

My Name is David Green, I am a past Mayor of Ramsgate, and a previous Cabinet member at Thanet District Council.

I have been engaged with this situation for over 10 years now. Firstly in support of the working airport in the hope it could provide an economic stimulus for the area. This included supporting modest Night Flying to facilitate passenger flights. ([Validation report on documents submitted by Manston International Airport relating to Proposed Night-Flying Policy \(Parsons Brinckerhoff 2011\)](#)) I wish to emphasise that Manston was never more than a modest regional airport with perhaps 3 or 4 flights per day.

I'm afraid we saw at least three owners, steeped in the aviation industry, not only fail to achieve viability, despite public subsidy, but lose millions of pounds trying.

Wiggins, Planestation, Infratil, tried but failed. The reason, of course, was lack of paying clients, and the reason for that was the location of the site, surrounded on three sides by sea. ([Kent County Council, Manston Airport under Private Ownership: The story to date and the future prospects](#))

Infratil 5 years ago floated the idea of scheduled night flights to capture a market rejected at other airports. Thanet Council commissioned a poll to run the only professional referendum on airport matters. The results were 70% against night flights, and over 80% amongst residents living under the flight path. ([Thanet District Council, Consultation Response to Manston Airport's Consultation on a Night Flight Policy](#))

I ask the Inspectors to take note of this professional study, rather than any other unprofessional and partisan survey that may be quoted to you.

Frankly, I'm surprised you have allowed this investigation to get this far. As Cabinet member at TDC I dealt with Riveroak, then an American company, claiming to be awash with investors wanting to run our airport. Of course, the investment never materialised, the business plan was demolished by aviation experts the council employed. We had to reject them as a suitable CPO partner. ([TDC Manston Airport Exploration of CPO Partner Dec2014, TDC Manston Airport CPO July 2015](#))

They had a second try, with another administration at TDC with the same result. ([TDC Manston Airport Soft Market Testing Exercise June 2016](#))

([Final Report for TDC Manston Airport Viability 2016 AviaSolutions](#))

Since then, the parent company has withdrawn and what is left is a small group of individuals that is even less credible than before. Less than transparent over finance, the same business plan already demolished by even more aviation experts, no experience of running a major freight hub, no identified freight agents, no planes. Still the fundamental problem that the site is in the wrong place, surrounded by sea on three sides.

Thanet District Council has raised many significant concerns with the application. These do not appear to have been addressed by the applicant.

[TDC Statutory Pre Application Consultation response Feb 2018](#)

I have a question for you.

If we assume that you were minded, God forbid, to accept RSP as credible. Who is responsible to impose mitigation measures on the way any facility is operated?

At the moment the business plan seems to assume totally unrestricted operation, airplane numbers, QC counts, hours of operation. If this is allowed, it would devastate the health and well-being of 60,000 people on the flight path. Who's job is it to stop this happening?

VALIDATION REPORT ON DOCUMENTS SUBMITTED BY MANSTON INTERNATIONAL AIRPORT RELATING TO A PROPOSED NIGHT-FLYING POLICY (Parsons Brinckerhoff 2011)

Thanet District Council (TDC) received a submission from Manston International Airport (MIA) on the 27th October 2011. The existing planning agreement between TDC and MIA requires that the airport develops an agreed night flying policy, including management and control, before scheduled night flights can take place. TDC considered the policy documentation submitted and concluded that there was a need for an independent validation of the technical data; together with a more general review of the case for night flights at MIA as presented.

1. REVIEW OF PROPOSED NIGHT FLYING POLICY

1.1 Aviation in the South East of England

In order to put the proposed policy into context it is considered essential to first consider the current status of aviation in the South East of England.

The policy from Central Government appears to restrain the development of new facilities, such as the 3rd runway at London Heathrow, whilst accepting that the demand for aviation services is set to dramatically increase in the next 20 years. The conclusion is therefore that better use needs to be made of the existing facilities.

Despite the global financial difficulties passenger numbers are continuing to grow at about 5% year on year throughout Europe. The increased traffic at MIA may relate to more cargo operations but trends in passenger numbers are generally followed by cargo operations. It is therefore reasonable to accept that there is an increasing pressure on the existing facilities in the South East and that any removal of constraints at MIA would help to meet this demand.

1.2 Existing Night Flying situation

Some non-scheduled night flights do operate from MIA. Night flights are defined as any aircraft movement (take off or landing) that occurs between 2300 and 0700. In the year up to September 2011, MIA reported a total of 43 night-time movements of which 31 were between the hours of 2230 and 0600. TDC & the airport consultative committee have the data to validate these figures.

It is reasonable to expect any airport to handle some non-scheduled night flights but the cost to the airport itself is quite high as full staffing is required (e.g Fire Fighting) and so a full shift is worked by staff even if only one aircraft is involved. Airports therefore seek to maximize their efficiency by introducing scheduled services that can be relied upon to make full use of the staff and facilities.

2. REVIEW OF ECONOMIC IMPACT OF NIGHT FLYING POLICY

2.1.1 Air Traffic

The basis of the analysis provided by York Aviation is the passenger and freight forecasts contained within MIA's Master Plan published in November 2009. We would note that despite the forecasts only being two years old, the airport is not achieving the level of forecast passenger growth, however, we would also note that the aviation sector is suffering due to the global economic crisis and therefore, most other UK airports would not be achieving forecasts set two years ago.

Therefore, the argument that a block on night flying would prohibit based aircraft is not supported by the evidence available.

Therefore, in the short term we do not believe that the airport can justify a night flying quota system to support passenger growth.

Given the geographic location of MIA it is unlikely that carriers would show much interest for inbound traffic from key European city links – we would argue this would only be relevant if MIA was strategically placed near to a large city or a region with a large catchment area.

A ban on night time flying would almost certainly prohibit a large number of potential carriers, however, could work for some carriers reflecting the nature of their operations. Any potential carriers' decision will also be influenced by the commercial arrangements to operate from the airport – for example, the airline could be incentivized to only operate between 07.00 – 23.00.

Freight:

We would agree that over the short to medium term, without significant capacity being built into the South East of England, freight volumes at Heathrow Airport are likely to fall as the airport allocates landing / take off slots to higher yielding passenger aircraft (assuming no additional capacity is added). We would disagree, however, that MIA would likely benefit in any substantial way from these freight volume decreases. Stansted, and Gatwick to a lesser degree, have significant capacity to accept additional freight volumes and are strategically better located close to motorways and major conurbations.

Based on current UK freight arrival times, MIA would only be excluded from 9% of the scheduled freight market if the night flying ban were to remain. This percentage will almost certainly increase over the medium to long term, with additional flights from Asia, but overall we do not believe that this provides a compelling argument for significant economic benefit to the region as a result of the introduction of a night flying quota system.

Given that Manston Airport currently employs a proportionately large workforce for a small throughput, growth of passengers and freight in the short term may not necessarily lead to a significant employment and hence economic impact.

3. A REVIEW OF THE NOISE REPORT

The thresholds suggested by the applicant as being appropriate for Manston may be understating the impacts, particularly for those within the 90 – 95 SEL contours, where only a slight impact is predicted. Even at the rate of 1 in 75 that may be woken up by aircraft movements, the 312 people predicted to be within this contour could give at least 4 complainants for 2.3 events per night, a not insignificant number of disturbances.

3.4 Summary

The applicant has presented a substantive noise assessment to underpin their night noise policy, and at first glance this seems to tick all the right boxes. However, the failure to consider the impacts with windows open, coupled with a mitigation scheme that potentially may not reflect the noise risks from larger aircraft movements at night, may not be as favourable to protecting the local amenity for nearby residents. Had the council been considering a planning application for night operations with 5338 properties above 48 dB, and 312 exposed to the 95 dB Single Event Level, it is unlikely that the application would be seen favourably unless there was a substantive economic argument for its approval.

3.5 Conclusion

The analysis of the noise impacts have, in our opinion, resulted in an underestimation of the potential impacts on residents in the area.

4. PLANNING ADVICE

The Airport benefits from a series of Certificates of Lawfulness of proposed use or Development

The schedule sets out that the owners will consult with the Council, who in turn will be allowed time to consult on the proposed policy. It is important to note that the wording of the S106 makes it clear that whilst the Council will be consulted and their views will be assessed, if the airport decides not to adhere to any views or suggestions as to changes to the policy, they are under no obligation to do so.

It would be presumed that the reason for this wording is that given the LDCs had established the use of the airport as lawful, without restriction, the airport owners would not have entered into a S106 Agreement which would have prevented a part of the activity without planning approval i.e. night time flying.

The Councils planning control therefore appears to be limited to finding that in operating the proposed night time policy once issued by the operator, this would lead to an intensification in the use of the airport to the extent that a material change of use

4.4 INTENSIFICATION – PLANNING PRINCIPLES

The concept of intensification is explained in the Planning encyclopaedia and referred to in the Court judgements.

This states: ***“There may be a material change in use where an existing use has become intensified.....mere intensification of a use does not in itself constitute a material change....It must be intensification of such a degree as to amount to a material change in the character of a use.”***

At the airport 4 LDCs exist and is reflected in the two Court judgements, these do not themselves set a formal benchmark position – the Courts understood that whilst the Council were entitled to have considered setting benchmarks they had not done so.

The implications of this assessment appears to be therefore that whilst the LDCs do not specify a benchmark figure against which intensification could be assessed, this does not matter; the test still remains as a planning tool.

The LDCs do not give complete and unfettered rights for night time flying, only a confirmation that by virtue of what had happened in the 10 years preceding the issue of the LDCs, this level of use was lawful.

The key issue for the Council now therefore must be what level of night time flying was happening in the 10 years prior to the LDCs being issued, and thus what could be considered to be lawfully established. This, having regard to the court judgement, would then effectively establish the benchmark against which to test whether the new proposed night time flying would in fact be intensification.

Given the passage of time since the LDCs were applied for it is unclear whether the evidence of previous night time flying, if any exists. This is a matter for the Council to consider.

There is, however, an additional complication in this case arising from the presence of the S106 agreement. The S106 was signed in September 2000 and specifically prohibits night time flying.

So, if the airport owners were to apply now for a certificate to establish the lawful use now of the airport and its activities, it would be reasonable to conclude that as no night time flying has taken place for over 10 years, an LDC issued now would either expressly or by implication confirm that any night time flying is unlawful as it has not been happening.

So, whilst the S106 prohibits it, night time flying is taking place presumably within the noise/quota/financial penalty structure also set out by the S106. If therefore the airport applied now for an LDC it could presumably claim that this level of activity is lawful, and thus this would form the benchmark against which intensification should be considered.

This is not clear cut. Whilst there appears to be logic in the S106 point set out above, given the previous history of the airport and third parties, and generally given the notoriously litigious nature of issues related to intensification it would be recommended that a legal opinion is sought if reliance is to be placed on this approach.

“38. In conjunction with this proposal, the airport has commissioned an impact assessment of the potential noise that this level of activity may generate – Aircraft Night Noise Assessment Report, October 201. The report has been carried out by Bickerdike Allen Partners, leading experts in the assessment of noise surrounding airports. This study has assessed the extent of the noise contours that are predicted to result from the proposed level of activity, together with the dwelling and population counts within each contour. Further it considers the likely perception of the community exposed to these levels, in line with UK standard practice.

39. This study has been based on the activity level forecast in the Master Plan for 2018 combined with an internal assessment of the likely distribution of business through the day. The table below displays the estimated distribution of aircraft movements for 2018.

Estimated Average Daily Movement Profile

| | 0700-2300 | 2300-2330 | 2330-0600 | 0600-0700 | |
|-----------|-----------|-----------|-----------|-----------|--|
| Passenger | 49.6 | 2.8 | 0.6 | 2.8 | |
| Freight | 5.1 | 0.4 | 1.2 | 0.4 | |
| Total | 54.6 | 3.2 | 1.8 | 3.2 | |

This indicates an average of less than two movements per night during the Night-time Quota Count Period, and demonstrates that less than 3% of the airport's overall activity is expected to take place during this time."

This seems to set out that combined passenger and freight flights would be no more than 2 per night from 23.00 until 06.00. This would appear to be around 60 flights per month or over 700 for a year. This compares to the figures set out above that in the 12 months to September 2011, there were 31 movements during these hours.

If this interpretation is correct then an increase in flights from 31 to 700 would appear to be a very significant increase whether measured as a number or as a percentage increase and would appear to add weight to a case that intensification above lawfully permitted levels will occur.

It is worth finally on this issue to point out that whilst these tests can be made against the existing situation, it must be part of the testing process as to what the Council's position is on the proposed levels of night time flying.

We therefore recommend that the Council consider seeking legal opinion on the issues raised by the night time flying policy and its planning implications.

4.7 Conclusions on Planning Issues

The submission of the Night Flying Policy document satisfies the legal requirement of the Section 106, its acceptance by the Council is not required.

The question as to if this policy constitutes an Intensification of use is a complicated one in that legal arguments can be made as to the existing (legal) level of allowable use.

It is recommended that Legal Council Opinion is sought on this point.

Manston Airport under private ownership:

The story to date and the future prospects

Position statement

Introduction

For decades Kent County Council has made great efforts to develop aviation at Manston Airport.

Manston, with its proud history as a front-line Battle of Britain aerodrome, has long been a symbol of Kent's determination in the face of adversity.

But our desire to stimulate and grow Manston was not the result merely of nostalgia or sentimentality.

For decades we have been aware of the commercial potential of Manston's long, 2,700 metre runway. For decades we have championed Manston's proximity to London. For decades we have argued that Manston was a sleeping giant: a regional and national asset.

Our 2012 policy document 'Bold Steps for Aviation' made all this clear and promoted the development of Manston to the the Government as an alternative to building a controversial new runway in the Thames Estuary.

Our support for Manston has not merely consisted of kind words and encouragement. We have invested substantial sums of public money.

We have made substantial investments in both road and rail infrastructure to improve access to Manston and East Kent.

Our record in supporting Manston is plain to see and we are proud of it.

It was disappointing and regrettable to learn that all our hard work and investment, and the hard work of the various companies that had tried to make flying profitable at Manston, had failed.

Manston's story began in 1915 when it was a small grass airfield operated by the Admiralty. Now a new chapter is about to begin that will bring new jobs and new prosperity to East Kent. It will be our duty to encourage, guide and nurture to help ensure this happens.

This document sets out the story of Manston Airport over the last 16 years, from its sale by the Ministry of Defence to the present day. We also consider the future, which we are confident will be bright.

Hansard 28th April 2014

Robert Goodwill, Parliamentary Undersecretary of State at the Department of Transport

'Whatever the result of efforts to secure such a resolution (on Manston), the government are unable to intervene directly, as we believe that UK airports and airlines operate best in a competitive and commercial environment. It is therefore for individual airports to take decisions on matters of future economic viability.'

Chapter one

The last 16 years of private ownership

Since the Ministry of Defence sold RAF Manston in 1998, the airport has never made a profit and has never delivered on its promise of jobs for the area. When the airport closed on 15th May 2014 144 people were employed there.

Since 1998 three companies have tried and failed to run Manston as a viable business. The Wiggins Group, with its start-up low cost carrier EUJet, launched scheduled flights to twenty one destinations in Europe in 2004 but collapsed into administration in the summer of 2005 leaving 5,400 passengers stranded. Its fleet of five 108-seat Fokker 100 jets were repossessed by Debis Air Finance.

Infratil Limited, which bought Manston from the administrators in 2005, lost between £40 - £50 million over the next nine years attempting to achieve passenger numbers of over a million per annum. The highest number of passengers was 50,000. Similarly its ambitious plan to grow freight traffic failed.

Lothian Shelf (417) Limited, a company owned by Mrs Ann Gloag, bought Manston for £1 in November 2014. In the next 4 months the airport made revenue losses of £100,000 per week plus significant capital losses.

Mrs Gloag's decision to sell the airport was based on an assessment that these losses could not be sustained. Mr Trevor Cartner and Mr Chris Musgrave acquired 80 per cent of the company in order to provide space for a wide range of businesses, with a focus on attracting companies in the manufacturing sector, as well as the provision of housing, shops, schools and community facilities.

Chapter two

The Wiggins era 1998-2005

In 1998 Wiggins Group acquired Manston Airport for £4.75 million. Its company accounts show that between 1999 and 2002 the company reported losses of £8.6 million, with a further loss of around £2 million reported over the next two years.

In January 2004 Wiggins Group renamed itself Planestation and later that year Planestation bought 30 per cent of airline company EUJet.

