

Subject:	Shoreham Airport		
Date of Meeting:	1 May 2014		
Report of:	Executive Director Environment Development & Housing and Executive Director of Finance & Resources		
Contact Officer:	Name:	Nick Hibberd	Tel: 293020
	Email:	nick.hibberd@brighton-hove.gov.uk	
Ward(s) affected:	All		

FOR GENERAL RELEASE

1. PURPOSE OF REPORT AND POLICY CONTEXT

- 1.1 The report provides an update on negotiations taking place between the Shoreham Airport freeholders: Brighton & Hove City Council and Worthing Borough Council (“the Councils”); the lessees Albemarle Shoreham Airport Limited (“ASAL”) and potential lessees, Brighton City Airport Limited (“BCAL”), on the future lease and management arrangements at the Airport.
- 1.2 The aim of the negotiations is to ensure that the Airport becomes a sustainable and profitable operation; supporting complementary business interests and economic growth on site; and securing much needed investment in the Airport’s Terminal and Municipal Hangar buildings.

2. RECOMMENDATIONS:

- 2.1 That the Committee agree the main principles in accordance with “List of Proposals” agreed by Worthing Borough Council (set out in Appendix 1):
 - 2.1.1 ASAL shall surrender Airport Lease (subject to 2.1.2 to 2.1.7 below):
 - 2.1.2 The Councils grant a long lease of the Terminal Building, Hangar and car park to ASAL on substantially the same terms as the surrendered lease;
 - 2.1.3 ASAL shall grant BCAL a lease of the Terminal Building, Hangar and car park on similar terms to the Councils’ lease to ASAL;
 - 2.1.4 The Councils grant a long lease of the Eastern Development Area and Western Development Area to ASAL on the same terms as the surrendered lease;
 - 2.1.5 The Councils grant a long lease of the airport operational land (i.e. the old Airport Lease minus the sections granted under 2.1.2 and 2.1.4) to BCAL on substantially the same terms as the surrendered lease;
 - 2.1.6 The £1m deferred consideration shall be further deferred until a building built on the Eastern Development Land or Western Development Land is completed and occupied in part or whole.
- 2.2 That the Committee provide delegated authority to the Executive Director Environment Development & Housing and the Executive Director of Finance &

Resources to enter into leases and other supplementary agreements in order to complete 2.1

3. CONTEXT/ BACKGROUND INFORMATION

- 3.1 Shoreham Airport ("the Airport") is owned by Brighton & Hove City Council (BHCC) - two thirds; and Worthing Borough Council (WBC) - one third. The land consists of an operational airport along with commercial properties and industrial buildings.
- 3.2 In June 2006 the Councils granted long leases of the Airport land and the commercial land to the Erinaceous Group for the sum of £8.1 million. The overall transaction included a requirement for Erinaceous to pay £4 million towards the improvement of the Airport. A significant proportion of this investment was to be made in repairing and refurbishing the Grade II listed Terminal Building and Municipal Hangar and failure to make the required investment in the Airport within five years would trigger a deferred payment of up to £1 million to the Councils.
- 3.3 Immediately after the sale of the Airport, Erinaceous granted two long underleases on the commercial and airport land to an investment company now also controlled by the owners of ASAL. Erinaceous went into receivership in 2008 and following payment of a nominal sum ASAL became the Councils' lessees in September 2008. For the sake of brevity, this is a very brief overview of what is a complex set of lease arrangements at the Airport.
- 3.4 When it purchased the head leasehold interest ASAL took on the requirement to invest £4 million in the refurbishment of the Airport by 28 October 2013. In 2012 ASAL approached the Councils to enquire about the possibility of purchasing the freehold of the Airport. The Councils did not consider that it was in their interests to sell the freehold. During 2013 it became clear that the £4million investment in the Airport was not going to be achieved by the revised deadline.
- 3.5 The council sold the airport to Erinaceous prior to the financial crash of 2008 for a significant sum. Whilst values have improved since the crash, market conditions for regional airport operations remain challenging and it is acknowledged that for the time being that the most realistic source of profit sufficient to pay the deferred consideration would need to come from future land and development deals.
- 3.6 Since the approach of ASAL to the Councils in 2012, regular discussions have been taking place that have explored the most effective way to achieve the following aims:
 - Achieve a financially viable and profitable operational Airport.
 - Secure the investment needed to repair and refurbish the Terminal Building and Municipal Hangar;
 - Support existing businesses and educational establishments (e.g. Northbrook College) at the Airport and enhance economic growth at the site.
 - Through the Greater Brighton City Deal and other funding sources undertake flood defence works (the "Adur Tidal Walls" project) to protect the Airport and its

businesses; and to enable the development of employment land identified in the draft Adur Local Plan on the eastern side of the Airport.

- Promote the Airport site as one of the Greater Brighton City Deal Growth Hubs.
- Secure payment of the £1million owed to the Councils

3.7 In September 2013 ASAL presented a Business Plan and Action Plan to the Councils. Included in these plans was a proposal to increase the role played by Brighton City Airport Limited (BCAL) with regard to the operational aviation activities of the Airport.

3.8 BCAL have subsequently entered into a management agreement with ASAL to take over the operation of the Airport including holding the Civil Aviation Authority Licence.

3.9 In order to allow time for further negotiations with ASAL, and discussions with BCAL, the Councils have postponed the requirement that £1million be paid until 31st May 2014.

