

Report to: Cabinet
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Subject: Exeter Airport

Purpose of report:

- To provide an overview of the impact of the Covid-19 pandemic on the operation of Exeter Airport
- To set out a package of support for the Airport
- To provide a response to a request for business rate relief
- To seek approval for additional funds through the Enterprise Zone programme to enable the Long Lane enhancement scheme to progress
- To highlight the potential to bid in to the forthcoming Free Port programme
- To highlight the potential to develop a sustainable aviation cluster centred on the Airport

Recommendation:

It is recommended that Cabinet;

- Notes the significant impact of the Covid-19 pandemic on the operation of the Airport
- Supports the proposed business rate relief request within State Aid limits to be funded through the Enterprise Zone programme
- Endorses increasing the budget for the Long Lane project by £1.1m
- Recommends to Council the borrowing of up to £3.7m against ring fenced business rate income to implement the scheme
- Delegates authority to the Chief Executive in consultation with the Leader, Deputy Leader and Portfolio Holder for Finance to agree the terms of and complete the funding agreements and any other necessary legal documentation to achieve the above recommendations.
- Notes the potential for an application to be submitted for Freeport status and to receive a further report on these proposals before any bid is submitted
- Endorses the concept of a sustainable aviation cluster centred on Exeter Airport and receives a further report on how this concept can come forward

Reason for recommendation:

To ensure that there is a package of support in place for the Airport to help counteract the impact of the lockdown, promote recovery and chart a course to a more sustainable future.

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| Portfolio Holder: | Portfolio Holder Economy and Assets |
| Financial implications: | There are financial implications to be highlighted in this report. If the request to support Rate Relief is approved then co-operation should be sought with other Councils who are also considering a similar request to ensure state aids rule are complied with (maximum funding circa £180,000). The airport has already received a business grant of £25k that would need to be factored into the state aid sum. 40% of the cost of relief granted falls to the District Council which with the grant taken into account the full cost if EDDC to meet relief alone will be in the order of £62k- it is proposed this sum is met from EZ ring fenced income. The increase in borrowing is also to be met from EZ income, this has been factored into the paper on the agenda regarding additional EZ borrowing and the financial implications are noted on that report. |
| Legal implications: | What is proposed within the recommendations is within the powers of the authority. In relation to the potential business rate relief part, the issue of State Aid needs to be fully considered and understood before the relief is given due to the possibility of the authority being made to recover any unlawful aid from the recipient (even where to do so would cause bankruptcy) and the authority then being open to damages claims from other entities suffering loss as a consequence of the unlawful aid and reputational harm. Otherwise there are no legal implications requiring comment. |
| Equalities impact: | Low Impact |
| Climate change: | High Impact The work undertaken to develop the Devon Carbon Plan assessed that flights to and from Exeter Airport contributed 2% of the total carbon emissions for the County. Whilst flying levels are currently significantly reduced, a return to a business as usual flying programme would see carbon emissions increase back to this level. The report highlights the importance of bringing forward the development of a sustainable aviation cluster based on the Airport as anticipated by the Local Industrial Strategy. The recent success of the Future Flight funding application is a significant step towards this objective which will require concerted partnership working and investment going forward. |
| Risk: | High Risk The Airport is a significant employer and economic driver for the District but it has been very significantly impacted by the Covid-19 pandemic. Together with the collapse of Flybe, the scale of job losses are unprecedented. The risks facing the Airport are therefore significant. This paper sets out a package of potential support including helping to ensure a more sustainable future for the Airport. |
| Links to background information: | Cabinet March 2019 Item 19 Cabinet July 2019 item 14 Cabinet March 2020 Item 13 Freeports consultation |

Link to [Council Plan](#):

Outstanding Economic Growth, Productivity, and Prosperity Outstanding Council and Council Services

1. Background and Context

1.1 Exeter Airport is a key asset and economic driver for the District and wider region. It is a significant employer in its own right (350 people) and also has a major indirect role in terms of supporting wider employment estimated at over 2,000 jobs. Services to and from the Airport support regional connectivity, access to markets and inbound tourism.