In September 2004 EUJet operated flights to destinations across Europe. That year Planestation's losses were £73 million and the company had to borrow £46 million at an interest rate of 28%. In December Planestation bought the remaining 78 per cent of EUJet.

In its busiest month in early 2005 the airport carried 62,709 passengers. EUJet's aim had been to handle over 750,000 passengers per annum but the company became insolvent and went into administration.

In July 2005 all EUJet operations were suspended along with all non-freight operations.

Mr Tony Freudmann had overseen Manston's transfer from an RAF base to a commercial operation. He was Senior Vice President of Wiggins Group between 1994 and 2005. He was 'let go' by Wiggins in February 2005. He is now the spokesman for the RiverOak consortium.

The Wiggins Group and Planestation failed in their ambition for Manston to become a successful international airport; but even then, more than 10 years ago, they also had ambitions for property development on the airport site, in collaboration with property developers MEPC plc.

Chapter three

INFRATIL 2005-2013

Infratil Limited is a successful company listed on the New Zealand stock exchange with the primary purpose of investing in electricity distribution, public transport and ports. The company was established in 1994 with NZ\$50m of capital. At the time it acquired Manston and Prestwick airports it controlled assets worldwide in excess of NZ\$ 4.4 billion.

Following Wiggins' demise, Infratil Limited bought Manston Airport from the Administrator for £17 million in August 2005.

In addition to Manston, Infratil also owned Prestwick, Flughafen Lubeck, Wellington and Auckland Airports. Its master plan for Manston (published in November 2009) envisaged building a new passenger terminal to accommodate up to 3 million passengers per annum. It also envisaged building a parallel taxi way to the runway and an increase in the freight and passenger aprons. At the time of publishing its plan the airport was handling 32,000 tonnes of freight per annum. The master plan envisaged freight growth of between 4% and 6% per annum to equate to approximately 167,000 tonnes of freight per annum by 2018. It also planned on developing corporate jet facilities with an executive terminal.

In 2009 the airport was handling fewer than 50,000 passengers per annum. Infratil forecast that by 2014 this figure would rise to 527,000, by 2015 to 1,268,000 and by 2033 to more than 4.7 million passengers per annum. In 2009 the airport employed approximately 100 people, some full time and some part time. Infratil forecast that they would be employing more than 500 staff by 2014, 2,800 by 2018 and 6,150 by 2033.

When the airport closed in May 2014 there were 144 people employed at Manston Airport.

In 2012 Infratil announced that Manston and Prestwick airports were for sale.

In each year that Infratil Limited owned Manston it incurred losses of more than £3 million per annum and wrote off the purchase price of £17 million.

As at 31 March 2013 Infratil's investment in the UK's airports had a book value of \$20m and over the year a further \$12m was contributed to meet costs. Their sale price crystallised a net economic cost of \$32m."

(Infratil financial results 2013-14)

In 2013 KLM started passenger flights to Schiphol Amsterdam. However, over its 12 months of operation its seventy eight seat Fokker planes were less than half full (42 per cent of capacity). KLM operations at Manston made no significant financial contribution to the cost of running the airport.

In November 2013 Infratil Limited sold Manston Airport and the associated liabilities to a company controlled by Mrs Ann Gloag for £1.

Chapter four

Manston Skyport Limited 2013-2014

Mrs Ann Gloag originally approached Infratil with a view to buying both Manston and Prestwick airports, which were being sold as a package. However, Infratil set a deadline for their sale in order to stem their losses. When the Scottish Government bought Prestwick for £1 Mrs Gloag agreed to buy Manston also for £1.

From the discussions that Kent County Council had had with her and her team we believed that she had every intention to maintain and grow the aviation business at Manston Airport.

She gave a press interview with the Isle of Thanet Gazette on 8 August 2014 to dispel the myths and uncertainty that had been widely propagated by campaign groups opposed to the subsequent closure of the airport.

“Can you please outline the reasons behind your decision to close the airport?”

“The prospect of new passenger and freight opportunities failed to materialise and the scale of the losses meant that there was no credible prospect of the airport becoming profitable.”

“Would you have bought it if you’d known you would have to close it just months later?”

“I wanted to make it a success and I didn’t buy it to close it. Our whole team worked tirelessly to secure new business for the airport but no new operators considered it a viable option. It was only when our aviation team arrived at Manston that we started to discover the scale of the problems.”

“Why did you reject RiverOak’s offers to buy it?”

“They were introduced to us as a potential buyer and in good faith we entered into discussions with them. However, we had serious concerns from the outset about the way RiverOak conducted their business with us. We are aware of the £7 million figure that has been made public by RiverOak. For clarification, the structure of their offer meant the final amount would have been considerably less. They also failed to provide any business plan to back up their claims of future employment or to reassure us that their bid offered commitment to maintain it as an operational airport.”

Prestwick airport made a pre tax loss of £10 million in its final year of ownership under Infratil.

After buying the airport for £1 the Scottish government said it could take a number of years for taxpayers to see a return on public investment in Prestwick.

It announced a £10 million commitment towards ‘operating costs, repairs backlog and improvements to the terminal building.’

Prestwick is continuing to lose £1 million a month.

Chapter five

Support given to Manston by Kent County Council over the past 16 years

Kent County Council's support of Manston as an airport over the last 16 years has been unwavering.

Transport infrastructure

Kent County Council has made or enabled substantial transport and infrastructure investment for the benefit of Manston and the surrounding area.

In 1997 Columbus Avenue was constructed on the north side of the airport at a cost of £1.52 million. These infrastructure works were funded through the European Regional Development Fund and the Single Regeneration Budget.

In 1998 Kent County Council completed the A299 Thanet Way extension of the M2 through to Ramsgate.

In 2000 Kent County Council completed the Ramsgate Harbour Approach Road and in 2009 the Euro Kent link road.

The A256 dualling was completed in 2012 and £87 million was invested in the East Kent Access Road in 2013.

Kent County Council is in the planning stage of the £6.7 million Westwood relief scheme to help growing businesses at Westwood and Manston.

Network Rail has just announced the commencement of its £11 million scheme to reduce journey time between Ramsgate and Canterbury; Kent County Council is contributing £4.5 million to the cost of this upgrade. Kent County Council has also committed £12 million to a new Thanet Parkway Station near Manston.

Business premises;

In Spring 2006 Kent County Council acquired the undeveloped area of Manston Business Park, amounting to some 40 acres of developable land, from the Administrator of Planestation plc for £5.35 million.

Manston Business Park and the EuroKent sites subsequently became the key holdings of a joint venture between Kent County Council and Thanet District Council.

By 2015 Manston Business Park has seen the development of industrial units which will be occupied by start-up and small developing businesses.

Support for aviation

In its discussion document Bold Steps for Aviation (May 2012) Kent County Council supported the increased use of Manston Airport and stressed its potential to make a significant contribution to aviation in the UK.

"In Kent, Manston has the potential to make a significant contribution [to the UK's aviation capacity], providing excellent communications to European destinations and reduced flight times.

In addition:

- Over the years Manston has received more than £1million in financial assistance from Kent County Council. When EUJet commenced its flights in 2004 Kent County Council bought a 1.5% shareholding in EUJet Ops Limited.
- In 2007 Kent County Council provided financial assistance to enable the start of charter flights from Manston to Virginia USA, although these flights were discontinued shortly thereafter.
- Between May 2004 and May 2005 when EUJet Ops Limited was acquired by Planestation Limited, Kent County Council acquired options to buy further shares. Planestation Limited was however put into liquidation and the council's investment had no further value.
- When KLM expressed an interest in starting scheduled flights to Amsterdam, Kent County Council provided £100,000 to Visit Kent, the tourist agency which provided marketing and tourism support.

Support offered to investors at the airport

In March 2013, when Infratil were seeking aviation buyers for the airport, Kent County Council distributed a note offering to help new investment at Manston Airport through:

- Financial assistance from the Regional Growth Fund
- Use of land owned by Kent County Council adjacent to the airport
- Expediting the new Thanet Parkway station
- A Route Development Fund to increase the number of passengers
- Working with airlines and train operating companies to achieve integrated ticketing
- Discussing with Ministers to seek assistance from Government. Kent County Council's offer to any investor with a viable business plan remains open, although to date we have received no take up.

Helping to find a new airport operator

Kent County Council met PWC, the agents selling the airport, with a view to helping find a viable new owner/operator. Over 18 months discussions were held with thirty interested parties including low cost airline operators and private investors, many were introduced to PWC by Kent County Council.

In the event, two of the shareholders of Discovery Park Limited made an approach to Mrs Ann Gloag which subsequently led to their purchase of the airport.

Chapter six

What do we know about RiverOak and its proposal for a compulsory purchase order?

RiverOak was introduced to Kent County Council by Mr Tony Freudmann. Subsequently the Leader of Kent County Council invited representatives of RiverOak to meet to discuss their plans for the airport. RiverOak declined, saying that their plans were confidential. The invitation to present their business plan to the council has been repeated on several occasions: RiverOak has always declined to do so.

RiverOak Investment Corp LLC was established in January 2001 in Delaware USA to manage *'niche focussed real estate investments for institutional entities that are strategically driven, including private and public pension funds.'*

Its CEO is Mr Stephen DeNardo.

The RiverOak website states *'within a time frame that spans nearly 4 decades of business experience, Steve DeNardo has successfully been involved in all phases of real estate investment, development and management. His focus and interest has been on the management and turnaround of troubled assets.'*

RiverOak's Chief Investment Officer is Mr George Yerrall. The website says: *'He is in charge of sourcing and analysis of investment opportunities and the execution of investment and asset management strategies.'*

In its statement to the UK Airports Commission (The Davies Commission) RiverOak described its strategy for Manston as handling 250,000 tonnes of cargo per annum by 2030, 500,000 tonnes of cargo per annum by 2040 and 750,000 tonnes by 2050. It also described its long term strategy to include 'aircraft maintenance, repair and teardown operations.'

RiverOak also stated that by summer 2017 at the earliest they would plan to re-open passenger services *'if appropriate contracts can be agreed with suitable carriers.'* They would also re-establish Manston as a key diversion airport, capable of providing emergency resilience to the wider South East airport system.

In an interview on 12 May 2014 with Paul Francis of the KM Group Mr DeNardo was asked *'How did RiverOak become involved in the bid to buy the site from Mrs Gloag?'*

Mr De Nardo replied; *'We have been active in searching for opportunistic transactions in both the UK and Ireland, We have an extensive network of contacts in both and one of our contacts made us aware of the Manston situation.'*

He was also asked *'How did you team up with Annax Aviation whose Chief Executive Tony Freudmann has become spokesman for your bid?'*

Mr DeNardo replied: *'Our contacts put us in direct discussion with Tony Freudmann who we knew had both operational experience at the airport and had made an attempt to purchase the airport.'*

Following Mrs Gloag's refusal to accept an offer from RiverOak to buy Manston Airport, RiverOak then approached Thanet District Council with a view to the council making a Compulsory Purchase Order of the airport in favour of RiverOak. Thanet District Council concluded that a decision on a CPO could not be made until:

- Thanet District Council had commissioned an independent feasibility study on the future viability of a going concern operational airport.
- Any prospective airport owner/operator submit a viable business plan and also enter into an indemnity agreement that would cover any exposure to all costs placed upon Thanet District Council.

Thanet District Council commissioned Falcon Aviation whose report was considered by the Council's cabinet on 31st July 2014. The report identified *'no business plan with a credible investment plan of less than 20 years is likely to provide the commitment necessary to rebuild confidence. From an investor's standpoint, the payback period might be as long as 50 years. The level of investment would have to be significant (£100m's) and there are never any guarantees of success.'*

Throughout Thanet District Council's consideration of a CPO it has been advised by its Section 151 Officer that it appears evident that the airport will not be successful if it reopens and attempts to operate in the same configuration as it has done previously up to its closure.

The advice to Thanet District Council's cabinet was that invitations should be issued to parties willing to enter into an indemnity agreement capable of delivering the twenty year business plan.

During the course of Thanet District Council's processes, on 17 July 2014, Kent County Council unanimously adopted the following motion;

"Kent County Council supports the actions taken so far by Thanet District Council to retain Manston as a regional airport. We recognise the value that a regional airport brings to East Kent and are disappointed at its closure. Kent County Council will explore with Thanet District Council ways in which it can support proposals to retain Manston as an airport." The original Motion proposed by Mr Cowan (Dover Town, LAB) and Mr Truelove (Swale Central, LAB) was replaced by the above, proposed by Mark Dance (Whitstable, CON).

In supporting the amended motion the Leader of Kent County Council said "Thanet District Council's approach is now such that they are going to carry out and have already commissioned, an independent study as to the viability of running the airport as a going concern or not. Nobody knows the conclusion to that, as I said on the radio this morning, after 16, 17, 18 years of Manston, everybody has just lost money. So what is the market telling you? And it will be interesting to see what the independent viability report concludes. And Thanet District Council are absolutely right in doing that. If it does suggest there is viability they will then ask for expressions of interest from people to come forward who have the ambition to do exciting things at Manston in running it as an airport, or not. And if there are some exciting propositions, or if we had an owner that is reluctant to do anything exciting, which again we don't know, we will then make the decision as to whether or not to support the CPO process. And it is premature to have that decision now, which is why we can't support your original motion which was asking for an open ended commitment to support Thanet and their CPO, no matter what. I want to see, and hope, that there are exciting propositions that come forward, with good people, that have got the money to do exciting things. And we will have to wait and see as to whether that's the case, and then we will review our position."

In an endeavour to support Thanet District Council, on 1st September Kent County Council's Director of Governance and Law wrote to Thanet District Council's Monitoring Officer to remind them of our offer to assist the council. The Monitoring Officer replied: 'We need to do the evaluation of any Expressions of Interest first before we can begin to assess what legal support might be needed moving forward and whether any of that support would need to be commissioned from Kent County Council. We are not in a position to make any decisions until we have the result of this, but I will be more than happy to consider making such an approach at the appropriate time.'

Kent County Council has never been approached by Thanet District Council for the help offered.

Unsurprisingly, **as a result of this**, on 11 December 2014 Thanet District Council received a cabinet report detailing the outcome of its exercise to seek an indemnity partner for the compulsory purchase of the airport and a comprehensive and viable business plan. The following was decided:

'That no further action be taken at the present time on a CPO of Manston Airport on the basis that the council has not identified any suitable expressions of interest that fulfil the requirements of the council for a CPO indemnity partner and that it does not have the financial resources to pursue a CPO in its own right.'

The conclusions made by the council's Section 151 Officer were that *'The information provided does not provide assurances which would satisfy him that a valid expression has been put forward and he is therefore unable to recommend moving ahead with this proposal. Although the issues here are emotive Members should exercise extreme caution before seeking to move forward with any proposal which is at odds with advice from its officers, particularly where there are likely to be **significant risks** which would affect the council at a fundamental level.'*

As the Falcon report, Thanet District Council's feasibility study and the advice from the council's 151 Officer show, the financial risks of a compulsory purchase of the airport were unacceptable.

Chapter seven

What do we know about Discovery Park Limited and its directors?

The new owners of Manston, Chris Musgrave and Trevor Cartner, have a strong track record in taking over large difficult sites following the demise of earlier uses and regenerating them to create jobs and bring economic benefits to the wider area.

Ten years ago they acquired Wynyard Park in Billingham after Samsung had announced that it was closing its operations there. They have now created 2000 jobs and have attracted £200million of private investment at Wynyard Park.

Seven years ago they invested in the advanced manufacturing manufacturing park (a joint venture between the University of Sheffield, Boeing, British Aerospace and Rolls Royce) to build seventeen units for local small and medium size enterprises associated with aerospace research and other advanced manufacturing on the site of the former Orgreave colliery. In 2013, when the site was fully occupied, they sold their investment.

In 2012 they acquired Discovery Park from Pfizer after Pfizer had announced that they were closing down all their operations there and were planning to demolish the buildings at the site. When Pfizer made this announcement they employed 2,200 staff all of whom were subject to redundancy notice. By March 2015 700 of the Pfizer jobs have been retained and a further 1,700 jobs have been created by more than 100 new tenants on the site. Currently total job numbers are in excess of 2,400 and Discovery Park is on track to deliver more than 3,000 new jobs.

Trevor Carter and Chris Musgrave plan to transform the 800-acre site at Manston with a £1 billion redevelopment, over a 20-year period, into a mixed-use scheme helping to create more than 4,000 jobs. They will be announcing more details over the next few weeks.