3.10 ASAL have produced a list of proposals that seek to achieve the aims set out in paragraph 3.5. In doing so ASAL intend to extract itself from the Airport operation and allow a company with aviation expertise to operate the Airport on a permanent basis, namely BCAL. The list of proposals produced by ASAL are set out in Appendix 1 along with a site map in Appendix 2.

3.11 BCAL have a stake in the Airport. The Directors of BCAL are also the Directors of Flying Time Aviation (FTA), a fast growing business that accounts for a significant proportion of Airport movements. BCAL believe that with the correct investment, the Airport can be profitable and have presented details of their Business Plan to officers of the Councils. A briefing paper outlining the investment BCAL have made in the Airport and its business proposals for future is provided in exempt Appendix 3.

3.12 Council officers met with ASAL and BCAL on 31st January 2014 to discuss the list of proposals and the Business Plans of BCAL. A briefing note that summarises the key points from the meeting and subsequent developments has been produced by John Mitchell, strategic director for Adur & Worthing Councils and is provided in exempt Appendix 4.

3.13 Your officers are aware of the concerns of Airport stakeholders about its future and their ability to influence decisions taken about the running of the Airport. For that reason the Councils have asked that arrangements are made for stakeholder representation in the running of the Airport.

3.14 Both ASAL and BCAL have estimated the costs of refurbishing and repairing the Airport Terminal Building and Municipal Hangar. Officers of the Councils consider it prudent to undertake a Schedule of Dilapidations to ensure that the extent of the repair work necessary is confirmed. This work has been commissioned by the Councils.

3.15 Together with Shoreham Harbour Port, Shoreham Airport is identified in the City Deal with government as one of the regions growth hubs. This reflects the confluence of airport flight and engineering operations with Northbrook FE

College and a host of engineering companies and sector related businesses, such as Ricardo who are based in close vicinity. Through the Greater Brighton Economic Board, the council has committed to work closely with neighbouring authorities and Coast to Capital LEP to retain existing employment and training provision and foster new business opportunities for the benefit of local communities.

- 3.16 Throughout 2012/13/14 Officers have regularly briefed the Leaders and Chief Executives of the Councils to ensure they are aware of the negotiations taking place regarding the Airport's future. The Leaders recognise the value of the Airport as an important site for job retention and significant economic growth.

4. ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS

- 4.1 Officers have considered demanding the £1m deferred consideration from ASAL. However ASAL would enter an insolvency situation if the £1m were demanded and due to the complex structure of leases and underleases this would likely result in the Airport falling into the hands of either another of the Albemarle group of companies as immediate sublessees holding long leases or alternatively a bank.
- 4.2 If the council does nothing then BCAL will stop investing time and money in the Airport, the sister company Flying Time Ltd will move its base of operations to another airport and, without significant investment coming from elsewhere the Airport will languish and is likely to close.

5. COMMUNITY ENGAGEMENT & CONSULTATION

- 5.1 A group of aircraft owners and operators work closely with one another in order to lobby the Councils and the Airport operators. Any new structure will provide an official forum for discussions between BCAL and the aircraft owners and operators.

6. CONCLUSION

- 6.1 Having considered the draft list of proposals produced by ASAL and the Business Plans of BCAL, officers believe that there is value in agreeing to the list of proposals which in turn will allow the drafting of revised leases and the commencement of due diligence.
- 6.2 In the short term the proposals for the Airport should enable much needed investment in Airport equipment; the Terminal and Municipal Hangar; and provide reassurance to the businesses and stakeholders at the Airport about its future operation.

7. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

- 7.1 The payment of £1 million has been deferred further to the 31/5/2014 to allow conclusion of the negotiations. The revised proposal will transfer the linking of the £1 million deferred payment from the refurbishment of the airport buildings to

being linked bringing forward proposals for the development land. The development land is also subject to an existing overage agreement of 20% of increased value. Any proceeds will be split two thirds to Brighton and Hove City

- 7.2 The council will contribute toward the costs of undertaking the Schedule of Dilapidations referred to in 2.13. The cost of this work is not significant and can be met from within existing budgets.

Finance Officer Consulted: James Hengeveld

Date: 31/3/2014

Legal Implications:

- 7.3 S123 of the Local Government Act, 1972 allows the Council to dispose of land held by them in any manner they wish, provided that the disposal is for a consideration not less than the best that can be reasonably obtained. The consideration test was achieved with the original disposal in 2006, subject to the deferred payment of £1 million if the investment of £4 million was not achieved. It is not unreasonable to further defer that payment.
- 7.4 Worthing BC have agreed to the proposed way forward and this committee report is consistent with the report considered by that council's Cabinet.

Lawyer Consulted: Bob Bruce

Date: 20.03.14

Equalities Implications:

- 7.5 Matter considered and no issues identified.

Sustainability Implications:

- 7.6 Matter considered and no issues identified.

Any Other Significant Implications:

- 7.7 Reputational issues of protecting business in the area, maintaining an operational airport and securing investment in the Airport would have a positive reputational impact on the council.

Crime & Disorder Implications:

- 7.8 None

Risk and Opportunity Management Implications:

- 7.9 None

Public Health Implications:

- 7.10 None

Corporate / Citywide Implications:

7.11 Continued running of the Airport has a positive effect on the Greater Brighton City Deal

SUPPORTING DOCUMENTATION

Appendices:

1. Heads of Terms for proposed transaction
2. Plan
3. Exempt
4. Exempt
5. Exempt

Documents in Members' Rooms

None

Background Documents

None