1.2 The Airport was acquired by the current owners Regional and City Airports (part of the Rigby Group) in 2013. It experienced year on year growth in passenger numbers for the decade leading up to 2020. Indeed passenger exceeded 1m per annum for the first time in the Airport's history in 2019.

1.3 Around 75% of the passenger numbers were accounted for by Flybe services and the airline also had its headquarters, training and engineering functions located at Airport. Flybe went in to administration on the 5th March leading to the loss of 931 jobs locally. It is not just the scale of the job losses that it is concerning but also the quality of those jobs in terms of offering skilled, well paid employment in the District. To put this in to context the average engineering salary was £39,000 and average HQ salary £42,000. This compares to an average income in the District of around £28,000.

1.4 The collapse of Flybe in early March was followed later that month by the impact of entering the lockdown. This has particularly affected the aviation sector across the UK and Exeter Airport is no exception. To put this in to context, passenger numbers at the Airport in May 2019 were 97,000 and in May 2020 the equivalent figure was just 9. From the beginning of the financial year to the end of the July passenger numbers dropped by 99.5% compared to the same period last year.

1.5 As we emerge from lockdown commercial flights have now recommenced from the Airport. But this is nowhere near the scale that might otherwise have been expected with passenger numbers down by 94% during August. Whilst some former Flybe routes have been picked up by alternative operators such as Logan Air and Blue Island, other key routes including to Paris and Amsterdam are not currently being operated. The flying programme continues to be further impacted by the uncertainties around quarantine restrictions.

1.6 The in combination impact of the collapse of Flybe and the Covid-19 pandemic has left the Airport in a fundamentally different place. Passenger numbers this year are expected to be below between 80% and 90% down for the year. In turn this has led the Airport to critically review their business plan and to clamp down on any non-essential expenditure. Furthermore the Airport is currently consulting on making 96 redundancies. The potential for over 1,000 jobs losses in and around the Airport is unprecedented.

2. Package of support

2.1 Regular meetings have been held with the Airport along with representation from the Local Enterprise Partnership, Department for Business (BEIS) and the City and County Councils to understand the issues facing the Airport in greater detail.

2.2 In March a request for business rate relief was received from the Airport. This was for the full amount permissible within State Aid *de minimis* limits (200,000 euros or circa £180,000 over a three year period) against a total liability of £619,520 p.a. An initial 6 month deferral was agreed to assist with cash flow but a decision is now required in terms of the rate relief request.

2.3 This is a challenging area for the Council given that the cost would ordinarily need to be borne from core budgets. The Council does have a policy which sets a number of criteria as follows;

- That relief is for a temporary period
- The significance of potential loss of employment in the area
- The measurable impact on other businesses and the local community
- Opportunities for new business growth, expansion and employment within the area
- The positive effects on business cash flow and evidence of positive impact on future viability
- Sufficient evidence of the likelihood of the recovery of the applicant's business
- The capacity of council intervention to secure further investment and retained and/or new employment opportunities
- Reassurance of duration of retained employment and continued production/operation in the area
- Uniqueness of service/commodity being provided within the community/district
- Whether relief is for occupied or unoccupied rates
- What proactive measures the business/organisation is taking to reduce overheads
- Measures being taken to reduce their rate liability, for example occupying smaller premises, letting out parts of the building
- Consideration will also be given to rate deferral, re-profiling of instalments, arrangements as an alternative method of support
- Cost of funding relief and the constraints on council finances
- Whether it is in the interests of Council Tax payers as a whole to give relief

2.4 A further issue relates to State Aid. The Regional and City Airports group includes Airports at Bournemouth, Coventry and Norwich. The State Aid *de minimis* limit applies across the group. Correspondence with the host authorities in other parts of the country revealed that similar requests had been submitted. If Norwich City Council were to grant the full rate relief permissible under the State Aid rules to their Airport it would effectively debar us from being able to do the same. This effectively points to the need for a package of support for regional airports to be coordinated at national level. This has been raised with the local MP.

2.5 Nonetheless there is still a need to consider what role business rate relief can play in terms of helping to provide support including in terms of securing new investment. This includes a replacement maintenance, repair and overhaul (MRO) operator for the hangars that have been vacated at the Airport.