Conclusions

The truth is that Manston has failed over a prolonged period of time to run as a commercially successful airport.

Kent County Council gave strong support to various investors but the reality of commercial aviation at Manston Airport led to very significant losses. In fact, in the 16 years since it was taken into private ownership it has incurred losses by those who have tried to operate it in excess of £100 million.

The objective now must therefore be to make sure that we have owners who want to do exciting things on the site and that the land is not left abandoned.

Bristow Group had chosen Manston as its location for the regional search and rescue base; when the airport closed the company decided to locate that base at Lydd. Kent County Council is pleased that this vital service will still be located in Kent. Lydd Airport is also starting a substantial investment programme to extend its runway and construct new aviation facilities.

Surely it is now time to look at a B Plan for Manston.

The driver must be to seize the best opportunity to create a significant number of new jobs and bring prosperity into East Kent.

RiverOak has not managed to convince Thanet District Council that there is a viable business plan. We believe the new owners have got a credible plan and the financial ability to create substantial numbers of new jobs which will bring prosperity and economic growth to East Kent.



Paul Carter, Leader of Kent County Council:

"I would like to make it abundantly clear that in my 10 years as Leader of Kent County Council I have done everything in my power to help and support the economy of East Kent. I believe that this document demonstrates and evidences exactly that."

Myth busting questions and answers

1. What is Kent County Council's stance on Manston Airport? At first you supported a CPO process but now you are supporting a business park – is this not inconsistent?

Promoting job creation, supporting business growth and generating economic prosperity for the residents of East Kent is - and always has been - Kent County Council's primary objective. Kent County Council (KCC) has never deviated from this.

The closure of Manston Airport was met with deep disappointment at County Hall. Any viable proposal from an aviation company with sufficient financial backing to run Manston as an airport would have been strongly supported by Kent County Council as our debate at the July council meeting made clear. No viable proposal was presented to Kent County Council or TDC.

The sale of Manston to the Discovery Park Team Musgrave and Cartner in September offers substantial private sector investment to support job creation and economic growth for Thanet. Cartner and Musgrave have a strong track-record at Discovery Park with 1,700 new jobs since 2012.

2. How can you say no viable proposal came forward? Didn't RiverOak say they would pay the full asking price?

Kent County Council asked RiverOak if we could see their business plan. RiverOak has consistently refused to let us see any details on the grounds they are commercially confidential. TDC took a decision that the information supplied by RiverOak to it was insufficient to support a Compulsory Purchase Order.¹ We have therefore concluded that RiverOak's plan is not viable. Representatives of Mrs Ann Gloag explained to the Transport Select Committee why Mrs Gloag refused to accept the offer from RiverOak.²

¹ <http://democracy.thanet.gov.uk/documents/b10075/Supplementary%20Agenda%202%2031st-Jul-2014%2019.00%20Cabinet.pdf?T=9>

² <http://parliamentlive.tv/Event/Index/d4330491-c83e-4204-a339-28a011b42071>

3. Did you promote Manston to the best of your abilities to attract a new investor when the closure was announced? Is it not true that Manston has unique infrastructure with the longest runway in England and superb transport links?

Kent County Council has taken every opportunity to support and promote the use of regional airports such as Manston. The authority's discussion document Bold Steps for Aviation, written in 2012, makes our position abundantly clear, showing Kent County Council has lobbied central Government to prioritise Manston above other proposals, such as the establishment of a Thames Estuary Airport.

Our support for Manston is evidenced by our substantial investment in transport infrastructure making Manston more accessible to a greater potential customer base, including investing in the East Kent Access Road, a new railway station, and improving the rail infrastructure. The Regional Growth Fund has been made available to companies with plans to increase employment.

Since the Minister of Defence privatised the airport there have been three private owners of Manston Airport: Wiggins, Infratil, and Ann Gloag. Despite ambitious plans to increase passenger numbers and freight operations, each of these has sustained significant financial losses totalling over £100 million.

When Manston Airport was put up for sale, Kent County Council introduced PWC (the marketing agents for Infratil) to 30 potential buyers from around the world (including RyanAir) none of whom in the event decided that they could make the airport profitable.

Myth busting questions and answers

4. What offers of support were made by Kent County Council to Thanet District Council to assist them with their CPO process?

We very much supported Thanet District Council in the potential for a CPO subject to the outcome of their independent feasibility study and submissions by indemnity partners.

At the Leader's request, Kent County Council's Director of Governance and Law offered to help Thanet District Council in the CPO process. TDC responded in writing saying *"We need to do the evaluation of any Expressions of Interest first before we can begin to assess what legal support might be needed moving forward and whether any of that support would need to be commissioned from KCC. We are not in a position to make any decisions until we have the result of this, but I will be more than happy to consider making such an approach at the appropriate time."*

The offer of support was repeated several times by the Leader at different meetings with Iris Johnston.

5. Who now owns Manston? Is it Mr Cartner, Mr Musgrave, Ann Gloag?

The company that owns Manston Airport has three shareholders; Mr Cartner (40%), Mr Musgrave (40%), and Mrs Gloag (20%). This information has been provided to the Select Committee by solicitors acting for Mr Cartner and Mr Musgrave.

6. How could the Leader of Kent County Council support Mr Cartner and Mr Musgraves' purchase of the site? I have heard Wynyard Park is in debt and promised to supply thousands of jobs and only a proportion have been realised.

Information provided to Kent County Council shows that Wynyard Park is currently debt free. Under Mr Cartner and Mr Musgraves' ownership, Wynyard Park has created more than 2000 jobs and attracted £200million of private investment. Publications which have asserted that

this is incorrect have been served with a letter from a firm of solicitors specialising in libel.

(NOTE: It is quite normal for development companies to carry debt/bank borrowings on their balance sheet. The key is sensible debt to value ratios).

7. How can you be excited by the new proposition by Cartner and Musgrave if you have seen no plans? What are the plans?

The new owners issued a press release when they acquired Manston Airport outlining their intention to create more than 4,000 jobs and a £1 billion redevelopment. They will be announcing more details in the next few weeks.

At the time when Mr Cartner and Mr Musgrave outlined these plans to the Leader of Kent County Council, the planning consultants had not yet completed the master plan so no document was handed over. However, a fairly detailed description of what was envisaged was discussed. The plans include a new sports centre and the financial backing of the Spitfire museum, as well as plans to bring advanced manufacturing to the site.

8. How can Kent County Council ignore its democratic mandate? Haven't you seen the petitions showing that the people of Thanet want an airport?

The Save Manston Campaign was invited to County Hall to present its petition. However when representatives of the group arrived they had not brought it with them. All letters and emails from objectors have received replies. We have also received letters of support re the closure.

9. When have you met Ann Gloag or her colleagues and what was the purpose of each meeting? Are the minutes available? Was a change of use discussed?

Elected members and officers of the council met Ann Gloag and her company representatives on a number of occasions before and after she bought the airport. The purpose of the meetings was to establish what were her intentions for bringing jobs and new investment to Kent and to sustain a viable airport.

Myth busting questions and answers

At a meeting on 14 March 2014 when we were expecting an update on progress, much to our surprise we were told confidentially that given the scale of losses it had been decided to notify staff the following week that a redundancy process was necessary.

Subsequently a meeting was held on 3 July 2014 to discuss with Ann Gloag what she intended, and she explained she was discussing a possible sale but that the details were commercially confidential.

Mr Cartner and Mr Musgrave have successfully applied for planning approval for a multi-use development to include commercial, retail and housing: the site is currently over 50% reoccupied by commercial users and there are now 2,400 jobs. It was their success with Discovery Park that persuaded them of the potential at Manston, and they already have a number of substantial potential tenants.

10. *Why have you appeared to support Ann Gloag when she obviously bought the site to turn it into a housing development and never intended to operate an airport? Have you a vested interest? Did you not say you wanted a housing development last year?*

Mrs Gloag told us that it was her intention to run Manston Airport as a commercial venture and that was why she hired aviation specialists to put in place a strong business plan for aviation and support the implementation. She also retained the previous Managing Director of Manston, Mr Charles Buchanan. She told us subsequently that it was only when she was advised that the airport could not be made viable, and that the losses of £100 thousand per week could not be sustained, that she decided that the airport must be closed.

During our discussions, a change of use of the airport was not discussed although we did touch on alternative uses for parts of the airport site such as aviation hangar space, servicing and maintenance. The Leader of the Council has no private business interests in the Manston site and will not benefit personally from any proposal relating to the development.

11. *Thanet does not need more business parks. Existing local business parks are struggling to attract businesses and are over 50% empty.*

When Pfizer announced closure of its R&D facility at Sandwich it was a common view that all the buildings would need to be demolished and the site could not be redeveloped.

DRAFT OF THANET DISTRICT COUNCIL'S CONSULTATION RESPONSE TO MANSTON AIRPORT'S CONSULTATION ON A NIGHT FLYING POLICY

1. INTRODUCTION

1.1 This document is Thanet District Council's consultation response to the documents submitted to it by Manston Airport on 27 October 2011. Those documents comprised:

- 1.1.1 Manston Airport – Proposed Night-time Flying Policy;
- 1.1.2 Manston Airport – Economic Impact of Night Flying Policy, August 2011;
- 1.1.3 Manston Airport – Aircraft Night Noise Assessment Report, 25 October 2011 (with separate appendices); and
- 1.1.4 Manston Airport – Sound Insulation Scheme Key Proposals, 25 October 2011.

1.2 These documents were submitted to the Council by way of consultation pursuant to paragraph 1.1 of the second schedule to the section 106 agreement relating to the Airport which is set out below (along with other relevant provisions):

1.1 *The Owner agrees not to cause suffer or permit any Regular Night Flying Operations at any time (subject to paragraph 1.4 below) before a Night-time Flying Noise Policy shall have been prepared and a copy lodged with the Council.*

1.2 *The Owner will prepare the Night-time Flying Noise Policy at least six months before the commencement of any Regular Night Flying Operations after consulting with the Council in accordance with paragraph 1.3 (in Italics) below. The policy will specifically address the following matters:*

1.2.1 *the restriction on those aircraft likely to cause unacceptable disturbance, such that no aircraft with a noise classification in excess of Quota Count 4 shall be permitted to take off or to land during Night-time*

1.2.2 *a process for the sharing of data on details of aircraft operating during Night-time; and*

1.2.3 *the embodiment of the principles of UK best practice at the time and the appropriateness of those principles to prevailing local conditions*

1.3 *The consultation process shall include providing all relevant information to the Council and affording an adequate period within which the Council may consider the issues arising and formulate its views which shall be taken into account by the Owner and due weight given to such views; in the event that the Owner does not propose to accept the views of the Council in formulating its policy it shall first provide to the Council a reasoned justification and shall take into account and give due weight to such further views of the Council as may be expressed*

"Regular Night Flying Operations" are defined as:

Flights Movements which are scheduled or programmed and which occur frequently or regularly to the same or similar patterns for the same operator during Night-time

"Night-time" is defined as:

2300-0700 hours

- 1.3 The consultation obligations under the section 106 agreement do not give the Council a right or power to approve/disapprove or give a consent for/refuse authorisation of the Proposed Night-time Flying Policy that the Airport has submitted. This consultation response is therefore not an approval, authorisation or consent of any kind but is the Council's consultation response to and observations on the Airport's Proposed Night-time Flying Policy document. The Council considers that the Airport is required, in formulating any Night-time Flying Noise Policy (as defined in the section 106 agreement) to take account of the Council's comments and observations in this document and to comply with the terms of the section 106 agreement in all other respects, including meeting the obligations under Clause 1.2.
- 1.4 Since receiving the Proposed Night-time Flying Policy document from the Airport, the Council has commissioned an independent review of the submitted information (from Parsons Brinkerhoff). That review has been made available publicly and it has informed the Council's consultation response.
- 1.5 The Council has also carried out its own sub-consultation with members of the public on the Proposed Night-time Flying Policy between 3 February and 2 March 2012. It has received a large number of responses. Those responses have also informed this consultation document. A summary of them is set out in section 2 and a full copy of all responses received is provided to the Airport. The Council considers that the Airport needs to take account of those responses in formulating any Night-time Flying Noise Policy.
- 1.6 The remainder of this consultation response is set out as follows:
 - 1.6.1 Section 2 is a summary and analysis of the consultation responses received by the Council;
 - 1.6.2 Section 3 is the Council's comments on the Airport's noise report and sound insulation scheme;
 - 1.6.3 Section 4 is the Council's comments on the Airport's report on economic benefits;
 - 1.6.4 Section 5 is the Council's comments relating to the use of the Airport and the potential implementation of night flights; and
 - 1.6.5 The responses received by the Council are at appendix 1.

2. SUMMARY OF CONSULTATION RESPONSES

- 2.1 The Council has received 2,275 responses to its sub-consultation carried out between 3 February and 2 March 2012. The Council has reviewed the responses received and draws the following to the Airport's attention:
- 2.2 Approximately 26% were in favour of regular night flights / implementation of the night flights policy;
- 2.3 Approximately 73% were opposed to regular night flights / implementation of the night flights policy; and
- 2.4 Approximately 1% were either partly in favour and partly against regular night flights / the implementation of the night flights policy, or did not express a clear opinion either way.

2.5 Key reasons for those who were in favour were:

- Jobs/employment needed
- Regeneration/economy of Thanet needs to grow
- Want airport to expand/develop
- Airport has been there for years
- Night flights needed to ensure the viability of the airport

2.6 Key reasons for those who objected were:

- Disturbance to sleep
- Effect on health/well being/quality of life
- Noise disturbance
- Detrimental impact on the local economy
- Economic benefits overstated

2.7 The responses have also been analysed based on area:

2.8 Total responses of those under the flight path: 1082

In favour: 10%

Opposed: 89%

Middle ground/unclear: 1%

2.9 Total responses of those within Thanet: 1956

In favour: 25%

Opposed: 74%

Middle ground/unclear: 1%

2.10 Total responses of those outside of Thanet: 318

In favour: 30%

Opposed: 66%

Middle ground/unclear: 4%

2.11 Consultation responses received are available for members to inspect on request.

2.12 The Council expects that the Airport will consider the responses passed to it by the council when considering its next steps.

3. **RESPONSE TO AIRPORT'S NOISE REPORT AND PROPOSALS**

3.1 The second schedule of the Section 106 agreement requires the Airport to submit any proposed night time flying policy six months before regular night flights commence.

The agreement states that the proposed policy should specifically address the following:

- No aircraft to operate at night with a Quota Count in excess of 4;
- A process of sharing data with the Council on night operations;
- The embodiment of the principles of UK best practice at the time and the appropriateness of those principles to prevailing local circumstances;

A policy exemption is in place for 0600 and 0700 for departures to Europe and arrivals from North America by solely passenger carrying aircraft.

3.2 In relation to noise limitations, the daytime noise contour in the submitted documents is benchmarked against the 63 dB(A) contour from 1996. Details of an Insulation Scheme, Noise Abatement routes, preferred departure runway and noise monitoring are also set out.

3.3 There are no other specific requirements in the section 106 agreement for the night time noise policy, but the policy must comply with the other requirements of the section 106 agreement. These include, along with specific requirements in respect of the Night-time Flying Noise policy:

3.3.1 the requirements under paragraph 8 of Schedule 1 which applies equally to night as well as day time operations; therefore the night time policy must comply with the maximum noise level requirements of paragraph 8.1 of Schedule 1 (amongst other things);

3.3.2 there should be no night flying of planes with a QC>4 (paragraph 1.5.1 of Schedule 1); and

3.3.3 there is a ban on training flights in the night-time by any jet or large aircraft (paragraph 1.5.2 of Schedule 1).

There are no stated restrictions on the number of movements of aircraft if they comply with these requirements.

3.4 **Comments in relation to Night Time Noise Policy and Noise Assessment**

3.5 The draft night time noise policy is submitted with an assessment undertaken by Bickerdike Allen and Partners. The Bickerdike Allen report entitled "Manston Airport Aircraft Night Noise Assessment Report" dated 25 October 2011 presents a literature review of current noise policy in the UK as it relates to night time operations, and it concludes that the LAeq,8hr and the SEL should be used to control night noise. This is considered to be in accordance with current practice.

