illustration the total dividend paid at the end of f/y 2002/03 was £40,000, compared to the loan recently authorised of around £900,000 relating to the runway resurfacing.

- 45 For the airport the main financial benefit would be a greater level of self-determination and a faster decision-making process with respect to the financing of major infrastructure needs. The airport would of course still need to make a business case for any capital expenditure, but it would be doing so to shareholders who would have the profitability and development of the airport as a primary business focus. In contrast, the airport must currently compete for funds with many local government demands, from street maintenance to social housing and schools. Against such competing demands the airport has been and would remain a long way down the current shareholders' order of priorities.

Organisational benefits

- 46 At present the airport Board consists of two executive directors and three non-executive directors appointed by each of the two shareholders. From time to time the appointment of the non-executive directors has been subject to the requirement by at least one of the shareholders that its appointees should be serving councillors. The motivation behind this requirement is that the shareholder(s) are not required to pay fees to the non-executive directors.
- 47 The direct consequence of this policy is that non-executive directors have generally come to the Board with no knowledge of the airport business. In some cases it would probably not be too unkind to suggest that they had no interest in the business either. Depending on the political colour of the shareholders at any given time, Board meetings have at times devoted as much energy to political sparring as to the conduct and direction of the business.
- 48 We regard this situation as one which is clearly unsatisfactory for the successful development of the airport as a business. The conjunction of business and politics is at best an uneasy combination, and it can at times result in the best interests of a company not being served. The need for a cohesiveness of shareholders applies equally to the airport Board, and the current system of appointment means that such cohesiveness will almost inevitably be absent from time to time.
- 49 The system of political appointment to the Board also means that there is inherent instability and discontinuity to its composition. While some members have remained in place for some time, learning something of the airport and aviation business over time, others have come and gone over relatively short periods. This is hardly a system which promotes effective governance.
- 50 There is, indeed, an argument to suggest that elected members of the Board are not in a position to contribute to the running of the airport without being subject to a conflict of interest. As noted in paragraph 43 above the airport presently has to compete for funding with many other public services. An airport Board member voting in favour of seeking funding approval from shareholders for investment necessary for the development of the airport business could easily find him- or herself in the position of subsequently having to vote against it when considering other demands for public funds.
- 51 At a more general level, there are arguments to suggest that a switch to private ownership would tend to improve productivity and efficiency levels at airports, through changes in operating practices, through an increased level

of commercial awareness and through a more customer-focused outlook on the part of airport management. Given the improved relationship between the airport and both its users and its regulator over the past five years or so we would hesitate to suggest that all of such benefits would automatically result from the sale of Gloucestershire airport, but they have certainly resulted at a number of other UK regional airports following privatisation. However it would not be surprising if operational benefits, for example relating to more effective procurement procedures, became apparent after a sale at Gloucestershire.

### **Recommendations (Section 7)**

52 Our recommendations are that:

- i) Financing for the runway resurfacing is released, and the work carried out, as a matter of urgency: we understand that approval of this financing has now been made;
- ii) There appears to be no business justification for the expenditure associated with major earthworks at the eastern end of the runway. However, alternative plans which would increase the LDA to 1,199 metres and improve safety standards should be investigated further;
- iii) In the short to medium term a policy of organic growth should be pursued, including further development in the general aviation field and the encouragement of potential operators of regular passenger services, whether scheduled or charter. Acceptance of this policy implies that some land within the airport boundary which is presently within the Green Belt will need to be released for suitable aviation-related development;
- iv) The first part of recommendation ii) should be reviewed if regular passenger services develop to such an extent that the investment costs might be more justifiable in view of the potential benefits to the wider Gloucestershire economy;
- v) Modest extensions to the airport's operating hours would provide greater operating flexibility to users and would consequently make the airport more attractive. Consideration should be given to this, weighing the benefits involved with the additional staffing costs, estimated at around £50,000 p.a., which would be incurred;
- vi) The shareholders should recognise that the closure of the airport and the re-use of the site is not a feasible option, and should take steps to express this recognition publicly, so as to remove any doubts over the airport's future;
- vii) The shareholders should recognise that the sale of the airport as a going concern would move it in line with the great majority of other (formerly) local authority-owned airports; and the shareholders may wish to consider whether it would now be an appropriate time to follow such a course of action themselves.