# Executive summary

In April 2014, Cheltenham Borough Council (CBC) and Gloucester City Council (GCC), as joint shareholders commissioned York Aviation Ltd (YAL) to undertake an independent review of the governance arrangements of Gloucestershire Airport Ltd (GAL).

One of the principle recommendations was that the shareholders agree a strategic long term vision for the airport supported by a GAL Board approved business plan. This report sets out the key elements of the airport’s business plan for the period 2015-18 for endorsement by the shareholders. A publicly available executive summary is attached at Appendix 2.

In their 2014 report, YAL also proposed improvements to the airport Shareholders Agreement and Articles of Association as well as recommendations to improve shareholder governance. These recommendations are the subject of a separate report.

## Recommendations

1. **That Gloucester City Councils Shareholder Forum representative, approves the Gloucestershire Airport Business Plan 2015 -2018**

2. **That Cheltenham Borough Councils Shareholder Forum representative reports back on the decision of the Cheltenham Borough Council Cabinet to approve the Gloucestershire Airport Business Plan 2015 -2018**
| Financial implications | The 2015-18 Business Plan does not request any financial funding, borrowing or guarantee from either Council in their capacity as shareholders. Any such requests would be subject to separate formal council approval.  
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Jon Topping; [jon.topping@gloucester.gov.uk](mailto:jon.topping@gloucester.gov.uk) 01242 396242 |
| Legal implications | The input of Pinsent Masons Solicitors is being provided to both shareholder councils with regard to revision of the legal governance documents (shareholders agreement and company articles). The changes to the shareholders agreement and articles will require appropriate shareholder decisions. At GCC, the shareholder responsibility sits with the Leader who will be exercising his individual Cabinet Member decision-making powers to approve these reports.  
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Sue Mullins; [sue.mullins@gloucester.gov.uk](mailto:sue.mullins@gloucester.gov.uk) 01452 396110 |
| HR implications (including learning and organisational development) | None arising from this report  
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| Key risks | 1. If the airport shareholders and the Board do not agree a strategic vision and a business plan for the airport then it will not be possible to maximise the commercial potential of the airport for the benefit of the local economy and shareholder dividends.  
2. If the key actions and performance measures within the business plan are not agreed then it will not be possible for the shareholders to hold the airport board to account for delivery of the business plan. |
| Corporate and community plan Implications | Shareholder and airport board alignment on strategic vision and business plan will bring about a stronger and more commercially focused company and therefore support both Council’s objective of strengthening their respective local economies. |
1.0 Background

1.1 In 2014 CBC and GCC, as joint shareholders of the airport, commissioned YAL to undertake an independent review of governance arrangements for Gloucestershire Airport. This review followed on from a previous report commissioned by Gloucester City Council which allowed the City Council to determine a settled policy on the airport’s long-term future.

1.2 The key recommendations flowing from the 2014 YAL governance report were:

   i. The requirement for a clear strategy agreed by the Shareholders
   ii. An appropriate forum for co-ordinating shareholder views
   iii. A business plan and budget set by the Board and approved by the shareholders
   iv. Clarity on strategic targets for the company, roles and responsibilities of the Board and performance monitoring for management
   v. Clarity on delegation of authority to act within the limits of the business plan and budget.

1.3 At their July 2014 meetings, CBCs Cabinet and GCCs Council supported the YAL governance report recommendations and, in order to commence delivery of them, initiated the following actions:

   • The establishment of the Shareholder Forum,
   • Expanding the capability of the board and management; and
   • To initiate the process of strategy formulation to improve business performance and the development of the airport business plan.
1.4 This report deals primarily with the latter point above.

2.0 Gloucestershire Airport Strategic Vision

2.1 The strategy formulation work has culminated in the shareholders confirming their objectives for the airport company as being to:

“Manage the operation and development of the Airport in a manner aimed at delivering environmentally sustainable and profitable growth, supporting the sub-regional economy and delivering financial returns to the shareholders”.

2.2 Delivering the strategic vision in the short to medium term will require the airport to do a number of things in parallel;

i) Continue to control its operating costs and strengthen the capacity and capability within the team to provide a stronger commercial focus together with a strengthened board;

ii) Attract more based aircraft to deliver revenue growth, this will need to be supported by the provision of additional hangarage;

iii) Invest in improvements in landing aids (GPS), pilot controlled lighting and, in the medium term, resurfacing of the runway;

iv) Seek to establish a fixed based operator to attract additional business

v) Seek to build on the existing scheduled service offer, for example, by seeking an additional route to a UK destination;

vi) Fully realising where possible the potential of the property assets, subject to planning processes.