3.6 However, whilst this literature review appears to be comprehensive, it fails to reflect or address the weight to be given to each document reviewed, and where it considers façade or window loss in order to correct the predicted outdoor to indoor noise levels it mainly considers the situation on the assumption that windows are closed, so allowing for a 27 dB reduction of noise internally. This approach fails to consider the effect of the partially open window situation described in both WHO guidelines and Planning Policy Guidance note 24, which might be expected particularly in the late spring, summer and early autumn months of the year. This corresponds to the months of year covered by the summer timetable in which the bulk of activity occurs at most airports in the UK.

3.7 Therefore the thresholds suggested by the Airport as being appropriate for Manston are likely to understate the impacts, particularly for those within the 90 – 95 SEL contours, where currently in the Airport's document only a slight impact is predicted.

Moreover even at the assumed rate of 1 in 75 people that are predicted to be woken up by aircraft movements, the 312 people predicted to be within this contour could give rise to at least 4 complainants for 2.3 events per night.

3.8 In relation to the noise predictions, the calculations appear to be in accordance with current good practice, subject to validation of the input data (by others).

3.9 In relation to the proposed QC quota, the exclusion of the shoulder hours from the night time period is out of step with other airports, and could result in a “cramming” of movements into the shoulder hours, times in which much of the population is expected to be attempting to get to sleep, or before they would normally wake. This could well be the reality with the restrictions as currently written in the Policy, as movements in the night periods could incur financial penalties for the airport operator and therefore the shoulder hours may prove to be particularly attractive for the operator.

3.10 **Mitigation**

3.11 The noise mitigation scheme proposed by the operator goes further than that required by current Government guidance, but appears to reflect more the economics of the Airport's expansion than the risk of noise complaints from the larger aircraft movements at night. It is considered that there should be a threshold based on the number of movements of >QC2 aircraft, as well as the 48dB night time noise contours, as well as the 90dB SEL. The Airport also does not state categorically that it will bear the full financial cost of mitigation, but this is an expected requirement which should be included expressly.

3.12 **Summary**

3.13 The Airport has presented a substantive noise assessment for their proposed night noise policy. However the Council considers that the assessment fails to consider the impacts with windows open, there is an inappropriate exclusion of the shoulder periods, and the mitigation scheme does not reflect the noise risks from larger aircraft movements at night such that the proposals do not assess and protect the local amenity for nearby residents to the extent that they should. The analysis of the noise impacts is likely to have resulted in an underestimation of the potential adverse impacts on residents in the area.

4. **RESPONSE TO AIRPORT'S ECONOMIC BENEFITS REPORT**

4.1 An independent review of the York Aviation 'Economic Impact of Night Flying' Report has identified a number of issues with the data used and with the conclusions that have been presented within the report. The Council disputes a number of the conclusions made, but specifically that without granting night flights “...the combined impact of night time restrictions is not only a measurable loss of 1,450 jobs and £30.3m from the regional economy, but also the risk that the full wider economic benefits of having an airport are not realised”. The Council's reasons to dispute this are described in the paragraphs below.

4.2 Firstly, the passenger traffic forecasts provided within the report and which form the basis of the economic impact assessment are significantly overstated. The data used is based on traffic forecasts that were prepared for the Airports' Master Plan in November 2009 and do not take into account the decline in traffic experienced by Manston Airport in the 30 months since their Master Plan was published.

4.3 The forecasts used in the economic impact assessment, for example, show that over 200,000 passengers will use the airport during 2012. With the loss of Flybe as the main carrier at the end of the winter 2011/12 season and without a replacement carrier announced, this demonstrates a significant difference between what has actually occurred and that forecast within the report.

- 4.4 The reality is that to build back up to even a starting point of 200,000 passengers will take the airport a number of years, especially set against the ongoing economic slowdown and the reluctance of airlines to establish new routes away from major cities or conurbations. This suggests to the Council that a key underlying assumption of the economic impact assessment is considerably overstated.
- 4.5 Secondly, the freight forecasts that form another crucial part of the economic impact assessment are also overstated. The forecasts provided within the York Report estimate freight tonnage to be 45,200 during 2011. The actual tonnage, as reported by the CAA was 27,495. The difference is 39% and means the forecast used in the economic impact assessment is significantly overstated even in its first two years.
- 4.6 Furthermore, to justify the large increases over the forecast horizon, York argue that as capacity fills up at Heathrow, Manston is “...*ideally geographically located*” to benefit from overspill. The Council disagrees with this assumption. The evidence indicates that both Stansted, and Gatwick to a lesser degree, have significant additional capacity to accept freight overspill from Heathrow and are strategically better located close to motorways, rail networks and major conurbations.
- 4.7 An independent review has also been carried out to validate the quantitative assessment methodology of the economic impact assessment as well as to comment on the suitability of the qualitative analysis of the wider impacts. The overall general approach conforms to what would be considered ‘industry standard’ for an economic impact assessment of this kind. There are however a few points which the Council is not clear on:
- 4.7.1 It is not clear what York Aviation's methodology was to derive the ‘workload units’ (especially the relationship between a passenger and 100kg of freight);
- 4.7.2 In assessing the future direct employment on site, York Aviation has undertaken a regression analysis of 6 comparator airports to calculate the employment generated per million workload. No details of the 6 airports have been provided to ensure the comparator airports are similar in nature to Manston. In addition, one of the airports provided seems high when compared to the other airports provided and could have impacted the line of best fit (denoted by the R2 value); and
- 4.7.3 When establishing the economic benefit to the local area, the multiplier of 0.25 does not appear to be based on any specific evidence.
- 4.8 The report suggests that Night Flying would generate 1,452 jobs and £30.4m gross value added. The Council considers that the above indicate that this has not been demonstrated and that it is difficult to for the Council to validate this given the above points noted in relation to the economic benefits report.

5. **USE OF THE AIRPORT AND THE PROPOSED NIGHT NOISE POLICY**

- 5.1 This section sets out matters the Council wishes to draw to the attention of the Airport.

- 5.2 This consultation document does not and should not be taken as expressing any view on whether the proposed activities, if they were to occur, would be lawful or whether, for example, they would amount to an intensification constituting a material change of use requiring planning permission / any other consent or a material change of use generally. Nor is it a document which constitutes any decision, approval or authorisation in relation to the Habitats Regulations or otherwise. This consultation response is provided without prejudice to the Council's powers and duties in respect of any planning, environmental or other powers.
- 5.3 **Use of the Airport**
- 5.4 The Council considers that the Proposed Night-time Flying Policy which has been submitted for consultation cannot, of itself, constitute an intensification or change of use of the Airport. The proposed Policy is a statement of how the Airport intends to operate flights in the future from the Airport if they were to occur. The Council is not being asked to assess and is not in a position to assess whether actual operation of the Proposed Night-time Flying Policy would in fact give rise to any relevant intensification or change of use. Such assessment would depend upon the flights to be operated and all other relevant considerations.
- 5.5 The Council will continue to review the Airport's operations as appropriate and reserves its rights and the operation of its statutory functions in respect of any changes in existing activity (whether in terms of intensification or otherwise) that may occur at the Airport under the proposed Policy or otherwise.
- 5.6 **Habitats Regulations**
- 5.7 Given the international designations of sites on the coasts around the Airport, the Council has considered the effect of Proposed Night-time Flying Policy in terms of the provisions of the Conservation of Habitats and Species Regulations 2010 (Habitats Regulations). It draws the following to the attention of the Airport without prejudice to the Council's powers and duties under those Regulations.
- 5.8 Regulation 61 of the Habitats Regulations provides:
- (1) *A competent authority, before deciding to undertake, or give any consent, permission or other authorisation for, a plan or project which—*
 - (a) *is likely to have a significant effect on a European site or a European offshore marine site (either alone or in combination with other plans or projects), and*
 - (b) *is not directly connected with or necessary to the management of that site, must make an appropriate assessment of the implications for that site in view of that site's conservation objectives.*
- 5.9 The Council is itself a competent authority for the purposes of Regulation 61 in respect of any consent, permission or other authorisation for a relevant plan or project. But as this consultation process does not entail the Council giving any "consent, permission or other authorisation" in relation to the proposed Policy or any operations that might occur in the future under such Policy (and this consultation response is not to be treated as such), the Council does not consider that its duties under Regulation 61 of the Habitats Regulations are engaged by this consultation exercise. The Council reserves its rights in respect of its performance of its statutory duties under this and any other legislation in the future.
- 5.10 However, the Airport is also a competent authority for the purposes of Regulation 61 as it is understood to be a 'relevant airport operator' designated under the Airports Act 1986. The Council considers that in consulting on this proposed Policy, the Airport is considering the implementation of that Policy and considering the operation of night time flights under that Policy. The Council therefore considers it is incumbent on the

Airport as a competent authority to address whether the Proposed Night-time Flying Policy constitutes a "plan or project" for the purposes of the Habitats Regulations and if it does to address the obligations under Regulation 61 before deciding to undertake any such plan or project through the adoption of the draft Policy.

5.11 That process would include consideration of whether the policy (in combination with other plans or projects) is likely to have a significant effect on relevant European sites (as the policy is clearly not being connected to the management of those sites) and, depending on the answer to that question, consideration of the further steps set out in Regulation 61.

5.12 The terms 'plan' and 'project' are not defined in the Regulations, nor in the Habitats Directive. However the Council notes the following:

5.13 Managing Natura 2000 Sites – European Commission guidance, 2000:

"the Directive does not circumscribe the scope of either 'plan' or 'project' by reference to particular categories of either. Instead, the key limiting factor is whether or not they are likely to have a significant effect on a site" (paragraph 4.3)

Referring to the definition of 'Project' in the EIA Directive: "Directive 85/337/EEC provides that 'project' means:

'– the execution of construction works or of other installations or schemes

– other interventions in the natural surroundings and landscape including those involving the extraction of mineral resources.'

As can be seen, this is a very broad definition... which is not limited to physical construction. For example, a significant intensification of agriculture which threatens to damage or destroy the semi-natural character of a site may be covered" (paragraph 4.3.1).

"The word 'plan' has a potentially very broad meaning... Of obvious relevance are land-use plans... Sectoral plans can also be considered as within the scope of Article 6(3), again in so far as they are likely to have a significant effect on a Natura 2000 site. Examples might include transport network plans, waste management plans and water management plans.

However, a distinction needs to be made with 'plans' which are in the nature of policy statements, i.e. policy documents which show the general political will or intention of a ministry or lower authority... It does not seem appropriate to treat these as 'plans' for purposes of Article 6(3)... However, where the link between the content of such an initiative and likely significant effects on a Natura 200 site is very clear and direct, Article 6(3) should be applied" (paragraph 4.3.2).

In conclusion, "The term 'project' should be given a broad interpretation to include both construction works and other interventions in the natural environment. The term 'plan' also has a broad meaning, including land-use plans and sectoral plans or programmes but leaving out general policy statements" (paragraph 4.3.3).

5.14 The *Waddenzee* case

Referring to the above definition of 'project' within the EIA Directive, the European Court of Justice stated in the context of the EIA Directive "Such a definition of project is relevant to defining the concept of plan or project as provided for in the Habitats Directive, which, as is clear from the foregoing, seeks, as does Directive 85/337, to prevent activities which are likely to damage the environment from being authorised without prior assessment of their impact on the environment" (paragraph 26).

5.15 *R (on the application of Friends of the Earth) v Environment Agency*

In deciding that an application to vary the conditions attached to a waste licence limiting the amount of waste that could be received was capable of being a 'plan or project', the court stated that "the words "plan or project" have an autonomous meaning... [and] should be given a broad interpretation, consistent with the underlying purpose of the Habitats Directive to protect the European ecological network known as Natura 2000" (paragraph 60).

5.16 *R (Akester) v DEFRA and Wightlink*

The court considered whether the introduction of a larger class of ferries was capable of being a 'plan or project' and held that, in the circumstances, it was. The court stated that it is precisely the effect of the relevant article in the Habitats Directive "that just because an action could potentially have an impact on the environment or on a European site, then it should be considered to be to be a 'plan or project'" (paragraph 76).

The judge considered whether *Waddenzee* should be distinguished "on the basis that the intervention in the natural surroundings was a direct effect of the dredging operations, whereas any effect of the use of the ferries is indirect" but held that "that is not a distinction of significance. The question is whether the activity gives rise to a risk of adverse effects on the protected sites, whether directly or indirectly" (paragraph 77).

The judge also stated that "a decision maker considering... whether the proposed introduction of the W class ferries was a plan or project within the meaning of the Habitats Directive and the Habitats Regulations would have been bound to conclude that the risk of significant adverse effects on the protected sites could not be excluded, and that in consequence the requirement for an appropriate assessment was triggered" (paragraph 81).

5.17 **Summary**

5.18 Overall in relation to the potential use of the Airport, the Council is not in a position to assess whether actual operation of the Proposed Night-time Flying Policy would in fact give rise to any relevant intensification or change of use. Such assessment would depend upon the flights to be operated and all other relevant considerations. The Council will continue to review the Airport's operations as appropriate and reserves its rights and the operation of its statutory functions in respect of any changes in existing activity that may occur at the Airport under the proposed Policy or otherwise.

5.19 In relation to the Habitats Regulations the Council considers it is incumbent on the Airport as a competent authority to address whether the Proposed Night-time Flying Policy constitutes a "plan or project" for the purposes of the Habitats Regulations and if it does, to address the obligations under Regulation 61 before deciding to undertake any such plan or project through the adoption of the draft Policy.

REVIEW OF CPO INDEMNITY PARTNER FOR MANSTON AIRPORT

To: **Extraordinary Cabinet – 29th October 2015**

Main Portfolio Area: **Leader of the Council**

By: **Director of Corporate Governance**

Classification: **Unrestricted**

Ward: **All**

Summary: **To update Cabinet on the review of the appointment of a CPO indemnity partner for Manston Airport.**

For Decision

1.0 Introduction and Background

- 1.1 At the beginning of this report, it is worth setting out the main objective in seeking an indemnity partner. In the report to Council of the 11th December 2014, it said:

'The objective of seeking an indemnity partner is to ensure that – if the Council determines to pursue a CPO – a viable airport comes into sustainable long-term operation as quickly as is reasonably possible without any residual cost to the Council.'

- 1.2 On the 11th December 2014 Cabinet received a report on the soft-market testing exercise for an indemnity partner for a Manston Airport CPO. The report said that the Council had made every effort to work constructively with (RiverOak) including making several deadline extensions for submitting the information requested from the potential indemnity partner. The report and minute are attached as Annex 1 and Annex 2, respectively.

- 1.3 The Cabinet considered the following as relevant considerations, which remain relevant today:

- (a) The objective of seeking an indemnity partner (set out at 1.1 above).
- (b) The new owners intend to bring forward regeneration policies for the site.
- (c) The new ownership of the site and any proposals put forward would make it much more challenging to demonstrate an overwhelming case for compulsory purchase. It is important that the Council establishes on objective grounds, the financial status of any partner. The assessment must have due regard to the potential scale of the project and the need to demonstrate that resources are available to complete it.
- (d) Any indemnity partner needs to demonstrate the resources to acquire by private treaty well before the stage of seeking a CPO.
- (e) The experience in other local authorities emphasises the need to ensure a prospective indemnity partner has the resources in place to acquire the site and complete the development. Once the land transfers to the indemnity partner any redress for delay or non-completion could prove difficult to pursue. The main purpose of the CPO is for the authority to achieve a viable development, so the

status of the indemnity partner to deliver the development in its entirety is highly relevant.

1.4 On the 14th July 2015, Cabinet agreed:

1. The recommendation from Council on the 21st May 2015 to review its position in relation to the Manston Airport site, taking account of all the surrounding circumstances relating to an indemnity partner for a possible Compulsory Purchase Order;
2. To authorise that specialist legal and finance advice be obtained to determine whether RiverOak are a suitable indemnity partner in relation to a CPO for Manston Airport and to provide advice on the indemnity agreement and CPO process generally.

2.0 RiverOak

- 2.1 On their website, RiverOak Investment Corp describe themselves as 'having a reputation for identifying under-utilised assets & creating new value from them on behalf of our client investors'. A new company RiverOak Aviation Associates has been set up to deliver this project (referred to as RiverOak).
- 2.2 The proposal from RiverOak is that they will fund the legal CPO process but will not themselves be funding the purchase of the land or the development of the airport. These legal CPO costs are not insignificant and it is intended that £2m will be placed in what is known as an escrow account, reserved specifically for these costs.
- 2.3 The funding for the land purchase and development of the airport will instead come from private investors that RiverOak will try to attract to invest in the project. From the documentation so far provided to the Council by RiverOak it appears that those investors will not be investing until after the confirmation of the CPO by the Secretary of State which would be after any inquiry conducted by a planning inspector.
- 2.4 Prior to and during the progress of the CPO the Council should seek to purchase the land by negotiation which can be done in parallel with the CPO process. The Council has no resources itself to buy the land prior to the securing of funding by RiverOak. The Council has seen no evidence that RiverOak have the resources now available to buy the land prior to the confirmation of the CPO.
- 2.5 Counsel has advised that the possibility of a party wanting to sell their land voluntarily to the Council even if the CPO is abandoned would need to be covered in the indemnity agreement to protect the Council. RiverOak have provided no evidence during the negotiations of their ability to cover this eventuality.