2.6 The Cabinet meeting will also consider a paper on the potential to increase the borrowing against future ring fenced business rate income. This includes to create a £1m fund to support a continuation of a business rate relief programme beyond the current HM Treasury funded relief period. This also provides an opportunity to support the Airport which, whilst not within the Enterprise Zone designation, is nonetheless important to its future success. This approach would overcome the issue of funding rate relief from core Council budgets. Subject to the additional Enterprise Zone funding proposal being approved, it is a recommendation of this paper that business rate relief up to State Aid limits is approved. This would need to take account of recent support provided through the Discretionary Grant programme and be within the 200,000 euros *de minimis* limit over a 3 year period.

2.7 One further aspect relates to the Training Academy. This was a dedicated facility for Flybe which opened in 2010 providing all their training from engineering through to flight crew and pilots. Devon County Council and Exeter College are in the process of acquiring the building with a view

to repurposing it as future skills academy. This will offer training for high tech jobs in engineering, digital, construction and clean growth and as such it is very well aligned with the wider Enterprise Zone programme.

3. Long Lane enhancement

3.1 Cabinet has received a series of papers on the scheme to enhance Long Lane. Due to the inadequate width of the current highway route, no development can take place at the Airpark enterprise zone site until it is widened. In addition to unlocking development at this site, the enhancement of Long Lane will also bring the following benefits.

- Improving the approach to Exeter Airport as a major gateway to the region
- Improving pedestrian and cycling connectivity
- Improved public transport connectivity through a new circular bus route
- Supporting wider investment, in particular the planned France-Alderney-Britain inter connector project

3.2 The Cabinet meeting of the 4th March agreed a budget of £2.55m for the Long Lane Enhancement works to be funded through the Enterprise Zone programme. Subject to obtaining the necessary land approvals, works were scheduled to start on Silverdown Lane Link Road in April 2020 with a completion date for the entirety of the Long Lane works in early 2021.

3.3 The Airport stated early on in stakeholder engagement meetings that their existing surface water sewer system is operating at full capacity. Subsequently the Long Lane scheme was reliant on the installation of a proposed deep sewer system to redirect flow away from the Airports surface water sewer. These works would also enable wider improvements and were due to be commissioned and funded by the Airport in conjunction with South West Water. Progress had been made with combining the highway enhancement works program with the South West Water works programme to ensure road users do not need to suffer a second significant closure period for the same section of road.

3.4 However, as a result of Covid-19 and Flybe going into administration the Airport have been forced to clamp down on all expenditure and are no longer able to fund SWW to undertake the works at the present time. The costs of these works have been valued at £784,783.75. This has left a funding shortfall and a significant risk to scheme delivery.

3.5 The Enterprise Zone Board met on the 16th July to consider the options for how to proceed. This included the potential to pursue an alternative drainage strategy for the road works or allowing the main surface water works to be implemented at a later date. But these options could be highly disruptive including in terms of the delivery of the France-Alderney-Britain connector project which is due to reach final investment decision next year and will result in largest loads ever seen on the South West highway network being transported down Long Lane. Having a comprehensive drainage strategy that facilitates access to the main sewer network is also likely to be a benefit for the delivery of commercial space on at least two of the Enterprise Zone sites.

3.6 The Board considered that the opportunity to align the road and drainage works should not be lost if at all possible. The recommendation was therefore to pursue the option of sticking with the original planned scheme and undertaking all of the proposed works now but for this to be subject to a funding agreement to recoup the relevant funds.

3.7 This option is preferred by the Airport who are willing to enter in to negotiations to conclude the terms of a funding agreement. The timing of repayments will need to align with recovery forecasts whilst also including a long stop date for repayment. Overall this course of action would overcome the current uncertainty, help to unlock investment and aid overall recovery.