3.0 Gloucestershire Airport Business Plan 2015-18

3.1 The executive summary is attached at Appendix 2.

3.2 Overall the business plan aims to present a challenging target but not an unrealistic one. There are a number of new business opportunities which have arisen following the shareholders public endorsement for the airport’s future. However the aviation sector is a fast moving business and so some of the current opportunities may not come to fruition and others may present themselves over the coming 12 months and beyond.

3.3 In such a fast moving sector communication and positive dialogue between the airport board and the shareholders is going to be absolutely crucial. The Shareholder Forum will play a key role in holding the airport board to account for the airport’s financial performance, delivery against the action plan and key performance indicators as well as providing an arena where business development opportunities can be discussed. It should also be noted that any new opportunities with substantial financial implications will be brought forward with a detailed business case for both board and shareholder approval prior to any commitment being made.

3.4 Turning therefore to the business case in a little more detail, this section of the report will provide an overview of the:

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1 A fixed base operator (FBO) is a commercial business granted the right by an airport to operate on the airport and provide aeronautical services such as fuelling, hangaring, tie-down and parking, aircraft rental, aircraft maintenance, flight instruction, etc.
Three year budgeted profit and loss
Growth opportunities
Capital expenditure
Shareholder return

3.5 Three Year Budgeted Profit and Loss

3.6 The business plan quantifies the estimated year-end performance for 2014-15 which, despite a slight shortfall in aircraft movements, anticipates a profit of £104K by the year end. There are two key factors which have resulted in this improved financial performance. Firstly, staff cost savings through the delay in appointing to key management posts and increased profit on fuel sales.

3.7 With specific regard to the appointment to key posts, bearing in mind the underlying presumption to the business plan is one of commercial growth as will be discussed below, it will be important to move forward quickly with confirming the key roles and responsibilities of the airport management team if the challenging targets within the business plan are to be achieved.

3.8 The business plan considers in significant detail the individual income and expenditure lines within the business plan and whilst 2014-15 shows a profit 2015-16 shows an estimated loss of £230K, but quickly returning to profit in 2016-17 of £76K and rising further to £171K in 2017-18.

3.9 The principal reasons for the estimated loss in 2015-16 are:

- The recent fall in oil prices means that the total income earned falls dramatically from 2014-15 and whilst fuel volumes are expected to increase over the 3 years of the business plan the gross profit margin will see a reduction.

- An increase in staff costs arising from the need to bring in additional capacity to the management team to deliver the growth opportunities within the business plan. The budget also makes an allowance for funding 2 non-executive board members in line with the 2014 governance review.

- Contingency provision in line with business planning practice.

3.10 Growth Opportunities

3.11 The 3 year business plan is a growth based plan with some immediate short to medium term opportunities which need to be progressed as a matter of priority by the board if the forecasted profits are to be achieved. Initially, growth is predicated on the need to provide more high quality hangarage to support growth in the number of based aircraft and growth in the business overall. The development of additional hangars, in the first instance mainly by other developers, is the principal means to deliver the “step-change” in business performance by increasing income from landing fees, fuel sales as well as rental income.

3.12 To facilitate this commercial growth opportunity the airport has been successful in securing £550k Growth Deal funding from GFirst, the Local Enterprise Partnership, to fund enabling works. This welcome financial support facilitates an immediate opportunity for hangar development within the airport curtilage, development which is a key priority for delivering profit to the company.

3.13 There is also an opportunity which has arisen to support an aerospace related development generating a capital receipt which the airport plan to use to fund some replacement hangarage and other facility upgrades. It must be noted however that the generation of this particular capital receipt will require a decision by council officers before any deal can be concluded by the airport.
In addition, the growth projections require some improvements in other facilities and infrastructure to support the commercial/business aviation market sector. There is also a potential for growth with regard to targeted commercial air services and possibly a UK schedule service opportunity.

### Capital Expenditure

The business plan includes a detailed capital expenditure plan for 2015-2025 totalling £6.1M.