3.0 Timeline

June 2015

- 3.1 Following a meeting in May 2015 RiverOak wrote to the Council setting out their position in relation to the CPO and their proposed role as an indemnity partner. RiverOak included their intention to deposit £250,000 in their solicitor's bank account to fund the CPO process. RiverOak also described how that money would be topped up as the scheme progressed.

July 2015

- 3.2 At a meeting with Council representatives on the 3rd July 2015, RiverOak gave a presentation on their proposals for the airport which included the use of the site to recycle 'end of life' aircraft with some cargo and future passenger activity.

Proposals were also made by RiverOak about financing the scheme and the ability of RiverOak to prove that they could resource the CPO, the land purchase and the development of the airport. Those proposals included:

- (a) An 'escrow' account held by RiverOak's lawyers with funding of up to £2m to fund the CPO process. This was welcomed since it addressed the concern raised in the December report about funding the CPO in stages. Once the escrow account was put in funds, then the whole CPO legal process (but not the land acquisition nor airport development) would be funded.
 - (b) RiverOak also proposed to provide a 'letter of credit' from a major European financial institution to cover the costs of land purchase and development of the airport. This meant in the event that RiverOak's third-party investors were unable to make payment on the land purchase, the bank would cover the outstanding amount. This was also welcomed since it addressed the concerns in the December report about the lack of certainty over funding for the land acquisition.
- 3.3 The Cabinet met in July (1.4 above) to agree to review the Council's position in relation to Manston Airport. The Council then instructed Sharpe Pritchard Solicitors who have considerable expertise in CPOs to act for it in negotiations with RiverOak's solicitors. In addition, the Council has also taken advice from a barrister at Landmark Chambers in London who specialises in compulsory purchase. For the sake of brevity, in the rest of the report, references to 'RiverOak' or the 'Council' include RiverOak's solicitors and the Council's solicitors.
- 3.4 Having reviewed the draft indemnity agreement provided by RiverOak, the Council asked them for an up to date business plan for their proposals. The business plan was required to give the Council an understanding of how RiverOak's current proposals met the public interest test which the Council needed to consider before entering into the indemnity agreement.
- 3.5 RiverOak subsequently informed the Council that they would not now be providing their proposed legally binding letter of credit from a bank. So the funding in relation to the costs of the land acquisition reverted back to its December 2014 position. That is, that there is no provision for funding any shortfall from RiverOak or its investors in respect of the monies required to acquire the site. Instead, RiverOak offered to provide a non-binding letter of assurance from a major financial institution.
- 3.6 In response to the request for an up to date business plan, RiverOak referred the Council back to the financial projections previously provided and declined to provide a business plan indicating that this would be provided once the CPO process was underway. This meant that the Council was being asked to enter into an indemnity agreement for the reopening of the airport with no up to date information on the business plan supporting the scheme.

August 2015

- 3.7 RiverOak informed the Council that their next stage in the process was to develop the business plan in detail.

- 3.8 In substitution for the letter of credit, a letter of support was provided by RiverOak. It was a 'subject to contract' letter from a large American financial services company which 'supported' the efforts of RiverOak regarding the opening and development of Manston Airport following a successful CPO. However, the letter says that it is not a 'binding legal commitment' to the project and that 'any investment is subject to confirmation of the CPO for acquisition of the airport site, as well as, usual and customary funding terms and internal approvals'.
- 3.9 Whilst the letter was from a company with a business history of ownership and management of airports, the letter is not legally binding and there is no indication that any investment will be made before the CPO is confirmed and, therefore, for the purpose of providing assurance that finances will be available for acquisition of the land before the CPO is confirmed, it is of little value.
- 3.10 The Council therefore requested RiverOak to provide the financial guarantees (if any) which they would be providing to secure the council's interests in delivering a viable airport operation as quickly as is reasonably possible without any residual cost to the Council. A deadline of the 14th August was given for RiverOak to provide this information.
- 3.11 The Council's legal advice on this point is clear. Whilst funding does not have to be secured at the outset of the CPO process, the Council does have to satisfy itself that there is a real prospect that the scheme will proceed and this means that the Council needs to consider scheme viability and/or funding before making the CPO. At this stage the Council did not have confidence in the finances (which were based solely on the letter of support from the American company) and no written evidence of RiverOak's current proposals for the airport.
- 3.12 The Council then received confirmation from Riveroak that they had placed £1,325,000 with their lawyers which it is intended to be put into the escrow account should the indemnity agreement be entered into. It is worth repeating that this was a positive step forward from the December position where the CPO legal process was to be completed in steps as funds allowed.
- 3.13 On the deadline of the 14th August 2015, RiverOak provided two redacted letters from potential investors (with the details of those investors removed). As with the letter from the company referred to above, the letters expressed strong interest in participating in RiverOak's acquisition of the airport through a CPO. One letter of support was conditional on the CPO process being concluded in a manner satisfactory to RiverOak and its partners. The other potential investor said they were in a position to invest up to £20m subject to satisfactory final documentation. Their final investment decision was conditional 'upon standard commercial due diligence, valuation of the asset and confirmation of the CPO by the secretary of State'.
- 3.14 Since the letters had the details of the authors removed, the Council has been unable to carry out any investigation into the authors of these letters. Counsel has advised that if we knew who the letters were from and could check their bona fides, the redacted letters could have greater weight.
- 3.15 Counsel has advised that the three letters from potential investors by themselves are not sufficient for the council to be satisfied as to the resourcing of the CPO and the likelihood of the scheme going ahead. The letters are of some evidential value but do not by themselves show that all the necessary resources are likely to be available to complete the scheme.

- 3.16 Counsel has pointed out that the letters do not require either the American company or the two investors to fund the CPO if RiverOak were unable to do so. A bond or escrow account or other form of guarantee if sufficient to cover the land acquisition costs and to enable delivery of the project would provide reassurance to the Council. However, the Council would still have to be satisfied that £20m was an accurate figure for land acquisition and start-up costs.
- 3.17 RiverOak referred to a bond in the original draft of their draft indemnity agreement. The Council requested details of this bond with a deadline of the 18th August 2015; the response from RiverOak was that discussion of the bond was somewhat premature.
- 3.18 Counsel advised that the requirement for a bond relates to the financial strength of the indemnity partner and the extent to which they can satisfy the Council that they can resource the CPO. Where there is a concern over the resources of an indemnity partner then a bond or other security would be a sensible way to proceed. It is not necessary for the bond or surety provider to be a party to the indemnity agreement but the Council would have to be satisfied as to the enforceability of the bond or surety before any indemnity agreement was finalised.

September 2015

- 3.19 Representatives from RiverOak and the Council and their respective solicitors met to discuss outstanding issues. The agenda included what has changed since the December Cabinet report; evidence of financial resources for underwriting the CPO costs, land acquisition and scheme costs; the business plan and viability of the scheme; the public interest test; contractual commitment to proceed with the scheme if the land is acquired.
- 3.20 Prior to the meeting, RiverOak were informed that the Council would need all necessary information to be able to draw up a report to Cabinet which evidences that all the necessary resources/funding will be available when required to fund the CPO process, the land acquisition and the implementation and on-going airport operation, of the airport scheme as proposed by RiverOak.
- 3.21 The action points from the meeting were:
- a) Explanatory note covering compliance with the tests outlined in Circular 06/2004 to be drafted by RO and issued to TDC as soon as possible and in any event before 30 September 2015.
 - b) CPO Indemnity Agreement to be reviewed by TDC's legal advisors and comments issued to RO as soon as possible and in any event before 30 September 2015.
- 3.22 Compliance with the tests in Circular 06/2004 was described in the minutes of the meeting as:
- 'TDC being able to satisfy itself and show at a public inquiry that the tests in CPO Circular could be met before the Council agreed to use its CPO powers. In order to do so, TDC requested an overall picture of how the financial resources will be put together from start to finish and how the public interest test under the Circular would be satisfied. For the purposes of accurate, clear and confident reporting within TDC and in order to fully address all points raised by TDC in respect of funding and public interest issues, a request was made of RO to demonstrate how the proposed scheme would match the requirements of the Circular both in terms of resources and the public interest test in promoting the CPO.'

- 3.23 The time limit for the actions after the September meeting (3.21 above) was amended at RiverOak's request to the 22nd September (and then the 23rd September) when it was agreed that our respective documents would be exchanged. The Council provided its documents on the 23rd with RiverOak providing theirs on the 24th September.
- 3.24 In accordance with the action point from the meeting, the Council reviewed the CPO indemnity agreement and proposed amendments to Riveroak. It was proposed to amend the bond so that it secured that funding was in place to acquire the land prior to the confirmation of the CPO by the Secretary of State. RiverOak's position was that a bond would only be available after the confirmation of the CPO.
- 3.25 Another proposed amendment was a requirement for RiverOak to request the Council to acquire the land within a set period after the confirmation of the CPO. This is because in the absence of any other agreement requiring Riveroak to proceed expeditiously with the reopening of the Airport, the Council had to impose an obligation on Riveroak to not delay the revival of operations at the Airport. The Council could not permit the Airport land sitting under the shadow of an unexercised CPO with nothing happening on the ground.
- 3.26 These two provisions were intended to secure the Council's interests in ensuring that the airport comes into sustainable long-term operation as quickly as is reasonably possible without any residual cost to the Council.
- 3.27 RiverOak did not agree with the amendment to the timing of the provision of the bond and subsequently publicly announced on the 11th October 2015 'We want to be perfectly clear, as we have in the past, we will not provide a bond. It is neither economically nor commercially viable to do so and is absolutely not required by the governing law'.
- 3.28 RiverOak have argued that providing funding for the project, for which the CPO is required, post consent is the usual order of events in an infrastructure project, and is not something that is unique to RiverOak. In support of this contention, they cite Hinkley Point C, Crossrail, HS1, HS2, all of which they say were/are to be funded post consent. The difference with any Manston Airport CPO is that the projects referred to by RiverOak were/are backed by Central Government whereas the Council has no resources to back the Manston CPO, which is why it requires a bond or other surety in place to cover the period from when the CPO is made.
- 3.29 With respect to the need to acquire the land within a set period after confirmation of the CPO, RiverOak said that they would need time after confirmation of the CPO to secure and document the funding for the project. Given that the CPO process might take up to two years before the CPO is confirmed by the Secretary of State, RiverOak could then take up to 3 years to obtain the funding, this could see the airport lying dormant for potentially five years if there is no obligation on RiverOak to secure its funding within a set period of the confirmation.
- 3.30 RiverOak provided an explanatory note as agreed in the action point from the September meeting. However, at that time it did not provide the picture of the overall financial framework as agreed and nor did it explain how RiverOak's proposals met the public interest test of Circular 06/2004.

October 2015

- 3.31 At the end of October, over three weeks after the deadline for providing this information had expired, RiverOak provided a revised version of their explanatory note (3.28 above). The document sought to address the public interest test and, as part of this, the other tests that needed to be satisfied; the planning test, the wellbeing test, the financial test and the necessity test. The paper however lacks detailed evidence which it is suggested will be provided in the future and suggests that Council officers are better placed than RiverOak to comment on whether the planning and well-being tests are met. In the absence of an up to date business plan it is difficult to assess that all the tests will be met. The information that has been provided to seek to satisfy the finance test is covered in this report already and the necessity test is based upon the decision of the present owners not to reopen the airport and that therefore the CPO is required to bring back airport use. However, this assertion by RiverOak as to why the CPO is required has to be balanced against the intentions of the current landowners and whether there is any likelihood that the current landowners' proposed use of the site would also satisfy the public interest test.

4.0 The Indemnity Agreement and CPO Powers

- 4.1 RiverOak have sought to separate the decision on whether to enter into an indemnity agreement from the decision whether the Council should use its CPO powers in relation to Manston airport. Counsel's advice is that there is no particular justification for seeking to take a decision to enter into an indemnity agreement separate from the consideration of whether to make a CPO in support of a particular scheme.
- 4.2 RiverOak has not provided sufficient evidence to show the Council that the funding available to deliver the scheme is currently available or likely to be available to deliver the scheme. Information has been provided that sets out RiverOak's funding intentions but it depends on the CPO being confirmed, and there is little clarity as to the funding in place. In relation to the public interest balancing exercise, that requires a balanced view to be taken as between the intentions of the Council in making the CPO to deliver the underlying scheme, and the interests and intentions of the current landowners. The Council considers it sensible to consider the question of entering an indemnity agreement with RiverOak (and its principal terms) alongside the principle of making a CPO, which requires the Council to be satisfied that there is a real prospect of the underlying scheme going ahead.
- 4.3 RiverOak have had many opportunities to provide this evidence and the Council has itself requested this evidence. In the meeting with RiverOak in July their presentation was provided on flip charts which were taken away after the meeting. In August the request for an up to date business plan was refused. In September despite it being agreed that the finances and public interest argument would match the requirements of Circular 06/2004 the expected level of evidence and explanation was not provided.
- 4.4 In relation to finances generally, the figures for the scheme have not been justified to the Council and the Council has not been given an opportunity to satisfy itself that those figures are reasonable. The mechanism through which that investment would occur has not to date been explained or what role RiverOak would have in delivering the project.
- 4.5 In relation to specifics of the funding. An offered letter of credit was subsequently withdrawn. A bond to cover any shortfall in funding was also offered and then withdrawn.

5.0 Changes since the December 2014 Cabinet Decision

- 5.1 The main material change since the December 2014 Cabinet decision is the provision of an escrow account which will guarantee the funding of the CPO process. This is welcomed and means that the CPO process can be run at no cost to the authority as a whole process rather than the step-approach as originally proposed.
- 5.2 However the purpose of the Council using its CPO powers is not to run a CPO process, but to ensure that a viable airport comes into sustainable long-term operation as quickly as is reasonably possible without any residual cost to the Council. In order to do that, both the land acquisition and airport development, will need to be funded.
- 5.3 The only evidence to support other funding are two non-binding, conditional and redacted letters of support and a similar letter of support from an American company. There is uncertainty about how any shortfall in funding will be met and indeed the offer of a bond at any stage of the CPO process now appears to have been withdrawn by RiverOak (as per paragraph 3.27 above).
- 5.4 Counsel has advised that it is reasonable for the Council at the stage of deciding the principle of the CPO to seek evidence that it is likely that the key resource and financial tests are fulfilled. If not, it would be very difficult to move forward unless the Council has a high degree of confidence that these matters would be addressed shortly.
- 5.5 RiverOak's track record of failing to provide necessary information throughout the process dents this required confidence. This also begs the question as to why the Council should progress, before receiving the necessary assurances. There seems little purpose in entering into an indemnity agreement separate from taking a decision on the principle of the CPO which requires consideration of the likelihood of the scheme progressing as part of the necessary public interest test.

6.0 Conclusion

- 6.1 The objective of seeking an indemnity partner is to ensure that – if the Council determines to pursue a CPO – a viable airport comes into sustainable long-term operation as quickly as is reasonably possible without any residual cost to the Council.
- 6.2 The relevant considerations raised in the December 2014 Cabinet report (at paragraph 1.3 above) remain relevant today. In addition the review of this decision since July 2015 has highlighted the following issues:
 - 6.2.1 There remains the lack of evidence that financial resources are in place or proposed to be in place to acquire the land prior to the confirmation of the CPO despite the fact that the Council is obliged to attempt to purchase the land by negotiation in parallel with the CPO process.
 - 6.2.2 Whilst letters of support for the project have been provided by potential investors, any commitment to the project has been caveated and, in the absence of any binding commitment, there is limited evidence of the financial resources proposed to be in place to acquire the land and develop the airport scheme after the confirmation of the CPO and the evidence is not sufficient for the council to be satisfied as to the resourcing of the CPO and the likelihood of the scheme going ahead.
 - 6.2.3 RiverOak's public announcement indicates that no bond or surety will be offered to fund any shortfall for the proposed funding either before or after the confirmation of the CPO. A bond is required both before and after confirmation.
 - 6.2.4 There is insufficient evidence currently available for the Cabinet to be satisfied that a proposed CPO is likely to be successful which would justify its entering into an

indemnity agreement. There is good reason to consider the principle of the CPO alongside the decision to enter an indemnity agreement.