3.8 In line with the advice of the Enterprise Zone Board, it is a specific recommendation of this paper that the approved budget to fund the Long Lane scheme through the Enterprise Zone programme is increased to accommodate these works. This is subject to the completion of a legal agreement with the Airport. This would recoup £580k of the overall cost as specific trigger points

are reached. The difference between this figure and the total additional borrowing is accounted for by the avoided costs of the minimum scheme necessary (a dedicated highway sewer) to provide surface water drainage for the highway alone being subtracted from the overall scheme cost

3.9 Following further discussions with the County Council it has become clear that there have also been wider costs increases. In part these relate to the delays to the project and specific increases have been identified in the following areas;

- Additional works in relation to street lighting, drainage and providing bus stops
- Removal of existing building/structures
- Additional design fees

In order to accommodate these costs and the wider drainage works it is a specific recommendation of this paper that the budget for the Long Lane enhancement scheme is increased by £1.1m.

3.10 The Council meeting in April 2019 endorsed borrowing of up to £3m against ring-fenced business rate income to implement the scheme. The additional works mean that this ceiling will now be exceeded in terms of the gross budget. It is therefore a recommendation of this paper that Cabinet recommend to Council to agree borrowing of up to £3.7m to implement the scheme.

3.11 Subject to agreeing the overall budget, a funding agreement will be entered in to with Devon County Council. DCC will then appoint a contractor to undertake the works. Initial vegetation clearance works will need to be completed in October to comply with the terms of the dormouse license. Overall the works are expected to take between 12-15 months to complete.

4. Freeports

4.1 Freeports are secure customs zones located at ports where business can be carried out inside a country's land border, but where different customs rules apply. They can reduce administrative burdens and tariff controls, provide relief from duties and import taxes, and ease tax and planning regulations. Typically, goods brought into a freeport do not attract a requirement to pay duties until they leave the freeport and enter the domestic market – and no duty at all is payable if they are re-exported.

4.2 The government aims to create up to 10 freeports in locations across the UK. The objectives underpinning this approach are to;

- establish freeports as national hubs for global trade and investment across the UK
- promote regeneration and job creation
- create hotbeds for innovation

4.3 The proposed model includes tariff flexibility, customs facilitations and tax measures. Consideration is also being given to measures to incentivise innovation and to target funding for infrastructure improvements.

4.4 To develop the approach further the government ran a freeports consultation between February and July of this year. Devon County Council coordinated a response to this consultation across the Local Enterprise Partnership area. The Airport has expressed particular interest in becoming part of a freeport designation.

4.5 At present there is no formal freeport application process. This is though expected to open in the autumn when the final bidding criteria will also be confirmed. Based on the consultation document it is likely that applications will need to be led by the Local Enterprise Partnership and be of a scale that will register and be able compete on a national stage. An officer group has been formed to look at the potential for a Freeport designation spanning Plymouth Port, Exeter Airport and aerospace activity in South Somerset. There is also considering the potential to harness digital and big data expertise.

4.6 A further report will be brought to Cabinet if the freeport proposals progress and in advance of any bid being submitted. This will need to be clear on the benefits of the designation including the relationship with the existing Enterprise Zone.

5. Sustainable Aviation Cluster

5.1 Regardless of the current impact of the Covid-19 pandemic, arguably the greatest structural challenge facing the aviation industry is to decarbonise. This is likely to involve continuing to achieve efficiency improvements, supporting the commercialisation of sustainable, alternative aviation fuels and developing radically new aircraft and propulsion technology that will enable a 'third generation' of aviation.

5.2 The consultation document referred to above recognised that establishing freeports as innovative hubs presents an opportunity to drive the decarbonisation agenda. This would enable business and industry located in freeports to invest further in low-carbon technologies by testing new ideas and green technologies within freeport sites.

5.3 A central objective of the Local Industrial Strategy for the Heart of the South West is the achievement of clean growth. The Strategy includes the potential to develop a sustainable aviation cluster centred on Exeter Airport. A range of partners including the University, Exeter College and the LEP are collaborating to develop this concept. Recent feedback from the Department for International Trade has highlighted that the area provides a good environment for testbeds and that the region clearly has the infrastructure to support technology development and flight-testing capability. This aligns with the Government's Future Flight Strategy and suggests that the key foundations exist from which to build this cluster.