The airport will require capital receipts to facilitate the growth plan. There are 3 short-term opportunities which will provide significant cash receipts to the business which will allow the infrastructure investment required to drive the growth and improvement in the financial performance. These receipts to a large extent underpin the capital investment in the period of this business plan and as such are crucial to deliver the long term financial returns to the company in order to put it in a position in the future to be able to pay a dividend to the shareholders in the medium to long term.

### Shareholder Returns

The current business plan indicates a small increase in the shareholder pass through of rental income from the Meteor Business Park in 2017-18. This is currently the only mechanism available to the shareholders to receive a direct cash benefit from the airport owing to the pension fund deficit. However, the capital investment in the early years of the business case together with the reinvestment of profits improves the business cash-flow and ensures the company is self-sustaining through a period of growth.

Delivery of the 3 year business plan will put the airport company in a stronger financial position with current indications being that dividends could be payable within 5 to 10 years on the basis of the pension value at 31 March 2014. This timescale must be set in the context of a sector subject to the volatility of fuel prices and an industry impacted by the recession. Nonetheless, shareholder approval to the business plan will enable the airport to capitalise on current deliverable growth opportunities and provide a firm foundation for future growth potential.

### Alternative options considered

Two alternative options were considered:

i) **Do Nothing**, have no clear vision or business plan. This option would create the scenario whereby there is no agreed strategy for the delivery of the activity of the airport or assessment of its financial planning. To do nothing could not be seen in the best interests of the airport or public funds, as both CBC and GCC are joint owners.

ii) **Reject the proposed Business Plan.** This option could be deemed appropriate should the Business Plan not meet the requirements of both CBC and GCC. However there has been an ongoing constructive dialogue between the joint owners, and the Airports Management Team, to ensure that the Business Plan being considered by the Shareholder Forum, is at a standard that is considered to be acceptable.

### Consultation and feedback

The airport management and board have been extensively engaged in the development of their business plan. In formulating the airport vision YAL engaged with the Leaders and senior officers of CBC and GCC. YAL also engaged with airport staff in the development of the vision.

Officers from legal and finance, from both Councils, have been engaged both in the review of the business plan and also the updating of the governance arrangements. Members of CBCs Overview and Scrutiny have also attended a seminar where the airport presented their business plan proposals and took questions on its content.
## 6.0 Performance management – monitoring and review

### 6.1 The airport business plan contains a detailed action plan for the financial year 2015-16 together with clear and measurable key performance indicators (KPIs). The action plan and KPIs will be monitored through the shareholder forum. In addition the forum terms of reference require it to report on the airport company performance to each of the shareholder councils annually.

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| Appendices | 1. Risk Assessment  
|            | 2. Gloucestershire Airport Ltd – 3 Year Business Plan 2015-18 Executive summary – Appendix A |

| Background information | 1. Gloucestershire Airport Ltd – Confidential 3-Year Business Plan 2015-18 (not for publication by virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972)  
|                        | 2. YAL Governance Report 2014 (exempt) |
## Risk Assessment