- 6.3 Given the above, your legal advisors and officers are not satisfied at this moment in time that the information or assurances provided to date by RiverOak justify the Council deciding to make a CPO or as part of that process to support the appointment of RiverOak as the Council's indemnity partner in advance of deciding whether to make a CPO.

7.0 Corporate Implications

7.1 Financial and VAT

- 7.1.1 There are no resources currently available to fund costs in relation to a CPO described in this report. The financial context is of limited financial capacity of the Council, together with the prospect of continued severe financial constraint. Any proposals that involve exposing the Council to unspecified and/or unknown costs would substantially increase financial risks and potentially undermine the Medium Term Financial Strategy. It is therefore the Council's objective to secure that all costs related to the CPO are borne by the indemnity partner.

7.2 Legal

- 7.2.1 The legal advice is set out in the report.

7.3 Corporate

- 7.3.1 There are no direct corporate implications at this stage.

7.4 Equalities

- 7.4.1 There are no direct equality implications.

8.0 Recommendations

- 8.1 Having reviewed its position, details of which are contained in this report, that no further action be taken at the present time on a CPO of Manston Airport, on the basis that RiverOak do not fulfil the requirements of the Council for an indemnity partner;
- 8.2 Cabinet note that this is the second time that RiverOak have not fulfilled the requirements of the Council for an indemnity partner.

9.0 Decision Making Process

- 9.1 This is a non-key decision and subject to call in.
- 9.2 This is a Cabinet decision.

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| Contact Officer: | Tim Howes, Director of Corporate Governance & Monitoring Officer |
| Reporting to: | Madeline Homer, Chief Executive |

Annex List

| | |
|---------|------------------------------------|
| Annex 1 | Cabinet Report 11 December 2014 |
| Annex 2 | Cabinet Minutes 11th December 2014 |

Background Papers

| Title | Details of where to access copy |
|-------|---------------------------------|
| None | N/A |

Corporate Consultation Undertaken

| | |
|----------------|---|
| Finance | Tim Willis, Director of Corporate Resources |
| Legal | Tim Howes, Director of Corporate Governance |
| Communications | Hannah Thorpe, Interim Head of Communications |

MANSTON CPO SOFT MARKET TESTING EXERCISE

To: **Cabinet – 16 June 2016**

Main Portfolio Area: **Council Leader**

By: **Director of Corporate Governance**

Classification: **Unrestricted**

Ward: **All wards**

Summary: **To report back on the outcome of the soft market testing exercise to identify an indemnity partner for a potential CPO for Manston Airport.**

For Decision

1.0 Introduction and Background

- 1.1 On the 10th December 2015 Cabinet agreed a formal process for identifying interest from third parties to be a Council indemnity partner for a potential CPO for Manston Airport.
- 1.2 The process involved publishing a prior information notice in the Official Journal of the European Union in early 2016 with a questionnaire to be completed by potential partners.
- 1.3 Organisations responding to the soft market test were required to provide information on finance, company structure, business plans, financial guarantors and how they viewed the CPO public interest test would be met. These organisations would be given four weeks to submit responses to the questionnaire, after which a report back on the assessment of responses would be considered at a future Cabinet meeting.

2.0 The Current Situation

- 2.1 A prior information notice (PIN) calling for expressions of interest was published in the Office Journal of the European Union (OJEU) on Friday 15 January. Parties had until Tuesday 9 February to register their interest. A total of five expressions of interest were received by this deadline.
- 2.2 The interested parties then had until Friday 12 February to submit responses to a follow up questionnaire. These questions were posed to establish the extent of their interest, capacity and capability. A total of three valid submissions were received. And further information was sought from one of those interested parties prior to final assessment of the expressions of interest.
- 2.3 There was a delay in completing the assessment of the interested parties due to the time taken in assessing the bona fides of one of those parties.

3.0 Assessment of the expressions of interest

3.1 The responses from the three parties (referred to as A, B and C) were assessed by a panel comprising the Chief Executive, the Director of Corporate Governance and the Strategic Procurement Manager.

3.2 The assessment of the responses was based upon four key lines of enquiry which were:

- Assessing capability of the market place to deliver the requirements
- Assessing whether there is an established market to deliver and an adequate number of operators
- Assessing the capacity of the market to deliver the requirements
- Assessing the feasibility and cost viability of any proposed action going forward.

3.3 The interested parties were scored (on a scale of 0-5) based on their responses to their questionnaire:

| Project Questions/Parties A, B, C | A | B | C |
|--|---|---|---|
| PQ1. Please list and explain your company's involvement in any airport operation and development projects over the past 10 years. Are you able to disclose future projects to which you are committed in this area? | 0 | 0 | 0 |
| PQ2. So that we have an understanding of scale and depth, would you please list projects that your organisation has been involved in attracting or providing long-term investment for the construction of major facilities and their subsequent operation? | 0 | 0 | 0 |
| PQ3. In reopening Manston as an airport, what specific proposals do you feel would be appropriate for Manston? | 1 | 1 | 0 |
| PQ4. The potential compulsory acquisition by TDC would require partner commitment to meet the full cost and a commitment to a long term agreement to operate. How would you satisfy this requirement? What is your view on the management of the financial risks and future long-term arrangement with TDC? How would you see the legal and financial structure working? | 0 | 0 | 0 |
| PQ5. Describe how your proposals would meet the 'public interest test' which is required in promoting any CPO? You should explain and provide evidence of social, environmental and economic benefits, if not included elsewhere. In particular consider the balance between your proposals for an operational airport and the proposals from the owners of the site. | 0 | 0 | 0 |
| <p>Note:</p> <p>A score of '0' indicates 'No response to the question or the response is not considered relevant. The response is unconvincing, flawed or otherwise unacceptable. Response fails to demonstrate an understanding of the requirements.</p> <p>A score of '1' indicates 'The response provided is limited or contains aspects that are substantially irrelevant/inaccurate/misleading or only partially addresses the question or contains ambiguities or deficiencies which could not be tolerated.</p> | | | |

- 3.4 The council has also undertaken a 'creditsafe' assessment of the interested parties. The results of that assessment were:

| | Status | Latest accounts etc | Credit Limit | Credit rating | Principal Activity |
|---|---|------------------------------------|--------------|--------------------|---------------------------|
| A | Not incorporated Crowd funding initiative | none | none | none | Operating Manston Airport |
| B | Incorporated 2015 UK private limited company Active | No financial information yet filed | £500 | 47 (moderate risk) | Not stated |
| C | Incorporated 2014 UK private limited company Active | No financial information yet filed | £500 | 39 (moderate risk) | Freight Air Transport |

- 3.5 Based on the above assessment one can draw the conclusions that in terms of the key lines of enquiry, the market cannot deliver on the council's requirements; there is no established market which is able to deliver, or an adequate number of operators; the market has no capacity to deliver the requirements and there is no cost or other benefits in taking this matter further.

4.0 Additional Interest

- 4.1 The council did receive interest from other parties, prompted by the CPO soft market testing process.
- 4.2 One party is approaching the current owners to negotiate a purchase and hence did not participate in the soft market testing process. They are backed by sovereign wealth funds (and potentially public sector pension funds) and are considering investing up to £150m, subject to a feasibility study showing that investment in the airport makes economic sense.
- 4.3 The other party also wanted to express their interest in exploring the opportunity of acquiring the Manston Airport site; therefore, they have also been directed to the current airport owners.
- 4.4 Two rounds of soft market testing have not produced a suitable indemnity partner in relation to a CPO for Manston Airport. Any additional interest in pursuing a CPO outside the soft market testing process would of course have to pass the same stringent tests.

5.0 Corporate Implications

5.1 Financial and Taxation

- 5.1.1 There are no financial considerations in relation to the recommendation.

5.2 Legal

- 5.2.1 The soft market testing exercise was carried out in accordance with the relevant rules and legislation.

5.3 Equity and Equalities

- 5.3.1 Given the recommendation it is considered that there are no implications in respect of the council's public sector equalities duty.

6.0 Recommendation

- 6.1 Cabinet note the results of the soft market testing assessment and take no further action in respect of the interested parties.

| | |
|-------------------------------|----------------------------------|
| Future Meeting if applicable: | Date: 16 th June 2016 |
|-------------------------------|----------------------------------|

| | |
|------------------|---|
| Contact Officer: | Tim Howes, Director of Corporate Governance |
| Reporting to: | Madeline Homer, Chief Executive |

Annex List

| | |
|------|-----|
| None | N/A |
|------|-----|

Background Papers

| Title | Details of where to access copy |
|-------|---------------------------------|
| None | N/A |

Corporate Consultation Undertaken

| | |
|----------------|----------------------------------|
| Finance | Director of Corporate Resources |
| Legal | Director of Corporate Governance |
| Communications | Head of Communications |




Commercial Viability of Manston Airport

AviaSolutions FINAL Report for Thanet District Council

September 2016



aviasolutions
A GECAS Company



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Glossary of Terms

- **Air Journeys:** Also referred to as Journeys. A unit of measurement for the number of flights taken by passengers.
- **Air Traffic Movement:** Abbreviated to 'ATM'. Defined as an aircraft landing or taking-off for commercial purposes.
- **Belly-hold:** A term referring specifically to passenger aircraft (as opposed to freighters). This term refers to the hold of the aircraft that is utilised for the carriage of passengers' baggage and freight.
- **Capacity per ATM:** A unit of measure defined as the number of seats or freight capacity on each ATM. Often an average of a larger sample.
- **Capacity:** The total capacity of an airport or aircraft to transport passengers or freight.
- **Catchment Area:** Airports draw their passengers from within a catchment area. The size of the airport and its network affect the size of the catchment area. Typically, the smaller the airport the smaller the catchment area that it can draw upon.
- **Discovery Park Limited:** Also referred to as Discovery Park. An entity that is closely linked to Stone Hill Park Limited through shared ownership.
- **Freight per ATM:** A unit of measure defined as the number of tonnes of freight loaded on each ATM. Often an average of a larger sample.
- **Freight:** Also referred to as Cargo or Air Freight. This includes all shipments that are transported for commercial purposes on board the aircraft under an Air Waybill excluding 'Mail'.
- **Freighter:** An aircraft specifically designed for the transportation of freight. This type of aircraft has no seats fitted, and in their place, has a cargo hold.
- **Full Service Carrier:** An airline business model that includes carriers who have traditionally offered all services included in one ticket price. This includes carriers such as British Airways, Lufthansa, Air France-KLM and Virgin Atlantic.
- **IATA Airport Code:** A three letter code designated by IATA to many airports around the world. All major airports are assigned a code, the most commonly used in this report are.
- **Kent Airport Limited:** Formally Infratil Kent Airport Limited. An entity whose main purpose is the operation of Manston, Kent's International Airport.
- **Kent Facilities Limited:** Formally Infratil Kent Facilities Limited. An entity whose main purpose is the provision of facilities to the operator Manston, Kent's International Airport. This entity in effect owns the airport site.
- **London System:** Also referred to as London Area Airports. A term referring to six airports of London (LHR, LGW, STN, LTN, LCY, SEN).
 - London City - LCY
 - London Gatwick - LGW
 - London Heathrow - LHR
 - London Luton - LTN
 - London Southend - SEN
 - London Stansted - STN
- **Low Cost Carrier:** Abbreviated to LCC. Low cost carriers are one of the major airline business models. Major European LCCs include Ryanair, easyJet, Norwegian, Wizz, and Vueling.
- **Million Passengers per annum:** Abbreviated to mppa. A standard unit of measurement for airport capacity or throughput.
- **Narrow-Body:** A type of aircraft, typically distinguished as one which has a fuselage wide enough for one passenger aisle. Includes aircraft such as Boeing B737 series and Airbus A320 family.
- **Passenger Movement:** A unit of measure referring to the number of passengers arriving or departing from an airport.
- **Passenger:** Abbreviated to PAX. The fare paying passengers on board an aircraft. Excludes those travelling on non-revenue tickets such as airline employees.
- **Passengers per ATM:** Abbreviated to PAX per ATM. A unit of measure defined as the number of passengers carried on each ATM. Often an average of a larger sample.
- **Peak Demand:** The demand at its highest point for an airport. There are several forms of peak demand, these include a daily peak (often early morning) and annual peaks (often around holiday seasons).
- **RiverOak Investment Corporation LCC:** Also referred to as RiverOak. An American investment firm that is seeking to acquire the Manston Airport site.
- **RTK:** Revenue tonne kilometre. A unit of measure in the freight industry. Calculated as the tonnes uplifted multiplied by distance flown.

- **Stone Hill Park Limited:** Previously Lothian Shelf (718) Limited. The current entity that owns Manston Airport.
- **Unaccommodated Demand:** A term referring to the demand that cannot be accommodated at a particular airport or combination of airports due to it exceeding the capacity available.
- **Wide-Body:** A type of aircraft, typically distinguished as one which has a fuselage wide enough for two passenger aisles. Includes aircraft such as Boeing 767, 777 and 787 series and Airbus A330, A340 and A350 family.

1. Introduction

1.1. Context

Thanet District Council ("TDC") appointed AviaSolutions to provide independent advice on whether a re-opened Manston Airport might have a financially viable future as an operational airport.

The airport closed in May 2014 and the current owner, Stone Hill Park (formally Lothian Shelf 718), has submitted a planning application for a mixed-use development on the site, comprising 2,500 dwellings, general business and commercial areas which is reported to support the creation of up to 4,000 jobs, and a range of leisure and sports activities.

RiverOak Investment Corporation ("RiverOak") is an American investment firm that wish to acquire the Manston site and re-establish airport operations. The re-established airport would be freight focussed but would also offer passenger services along with ancillary businesses. RiverOak are seeking a Development Consent Order (DCO) under the Planning Act 2008 to compel the sale of the site as a Nationally Significant Infrastructure Project.

TDC is seeking guidance on whether the airport has a reasonable prospect of operating as a financially viable, standalone entity within the period of the Local Plan which extends to 2031.

AviaSolutions commenced this study on 13th July 2016.

1.2. Scope and Limitations

The scope of AviaSolutions work was set out in the procurement document issued in June 2016 by TDC and our proposal for services submitted in the same month. Specifically, the scope requested:

"The Council requires an independent assessment advising whether or not it is possible to run a viable and economically sustainable free-standing airport operation from Manston. The Council is seeking advice from an independent expert aviation consultant who can make this assessment within the context of the national and international air traffic market, the viability of airport operations at a national and international scale and likely future developments in airport operations."

Source: TDC Briefing Document

Our proposal and this subsequent report have been developed in the context of these requirements. It is therefore necessary to indicate specifically those areas which fall outside of the scope of our works, and to which we have given no credence in the application of our analysis. These areas include:

- Whether Manston Airport is an asset of national significance
- The effect of any scenario on the wider Kent economy, or subsequently the effect on the UK economy as a whole
- The legal, planning, environmental, or social effects of any scenario, or whether these elements would present any challenges
- The economic benefit or need for industrial or housing units in the Thanet area
- The comparison between any airport scenario and any other alternative use of the airport site
- Passing judgement on the use of the site beyond that of whether an airport may be viable
- We take a neutral view with regards to the local campaign groups, both those for and against the airport

It should also be noted that many of the stakeholders engaged by AviaSolutions sought to broaden the discussion to include a wide range of airport-related topics. Whilst this has provided useful context and highlights the political sensitivity of the airport, AviaSolutions study is restricted to commercial analysis and does not seek to provide any legal, environmental or socio-economic advice or comments.

1.3. Our Approach

AviaSolutions commenced the study with a review of the various documents that describe the history of Manston Airport, the local and national planning context and the current development proposals for the site. The two main aspects of our work however were seeking the views of stakeholders relevant to the specific topic of airport commercial viability, and an extensive analysis of the relevant air transport market.

In conjunction with TDC, we agreed the primary and secondary stakeholders to be contacted for this engagement. Our interview programme was not intended to canvass the views and opinions of the many parties and individuals with views, many strong held, about the airport and its future. It was intended to seek facts about its historic development and proposed future development from the two prospective developers (Stone Hill Park and RiverOak) and from a range of parties within the air transport and freight industries. It is these parties and their like who will determine whether commercial aviation activities could be viable on the Manston site. Whilst conducting these interviews, many companies and individuals spoke on the condition of anonymity.