5.4 A bid to the UK Research and Innovation's Future Flight programme coordinated by the LEP was submitted in June of this year. This project was aimed at progressing to zero emissions for regional airline operations and was a partnership between two regional airlines and major manufacturers as well as Exeter and Newquay Airports. Specifically this anticipated moving towards zero emissions for regional and sub-regional transport using hybrid and electric aircraft in a point-to-point based airline route network and Air Traffic Management system. This bid was recently confirmed as being successful which is a major step towards bringing forward the development of the sustainable aviation cluster.

6. Assessment

6.1 The Airport has been severely impacted by the Covid-19 pandemic, probably more so than any other business in the District. The scale of job losses is unprecedented. The pathway to recovery is likely to be both difficult and protracted. Modelling work undertaken for the County Council highlights that more widely the Devon economy is not likely to return to pre-Covid-19 levels of performance until 2027 and employment rates will not recover until 2030 without significant investment between local partners and Government.

6.2 This provides an important part of the context for considering what role the Council can play in supporting the Airport. This paper puts forward proposals for short term financial support in terms of business rate relief. This will help to cushion the impact of the current situation and potentially also assist in recovering from the loss of Flybe in terms of securing alternative investors/operators. Moreover the additional funding from the Enterprise Zone programme for the Long Lane project will enable the scheme to go ahead and facilitate improved public transport and cycling connectivity. This includes the new Future Skills Academy which will provide a range of training opportunities to up to 400 people in the local area.

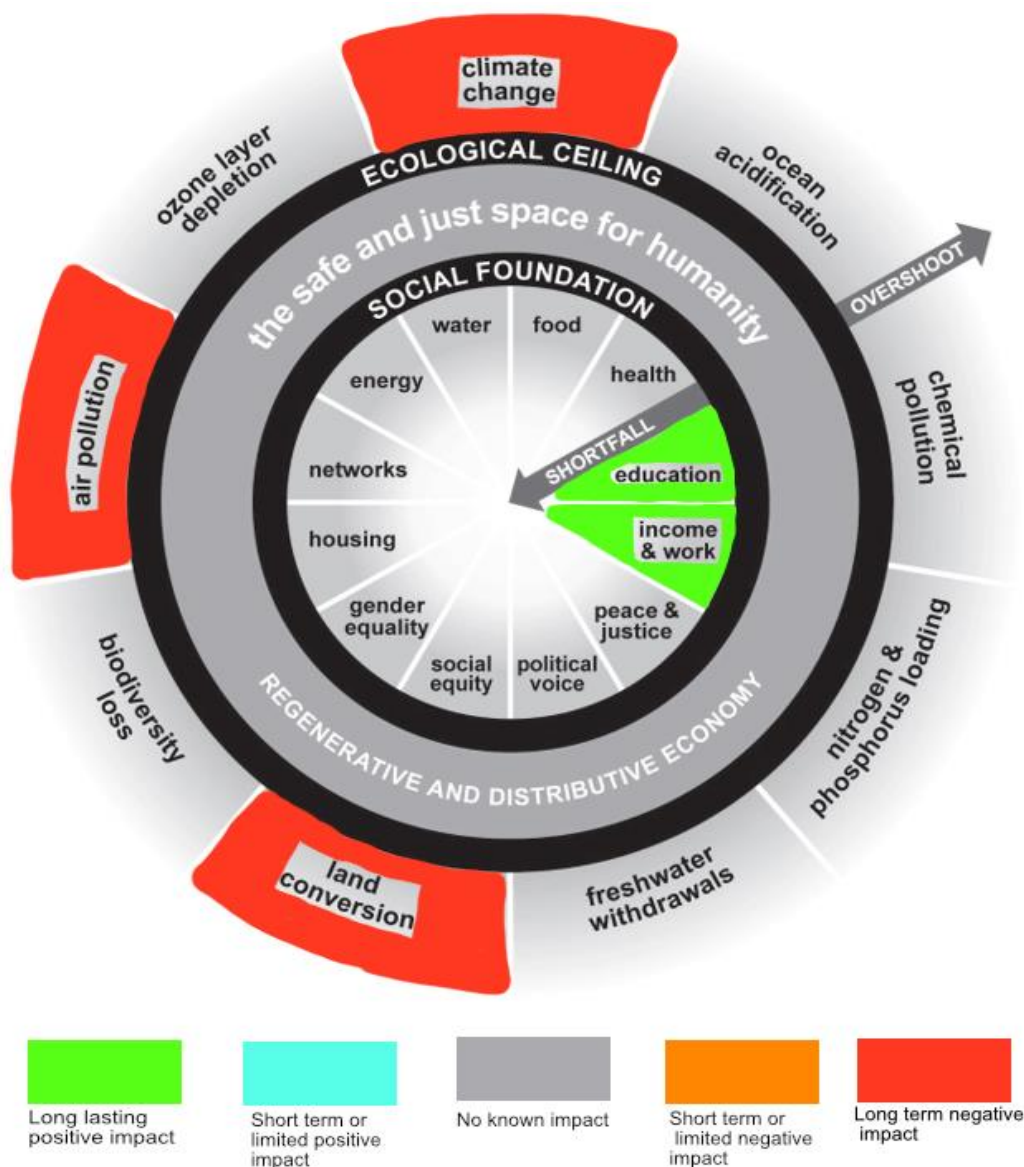
6.3 More strategically recovery should not mean just a return to business as usual. In the context of a declared climate emergency every effort needs to be made to promote a green recovery. The work undertaken to develop the Devon Carbon Plan assessed that flights to and from the Airport accounted for 2% of overall carbon emissions. The opportunity exists to pivot towards the Airport being at the centre of a sustainable aviation cluster. There is a strategic