### Appendix 1

<table>
<thead>
<tr>
<th>Risk ref.</th>
<th>Risk description</th>
<th>Risk Owner</th>
<th>Date raised</th>
<th>Impact</th>
<th>Likelihood</th>
<th>Score</th>
<th>Control</th>
<th>Action</th>
<th>Deadline</th>
<th>Responsible officer</th>
<th>Transferred to risk register</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>In ability to monitor the performance of the airport board and company</td>
<td>Pat Pratley, Sue Mullins</td>
<td>17.3.15</td>
<td>4</td>
<td>3</td>
<td>12</td>
<td>Reduce</td>
<td>Quarterly shareholder forum will monitor business plan performance and hold airport board to account</td>
<td>Ongoing</td>
<td>Pat Pratley, Sue Mullins</td>
<td></td>
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<tr>
<td>2</td>
<td>Shareholder vision for the airport not delivered</td>
<td>Pat Pratley, Sue Mullins</td>
<td>17.3.15</td>
<td>5</td>
<td>3</td>
<td>15</td>
<td>Reduce</td>
<td>Shareholder approval to the vision and support for the business plan</td>
<td>Ongoing</td>
<td>Pat Pratley, Sue Mullins</td>
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<tr>
<td>3</td>
<td>Shareholder dividends unable to be delivered in the medium to long term</td>
<td>Mark Sheldon, Jon Topping</td>
<td>17.3.15</td>
<td>3</td>
<td>4</td>
<td>12</td>
<td>Reduce</td>
<td>Shareholder Forum to monitor level of shareholder reserves and to take action as necessary</td>
<td>Ongoing</td>
<td>Mark Sheldon, Jon Topping</td>
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<td>4</td>
<td>Non-executive director capacity in the airport board remains with regard to finance and aviation/airport experience</td>
<td>Pat Pratley, Sue Mullins</td>
<td>17.3.15</td>
<td>3</td>
<td>4</td>
<td>12</td>
<td>Reduce</td>
<td>1.Business plan includes element for non-exec directors 2.Robust selection process with appropriate support</td>
<td>By June 2015</td>
<td>Pat Pratley, Sue Mullins</td>
<td></td>
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<td>5</td>
<td>Airport capital strategy not clear to support business growth</td>
<td>Mark Sheldon, Jon Topping</td>
<td>17.3.15</td>
<td>5</td>
<td>2</td>
<td>10</td>
<td>Reduce</td>
<td>Business plan contains detailed capital expenditure plan which will be reviewed annually by the shareholder forum</td>
<td>Ongoing</td>
<td>Mark Sheldon, Jon Topping</td>
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<td>6</td>
<td>Airport needs to look to either the shareholders or commercial borrowing to facilitate short term investment</td>
<td>Mark Sheldon, Jon Topping</td>
<td>17.3.15</td>
<td>4</td>
<td>3</td>
<td>12</td>
<td>Reduce</td>
<td>Short-term capital receipts can fund initial investment to deliver growth in the life of the business plan</td>
<td>Ongoing</td>
<td>Mark Sheldon, Jon Topping</td>
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<td>#</td>
<td>Risk Description</td>
<td>Risk owner</td>
<td>Risk Score</td>
<td>Action</td>
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<td>7</td>
<td>Business plan growth not deliverable due to capacity constraints in the airport management team</td>
<td>Pat Pratley Sue Mullins</td>
<td>17.3.15</td>
<td>4</td>
<td>3</td>
<td>12</td>
<td>Reduce Shareholder approval to management team job roles and recruitment to commercial director role</td>
<td>July 2015</td>
<td>Pat Pratley Sue Mullins</td>
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**Explanatory notes**

**Impact** – an assessment of the impact if the risk occurs on a scale of 1-5 (1 being least impact and 5 being major or critical)

**Likelihood** – how likely is it that the risk will occur on a scale of 1-6
(1 being almost impossible, 2 is very low, 3 is low, 4 significant, 5 high and 6 a very high probability)

**Control** - Either: Reduce / Accept / Transfer to 3rd party / Close

**Guidance**
Types of risks could include the following:

- Potential reputation risks from the decision in terms of bad publicity, impact on the community or on partners;
- Financial risks associated with the decision;
- Political risks that the decision might not have cross-party support;
- Environmental risks associated with the decision;
- Potential adverse equality impacts from the decision;
- Capacity risks in terms of the ability of the organisation to ensure the effective delivery of the decision
- Legal risks arising from the decision

Remember to highlight risks which may impact on the strategy and actions which are being followed to deliver the objectives, so that members can identify the need to review objectives, options and decisions on a timely basis should these risks arise.

**Risk ref**
If the risk is already recorded, note either the corporate risk register or TEN reference

**Risk Description**
Please use “If xx happens then xx will be the consequence” (cause and effect). For example “If the council’s business continuity planning does not deliver effective responses to the predicted flu pandemic then council services will be significantly impacted.”

**Risk owner**
Please identify the lead officer who has identified the risk and will be responsible for it.

**Risk score**
Impact on a scale from 1 to 5 multiplied by likelihood on a scale from 1 to 6. Please see risk [scorecard](#) for more information on how to score a risk.
Control
Either: Reduce / Accept / Transfer to 3rd party / Close

Action
There are usually things the council can do to reduce either the likelihood or impact of the risk. Controls may already be in place, such as budget monitoring or new controls or actions may also be needed.

Responsible officer
Please identify the lead officer who will be responsible for the action to control the risk. For further guidance, please refer to the risk management policy

Transferred to risk register
Please ensure that the risk is transferred to a live risk register. This could be a team, divisional or corporate risk register depending on the nature of the risk and what level of objective it is impacting on