Our analysis added to our existing knowledge of the air transport industry the specifics that are associated with Manston Airport, namely its historic traffic performance, details of its catchment area, and the experiences of previous airline and freight users of the airport. AviaSolutions has developed two models specifically for this study. The first assessed the capacity of six airports serving the London Area and how future passenger and freight traffic might be distributed between these airports including Manston, and the second was a financial model to assess the potential cashflow outlook for Manston Airport.

1.4. Report Structure

In this report, we first summarise the history of Manston Airport and describe the different visions of its future put forward by Stone Hill Park and RiverOak. We next describe different scenarios for possible air transport use of Manston Airport, before investigating the passenger and freight traffic potential of each scenario. We then describe our financial model, setting out the basis of our revenue and cost assumptions if Manston were to be brought back to use as an operational commercial airport. Finally, we bring together the different threads of our analysis and reach our conclusions on the financial viability of Manston Airport.

1.5. AviaSolutions' Qualifications

AviaSolutions has been appointed to provide an independent assessment of the prospects for Manston Airport. We are an aviation management consultancy, established in 2001. In October 2012, GE Capital Aviation Services acquired 100% ownership, adding consultancy to the leasing business for which it is known. Since then, AviaSolutions has grown rapidly, building an airline business in addition to our traditional airport advisory services. Over the past 15 years AviaSolutions has earned a strong market reputation in a number of key areas:

- Airport Strategy and Support
- Airline Strategy and Support
- Airport and Aviation Transactions
- Air Service Development
- Regulation, Policy and Planning
- Passenger and Cargo Traffic Forecasting
- Route and Network Strategy
- Ground Handling
- Business and Commercial Advisory

2. Executive Summary

2.1. Summary

AviaSolutions was appointed by Thanet District Council (“TDC”) to advise on whether viable airport operations could be re-instated on the site of Manston Airport. Following ownership by the Ministry of Defence, three separate private companies tried and failed to operate Manston Airport profitably and the airport closed in May 2014. TDC needs to prepare its next Local Plan looking forward to 2031, and has two proposals for the use of the site: an operating airport or a mixed residential, business and leisure development.

AviaSolutions has discussed the re-opening of Manston Airport with a number of organisations and individuals, and carried out a detailed assessment of the air transport market and the potential finances of a re-opened Manston Airport. On this basis of this work, we have concluded that it is most unlikely that Manston Airport would represent a viable investment opportunity even in the longer term (post 2040), and certainly not during the period of the Local Plan to 2031.

The assessment of financial performance of a re-opened Manston Airport is based on relatively favourable assumptions for Manston Airport. We would typically position the financial forecast as a ‘High Case’ as a number of tailwinds are required to deliver the financial forecast in terms of passenger and freight volume and the revenue yield that can be achieved. Throughout the research AviaSolutions has consistently taken a positive outlook with regards to the underlying demand assumptions. Specifically, this means that we have opted for the upper bounds of traffic, the upper bounds of unit operating revenue, the lower bands of unit operating costs, and minimal asset costs and capital investment requirements.

2.2. Background

Since the Ministry of Defence sold Manston Airport in 1998, three separate private sector investors have attempted to develop the airport as a viable commercial undertaking. These ventures have all been unsuccessful and have incurred substantial losses in the process. The airport closed in May 2014. TDC has undertaken extensive exercises to find new investors prepared to re-open the airport, but has failed to identify an appropriate party. One interested party, RiverOak Investment Corporation LLC (“RiverOak”), has though emerged from this process, and is interested in acquiring the site and developing Manston Airport as a freight airport. RiverOak has been critical of previous owners, considering that they were not sufficiently active in seeking to develop and market Manston as a freight airport. In contrast, the current owner of the site, Stone Hill Park Limited (“Stone Hill Park”), has brought forward plans to develop the area for mixed residential, employment and leisure uses. TDC has identified a need to understand whether an airport would be a viable use for the site, and whether there is a reasonable prospect of that occurring within the period of the Local Plan to 2031.

2.3. Historic Performance of Manston Airport

During its years of operation as a commercial airport, Manston had a range of air services to domestic and short haul Europe points, and handled around 30,000 tonnes of freight a year, almost exclusively imports of fresh produce coming on dedicated freighter aircraft. The scale and nature of the passenger traffic suggests that Manston has relatively few air journeys originating or destined for a catchment area of East Kent that it might reasonably be expected to serve: we estimate that demand from this catchment area is about a third of the size of the demand in a catchment area of Southend Airport. While we consider that a re-opened Manston Airport would attract some passenger services and regain freighter operations at a level similar to its historic performance, our financial assessment is that this would be insufficient to support financially viable operations of the airport.

2.4. Manston as an Overflow Airport for London

Manston is located in the South East of England, where there is a need for additional runway capacity. This issue has been researched extensively over recent years, including the Davies Commission which recommended in 2015 that a third runway be constructed at Heathrow. A decision on the new runway

capacity is expected to be made in October 2016. In addition to the recommendation for Heathrow, Davies also considered a second runway at Gatwick, opening up the possibility of alternative decisions, including of course that either both or neither runway may be approved. We have developed a detailed model of how future passenger and freight demand might be distributed around the six airports in the London area under different airport capacity scenarios, in order to assess how much unaccommodated demand would be generated by 2050. We have also assessed how much traffic might be attracted to a re-opened Manston Airport.

These traffic estimates have been inputs to a financial model which AviaSolutions has developed to assess Manston's viability to 2050. We have based our estimates of unit aeronautical revenue, commercial revenue and operating costs on those levels achieved at other UK airports of a similar scale to that projected for Manston. We have also assumed that the site could be acquired for £10 million, and that further capital expenditure of £27 million would be required to re-commission the site as a licensed commercial airport. We further assume that the business is financed initially through an equity injection from shareholders of £50 million with no debt funding.

The scenario recommended to Government by the Davies Commission is the construction of a third runway at Heathrow. Under this scenario, the forecast passenger traffic at Manston would initially grow to almost 2.5 million passengers per annum (mppa) immediately before the opening of the third runway in 2030, but would fall materially afterwards. Retained earnings would not become positive until around 2040, preventing payment of dividends to equity investors until around that date. EBITDA margin would become positive in the early 2030's and grow and reach 41% by 2050. On this basis, we would very much doubt that an informed private sector investor would consider an equity stake in Manston Airport.

The scenario which most supports the re-opening of Manston Airport is one in which no new runways are built in the South East of England in the period to 2050. In this scenario, forecast operating cash flow of Manston Airport is negative until 2025; re-financings of £20 million are required in both 2028 and 2029 to fund terminal expansion; and retained earnings remain negative until 2029 preventing the payment of dividends. Thereafter, financial performance improves significantly, but it is 2043 before EBITDA margin reaches 50%.

It should be noted that these conclusions are based on a set of assumptions that favour Manston Airport at all times, with examples including above market aeronautical yield, aggressive cost reduction projections and minimal acquisition costs, which, while in our opinion are achievable, would nonetheless require some significant management attention. This attention would be focused on two aspects, securing new business at advantageous aeronautical revenue per passengers from LCC's and structuring the business to take advantage of unit cost reduction through scale. . These would not be assumptions which AviaSolutions would suggest are presented as a Base Case to an Investment Committee considering the proposition, but rather ones describing a potential upside scenario. In our experience, it is likely that an Investment Committee would not consider investing on this basis.

This scenario of no runway development in the South East of England before 2050 is also a low probability scenario in our view. It also carries a high risk that a decision in 2016 not to commission another runway could be reversed at any time in the future. If Manston were operational at the time a decision were reversed the impact on the business would be considerable, and the decision is not one in which the owners would have any control whatsoever. To give just one minor illustration of the risk, it was reported in early September 2016 that Heathrow Airport Limited was considering requesting permission to operate an additional 19,000 ATMs each year, which if granted would reduce the traffic that might spill to Manston.

The other runway scenarios which collectively are more likely than 'no runway development', produce worse financial forecasts for Manston Airport.

2.5. Conclusions

AviaSolutions concludes that airport operations at Manston are very unlikely to be financially viable in the longer term, and almost certainly not possible in the period to 2031.

3. Manston Airport: History and Development Proposals

3.1. Introduction

In this chapter, we briefly describe the history of Manston Airport and the different development proposals that are currently being tabled. We also summarise the information and views that we gathered during our interviews with each prospective developer of the site.

3.2. Manston Airport History

The history of Manston Airport has been well documented in a series of reports and investigations about its prospects. Like many airports, it started life as a military airfield and played an important role during the Second World War. Although it continued as an Air Force base after the war, civilian operations were permitted. In 1998, the Ministry of Defence sold the site to the Wiggins Group plc, which endeavoured to build up commercial operations, including investment in an airline (EU Jet) to provide passenger services. However, the airline quickly ceased operations in July 2005 and the parent group (renamed Planestation), went into administration.

The following month, Infratil Limited acquired Manston Airport from the administrators, and sought to continue commercial air transport operations. However, without the support of a based airline, passenger numbers returned to the historically low levels experienced prior to EU Jet. In each year that Infratil Limited owned Manston it incurred losses of more than £3 million per annum and wrote off the purchase price of £17 million. Infratil disposed of the airport and associated liabilities in November 2013 for the notional price of £1.

Manston Skyport Limited completed its acquisition of the airport in December 2013, but in the face of continuing financial losses gave notice to staff in March 2014. The airport closed for operations on 15 May 2014.

TDC then explored the possibility of using a Compulsory Purchase Order (CPO) to buy the airport, and then sell immediately onto a private sector investor willing to use the site as a commercial airport. A month-long search yielded a small number of interested parties but further scrutiny indicated that none provided the Council with sufficient confidence that it would be indemnified were it to exercise its CPO rights. This led the Council to reach an initial conclusion in December 2014 that it was unable to find a CPO Indemnity partner.

At the request of RiverOak Investment Corporation (one of the previously interested parties), in May 2015 it started a review of this decision and in October 2015 reached the same conclusion. Nonetheless, at the start of 2016, the Council launched a further search for a CPO Indemnity partner, but this again proved unsuccessful.

In the meantime, the former airport site was sold in September 2014 to the current owners, Stone Hill Park Limited

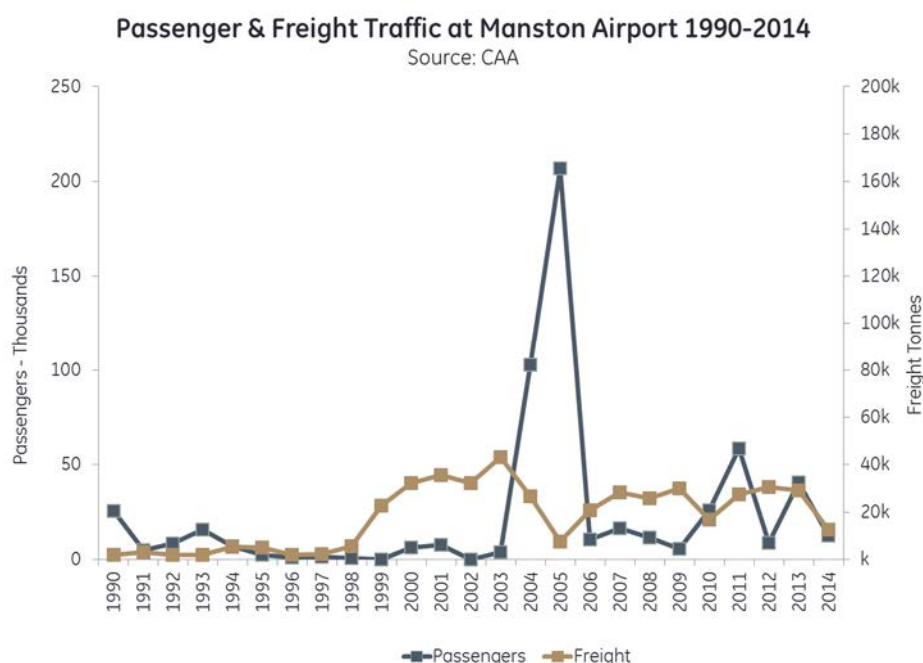
3.3. Commercial Activity at Manston Airport

Immediately after Wiggins Group plc acquired the airport Manston saw an increase in freight traffic. This grew rapidly to circa 30,000 tonnes per annum, however the passenger element of the business stagnated. After Wiggins Group plc invested in an airline specifically for the region, EUJet, the airport saw rapid growth in passengers increasing to 200,000 in 2004. EUJet however, quickly fell into financial difficulty and ceased operations in July 2005 bringing an abrupt halt to the passenger growth.

In the years since, through the ownership of Infratil and Manston Skyport, freight volumes were maintained at circa 30,000 tonnes per annum. Passenger volumes increased with the introduction of Flybe in 2010 but

fell back as the routes were withdrawn. Most recently, KLM began operations from the airport in 2013 but were also withdrawn due to the announcement of the airports closure.

Since being taken into private ownership the airport has averaged 30,500 passengers and 25,000 tonnes of freight per annum, with the peak being 207,000 passengers in 2005 and 43,000 tonnes of freight in 2003.



3.4. Stone Hill Park Development Proposal

Stone Hill Park Limited has lodged a planning application with TDC to construct a mixed development of residential and business units on the site of the former airport.

Stone Hill Park set out its position with regard to the history of the airport, indicating its years of financial losses under various ownerships. The company also outlined the steps that had been taken by management and consultants, both when the airport was operational as Manston SkyPort, and when it came into its ownership, to revive the airport's fortunes. It should be noted that Stone Hill Park indicated that no documents or reports were available to evidence these efforts. Stone Hill Park concluded that the airport site would be better utilised as a redevelopment site than as an airport¹.

3.5. RiverOak Investment Corporation Development Proposal

RiverOak was perhaps the most interested party in TDC's search for an Indemnity Partner to support its consideration of a CPO. It has indicated that its plan for the re-opening of Manston Airport is based on attracting 10,000 annual movements by freighter aircraft.

During AviaSolutions interviews, RiverOak provided a high level review of why it wished to acquire the airport and its vision of the airport's future development. The strategy is to develop a freight hub with supporting passenger services. RiverOak criticised the previous owners' lack of effort to develop air freight traffic at Manston.

¹ The scope of this report does not extend to a consideration of other uses for the airport, and AviaSolutions is therefore not able to comment on the reasonableness or otherwise of the alternative use proposals.

RiverOak was unwilling to disclose any material detail of its Business Plan for reasons of commercial confidentiality. Therefore, the discussion over future viability was at a more generic high-level basis, with RiverOak not disclosing any traffic projections, revenue projections, cost base or specific airlines (passenger or freight) with whom it had discussed plans (with the exception of Ryanair). It did not name any parties that had given firm commitments to use a re-opened Manston².

A critical factor for RiverOak's proposal is that in order to establish an airport on the Manston site it will need to obtain ownership of the site from the current owners. They have not secured the site's sale through negotiation with the owners and are currently preparing for a DCO process, a part of which shall aim to demonstrate to the relevant authorities that the airport site is nationally significant transport infrastructure. If successful, RiverOak may then be granted the ability to purchase the site on a compulsory basis. Without this power, there appears little prospect at present of the group securing ownership.

² For the avoidance of doubt, AviaSolutions therefore does not offer any opinion about the reasonableness or otherwise of RiverOak's commercial plans for the airport.

4. Potential Development Scenarios

4.1. Introduction

In this chapter, we describe a number of possible development scenarios for Manston Airport. These scenarios have been developed on the basis of our experience of the air transport industry and provided the background for our discussions stakeholders within the air transport industry.

We first describe two scenarios (4.2 and 4.3) that consider possible developments at Manston with regards to cargo and passengers. These scenarios are considered in isolation from decisions made in relation to the provision of a runway in the London area. However, given that Manston is in the South East of the UK, its potential development is likely to be directly influenced by any runway decision. Consequently, we incorporate the first two scenarios into a wider consideration of possible developments in the London area in view of the possibility that Manston might provide some 'over-flow' airport capacity. These considerations are drawn together in our four distinct demand scenarios for Manston Airport.

4.2. Cargo Activity

In the past, Manston Airport was able to attract a certain level of cargo activity, and a potential future role would be for it to again serve this market. In our assessment, we assume as a minimum that Manston attracts this previous freight, totaling 30,000 tonnes per annum.