opportunity to make a meaningful contribution to reducing this and for the area to play a leading role in helping to bring forward the third era of aviation. The recent success of the Future Flight application starts to provide real credibility to these ambitions.

6.4 In order to bring these issues together and to provide a rounded assessment of the various considerations an appraisal has been undertaken based on the Kate Raworth Doughnut Economics model. This helps to show how projects and decisions will affect the environment and people. The model has two parts - the inner area of the doughnut focuses on social and economic issues. The outer ring focuses on environmental issues like greenhouse gas emissions and biodiversity.

6.5 The assessment is set out below. In framing this account has been taken of the;

- impact of current large scale jobs losses on livelihoods
- increased carbon emissions and pollution from a return to pre Covid flying levels
- ability of the Future Skills Academy to improve education and training opportunities
- role of the Long Lane project in improving public transport and cycling connectivity
- development of the Airpark employment area – a greenfield site
- potential to work towards the longer term development of a sustainable aviation cluster



6.6 The assessment highlights that a return to business as usual, in terms of the flying programme, would have a significant negative impact in terms of greenhouse gas emissions and

pollution. This emphasises the need to for any short term support to be set within a wider corporate objective of bringing forward the development of a sustainable aviation cluster.

7. Alternative options

7.1 The Airport is a commercial entity. The most obvious alternative option would be not to provide any form of public sector backed support. The Airport does though face an existential threat currently. In the worst case scenario the Airport would close. This would lead to further large scale job closures, reduce business rate revenues and also diminish the connectivity of the region. Furthermore if the propensity of local residents to fly was not diminished, this would lead to longer trips (e.g. to Bristol) to access flights with the potential for a higher carbon footprint accordingly.

7.2 In terms of establishing the counterfactual position it is not possible to say categorically that the package of support outlined in this report will stave off the threat facing the Airport. But it will help to cushion the impact of the pandemic. The big strategic opportunity is to bring forward the development of the sustainable aviation cluster. The Council's support can therefore help to raise sights beyond purely short term commercial considerations. The lesson from other transformational projects in the district, such as the Science Park, is that they require sustained partnership working and investment in order to bring them to fruition.

8. Conclusion

8.1 Exeter Airport is a key asset and economic driver for the district and wider sub-region. It has been severely impacted by the Covid-19 pandemic with an unprecedented scale of job losses. This report puts forward a range of measures which will help to both aid short term recovery, ensure infrastructure improvements can continue to be progressed and work towards the strategic objective of developing a sustainable aviation cluster.