We also consider whether the scale of activity might be greater than experienced in the past. There would be two possible causes for this:

- The selection of the East Kent area by a major multinational manufacturing (e.g. an Asian electronics or white goods company) or retail group (e.g. Amazon) as the location of its distribution network. Such location decisions can have a significant impact on freight volumes. However the UK's planned exit from the EU leaves makes this less likely.
- As a consequence of their lower sensitivity to airport location, freighters are generally amongst the first category of traffic to be 'squeezed' out of busy airports. With the pressure on runway capacity in the South East of England, it is possible that freighters currently operating through the London airport systems might seek to move to an alternative airport. We discuss this further throughout the remainder of this chapter.

We also considered the role of integrators in the air freight market. Whilst general cargo traffic tends to be more flexible about the location of the airport it uses than passenger traffic, this does not apply to the major integrated freight operators. The business model of operators such as DHL, FedEx and UPS is based on a hub and spoke principle involving both aircraft and road feeder services: the surface element of the network has a greater requirement for a central location within the market being served. We consider the geographic location of Manston precludes it from being a suitable base airport for an integrator in particular when compared to UK competitors such as East Midlands Airport.

4.3. Regional Passenger Airport

Manston Airport played a role from the early 2000s until its closure as a local airport serving the East Kent region. Although our research and analysis (described in Section 5) has indicated that its core catchment area produces significantly less demand for air travel than the area around Southend Airport, we consider that it might nonetheless be able to support an operation equivalent to one or two 150-200 seat passenger aircraft operated by a LCC based at Manston. However, the longevity of such a development may be limited since if a new runway were to be built at Heathrow or Gatwick, the LCC concerned would in all probability transfer its aircraft to the new runway. There are many reasons why these aircraft would be re-based, including:

- Gaining access to vitally important catchment area

- Competitive positioning, the major LCCs are likely to fiercely compete and attempt to gain first mover advantages
- The airlines will need to base multiple aircraft at the airport with a new runway in order to achieve economies of scale on the cost lines of their business
- Securing slots at valuable airports to secure slots
- Airlines have finite resources, including the number of aircraft they have to operate. A major structural change in the runway capacity environment will demand that those resources be reviewed and the optimum allocation revised.

In our analysis we make the assumption that the airport quickly ramps up to 800,000 passengers per annum on this basis until such a time as a new runway is opened, at which point the aircraft are re-based and the passenger traffic lost. This volume of annual passengers is equivalent to two B737-800 based aircraft with a typical LCC seat configuration. We also assume that Manston would not feature in the network plans of airlines for non-based aircraft.

4.4. Runway Development in the South East

The shortage of airport capacity in the South East of England has been widely debated for many years, if not decades. The most recent public investigation was undertaken by the Davies Commission which reported to Government in 2015. No decision on its recommendation to provide a third runway at Heathrow has yet been made, although one is expected in October 2016. Even if a decision is made as currently planned, it could be ten years or more before that runway would be operational. The Davies Commission considered a long list of possible locations for additional runway capacity in the South East, although it should be noted that Manston Airport (still open at the time) was not one of them, and despite its available capacity a new runway was still deemed necessary.

The Commission short-listed two schemes at Heathrow for a third runway (LHR3) and the provision of a second runway at Gatwick (LGW2), and recommended LHR3. During the next ten years, there will be a shortage of airport capacity in the South East, leading to a scenario in which Manston acts as an overflow airport for demand that cannot be accommodated elsewhere. We consider that there are four possible outcomes from the Government's current decision process:

- Build LHR3: While in line with the Davies Commission recommendation, this choice would nonetheless be the most controversial, and probably take the longest time to deliver.
- Build LGW2: It is likely that a runway at Gatwick would be available earlier than at Heathrow. It is probably the outcome that would be least supportive of a re-opening of Manston Airport, since Gatwick is the closest airport to Manston, and a runway there is likely to be operational several years before one at Heathrow.
- Build both: Should Government indicate that its policy would permit both to be built, Gatwick shareholders might well conclude that while its runway could be operational first, there would be a significant risk of loss of traffic to Heathrow as and when its additional runway opened.
- No expansion: It is possible that Government will not sanction any runway expansion in the South East. It is the outcome that would be most supportive of a re-opening of Manston Airport, albeit an outcome that could be reversed at any time in the future, thereby depriving a re-opened Manston of traffic.

It is feasible that there would be a legal challenge, irrespective of which of the above possibilities were chosen (possibly less so with the fourth 'do nothing' option), further delaying the opening of a new runway. It is unclear whether the Government's decision would indicate simply its preferred location with the airport operator then following the normal planning process to obtain the necessary permissions, or whether it would seek to provide the permissions through a Parliamentary process.

4.5. Dynamics of Traffic in the London Airport System

The six airports of the London Airport system all have different owners, and each has a particular characteristic in the traffic which it handles. However, there is a dynamic in the distribution of traffic between the airports, which also have a particular hierarchy.

Heathrow is the premier airport, and there are numerous examples of airlines moving services there when they are able to do so. This has been evidenced with airlines purchasing slots from incumbent Heathrow

airlines, for example in February 2016 Oman Air purchased a pair of Heathrow slots from Air France-KLM for a reported \$75 million.

Gatwick is clearly the second airport in the system, and secondary slot trading is also beginning to take place. The airports of Stansted and Luton to the north of London play similar roles in supporting the low cost airline market. London City Airport is very much a niche airport and has marginally relieved pressure on Heathrow by serving an increasing range of short haul (often business-oriented) destinations. The least busy airport is Southend which has grown again in the last few years as a result of easyJet basing two to three aircraft at the airport.

4.6. Model Scenarios

Before the construction of a new runway at Heathrow and/or Gatwick, there is expected to be a shortage of airport capacity with passenger demand growing. We have developed a simulation model to estimate the size of unaccommodated demand at one airport, and how the demand might respond to an airport capacity shortage. Our demand cascade follows the form of:

- Some passengers using the airport to connect between flights will choose to use other airports as their connection point (voluntarily to avoid over-crowded facilities and delayed flights, or as a consequence of airlines increasing fares to such passengers);
- Some passengers will choose not to travel, or not to travel by air (as air fares are increased);
- Some passengers will endeavour to use another London airport; and
- The remaining potential travellers are available for attraction by UK airports other than the six London area airports.

We have used our experience and discrete analyses to determine the likely sizes of the first two categories above, and then estimated the passenger handling capacities of the airports. In general, this is based on the number of Air Transport Movements (ATMs) that each airport's runway system can handle³ and the average number of passengers per ATM at the airport. There is a long-term and widespread trend for passengers per ATM to increase, meaning that the passenger handling capability of an airport can grow even though there may be no change in the number of ATMs that it can handle. We have also divided the maximum ATMs between passenger and freighter operations, maintaining freighter operations at the average level seen over the five years 2011 to 2015⁴, except at Stansted. Within this model we have also considered freight demand and the ability of airlines to carry this demand, either on the dedicated freighter ATMs or in the belly-holds of passenger aircraft.

Once the total unaccommodated demand for the London System has been identified we then apply analysis to identify the share of this unaccommodated demand Manston might attract. These 'spill' demand scenarios are in addition to the base loads of 800,000 passengers (up until a new runway) and 30,000 tonnes of freight. Our demand scenarios are therefore:

- LHR3: The spilled passenger demand Manston would capture if a third Heathrow runway were developed and in addition 800,000 passenger per annum and 30,000 tonnes or freight per annum until FY2030.
- LGW2: The spilled passenger demand Manston would capture if a second Gatwick runway were developed and in addition 800,000 passenger per annum and 30,000 tonnes or freight per annum until FY2025.
- Both: The spilled passenger demand Manston would capture if a third Heathrow runway were developed and a second Gatwick runway were developed and in addition 800,000 passenger per annum and 30,000 tonnes or freight per annum until FY2025.
- No Runway: The spilled passenger demand Manston would capture if no new runway were developed and in addition 800,000 passenger per annum and 30,000 tonnes or freight per annum until FY2050.

³ In the cases of Heathrow, Stansted and London City there are also statutory limits

⁴ One of Stansted's S106 conditions specifies the division of ATMs between passenger and freighter, with freighter ATMs being 20,500 per annum, and passenger ATMs 243,500 per annum

4.7. Development Options Outside of Scenarios

We have not included in the possible scenarios any development that does not include commercial air transport operations. Hence, we do not consider the potential use of the Manston site as; a Maintenance, Repair and Overhaul (MRO) centre, an aircraft refurbishment or fit-out location, aircraft 'tear-down' or storage centre, or flight training facility. These and similar activities are often sought by owners of airports with low levels of aircraft activity as a means of generating ancillary revenue to boost income. However, the operators of these businesses are often flexible about the location of the works, and as such, the businesses providing these types of activities are highly sought-after by existing airports and the businesses are able to negotiate favorable commercial terms.

Given the intense competition that exists for these types of business, in our judgment no private sector investor would re-open Manston Airport based primarily on this type of activity. Similarly, while the site has an historic position in aviation and has a heritage centre, and this activity could add to viability, this would be only a marginal financial contribution and would be dependent on there being a commercially viable airport around which to build such an activity.

We also discounted the possibility of Manston developing as a business aviation (GA) centre: it is simply too distant from London to be an attractive offering to corporations and high net-worth individuals using private jets and would struggle against established airports such as Farnborough and London City.

5. Passenger Analysis

5.1. Introduction

In this section, we discuss the passenger market both at Manston and in the London Area as a whole. We then explore the potential demand scenarios outlined in section 4.6.

5.2. Historic Passenger Traffic at Manston Airport

Various passenger services have operated at Manston Airport in the past. In general, they were consistent with the type that might be expected at a small UK regional airport, namely scheduled services to major short haul domestic and European destinations, supplemented by charter flights to the more popular Mediterranean holiday resorts.

Passenger volumes peaked in 2005, when EUJet, then a subsidiary of Planestation, was operating from Manston Airport. A large number of destinations were served, although EUJet was achieving a load factor of only 41% when it ceased trading in July 2005.



Destinations/Origins of Manston Airport Passengers, 2005

| Airport | Passengers | Airport | Passengers |
|------------|------------|---------------------|------------|
| Edinburgh | 32,259 | Gerona | 6,177 |
| Dublin | 26,879 | Newcastle | 5,118 |
| Amsterdam | 16,600 | Belfast | 4,563 |
| Manchester | 15,091 | Barcelona | 4,351 |
| Malaga | 14,119 | Ibiza | 3,657 |
| Prague | 10,434 | Shannon | 2,897 |
| Nice | 9,848 | Valencia | 2,316 |
| Murcia | 9,774 | Glasgow | 2,200 |
| Alicante | 7,822 | Madrid | 2,077 |
| Palma | 7,584 | Other international | 12,186 |
| Geneva | 6,801 | Other domestic | 18 |
| Faro | 6,502 | Total | 209,273 |

Source: CAA Airport Statistics

After EUJet ceased trading, passenger volumes fell dramatically, and remained persistently below 20,000 per annum until 2010/11 when Flybe commenced some limited flying to domestic destinations. The service to Manchester performed poorly, with an average load factor of 26% (source: CAA) and was soon terminated. A Belfast service had a marginally better load factor at 44% but ultimately was unsustainable. The highest performing route in terms of load factor was to Edinburgh which reached a load factor of 53%. Passengers were mainly outbound from Manston and travelling for personal or leisure reasons resulting in fare yields being relatively low. The culmination of this poor demand resulted in Flybe ceasing services from the airport (source: Flybe Interview).

In 2013, KLM commenced a twice daily service on weekdays from and to Amsterdam, aiming to feed its connecting hub at Schiphol as well as facilitating travel to and from the city. KLM operates to many airports in the UK on this basis and in 2013, KLM carried nearly 36,000 passengers. However, in that same year, a further 48,000 passengers from Manston's core catchment area travelled to Amsterdam from other London Area Airports, meaning that the Manston service captured just 42% of the demand that arose from Manston's core catchment area (albeit services started only in April 2013).

Passengers to Amsterdam, 2013

| London Area Airport | Passengers to Amsterdam from Manston Catchment Area, 2013 |
|--|---|
| Heathrow | 22,008 |
| Gatwick | 20,048 |
| London City | 4,091 |
| Stansted | 1,932 |
| Luton | 596 |
| Total | 48,675 |
| Passengers on KLM service from Manston | 35,854 (42%) |
| Total Catchment Area Passengers to Amsterdam | 84,529 (100%) |

Source: CAA Passenger Survey (N.B. Southend not included in survey)

5.3. Local Demand

We have defined an area of eastern Kent as Manston's core catchment area, as shown in the diagram below.



To gauge the demand from Manston Airport's core catchment, we analysed the number of journeys from the core catchment to a basket of easyJet destinations (using Southend Airport's easyJet network as a typical example). The London airports captured 517,000 air journeys to these UK domestic and short haul

European destinations⁵. This figure does not include the small number of passengers that travelled via Manston to Amsterdam in the first three months of the year.

| District | Passengers from Manston's Catchment Area |
|--|--|
| Ashford | 59,463 |
| Canterbury | 78,339 |
| Dover | 48,575 |
| Maidstone | 74,279 |
| Medway | 131,123 |
| Shepway | 41,159 |
| Swale | 47,074 |
| Thanet | 37,315 |
| Total Using London Area Airports | 517,327 |
| Passengers on Services from Manston | 12,344 |
| Total Catchment Area Passengers to these points | 529,671 |

Source: CAA Passenger Survey (N.B. Southend not included in survey)

In contrast, in 2014, the core catchment area for Southend generated more than 580,000 passengers to and from these points flying from the other London Airports. This is in addition to the passengers carried by easyJet from Southend to these destinations.

A proportion of the passengers that used services from Southend will have come from outside the airport's core catchment area. The analysis indicates that the maximum proportion of demand from a core catchment area that a small airport might attract is around 60%. This assumed percentage capture is broadly in line with the 42% capture by KLM from Manston during its first nine months of operations in 2013.



| Airport Used | Passengers from Southend Catchment Area |
|--|---|
| Gatwick | 270,450 |
| Stansted | 251,443 |
| Heathrow | 21,978 |
| London City | 20,868 |
| Luton | 16,820 |
| Total using London Area Airports | 581,559 (38%) |
| Passengers on easyJet services from Southend | 959,523 (62%) |
| Total Catchment Area Passengers to these points | 1,541,082 (100%) |

Source: CAA Passenger Survey (N.B. Southend not included in survey)

If this same percentage were applied to the 2014 demand from Manston's core catchment area, it suggests that the maximum number of passengers that might be attracted to these points on services from a re-opened Manston would be some 330,000 per annum ($529,000 \times 62\%$). To sustain operations, it is therefore conceivable that Manston would, like Southend, almost certainly need to attract passengers from outside its catchment area. Southend is some 55 minutes from central London by rail (with pedestrian access between airport terminal and station), while Manston is scheduled to be 75 to 105 minutes from

⁵ Barcelona, Belfast, Amsterdam, Faro, Alicante, Ibiza, Malaga, Jersey, Palma. Geneva, Venice, Edinburgh, Berlin, Krakow, Tenerife

Central London. Manston would face a significant challenge to match Southend's attraction to passengers from central London.

Train to London from airport, (Assumes Ramsgate connection for Manston)

| Airport | Train to London | Connect to Terminal | Vs. Manston |
|-------------|---|---------------------|--------------------|
| Heathrow | 15 minutes every 15 minutes from Paddington | Direct to terminal | 75 minutes quicker |
| Gatwick | 30 minutes every 15 minutes from Victoria | Direct to terminal | 60 minutes quicker |
| Stansted | 50 minutes every 15 minutes from Stratford / Liverpool Street | Direct to terminal | 40 minutes quicker |
| Luton | 40 minutes every 10 minutes to Kings Cross St Pancras | 10 minute shuttle | 50 minutes quicker |
| London City | On the DLR Line | Direct to terminal | Variable |
| Southend | 53 minutes to Liverpool Street, 44 minutes to Stratford. 8 trains an hour at peak | Direct to terminal | 37 minutes quicker |
| Manston | 75 - 105 minutes to Ramsgate, four trains per hour to Kings Cross St Pancras | 15 minute shuttle | n/a |

Source: Airport website, national rail

This potential level of passenger demand at Manston for short haul services would be approximately equal to that which could be handled by one 150 seat narrow-body aircraft (such as a Boeing B737 or an Airbus A319) operated by an LCC based at Manston.

5.4. Airline Interviews

AviaSolutions spoke to several passenger airlines with regards to potential future operations at Manston airport. More detailed notes are provided in Appendix A.

Ryanair provided the most positive indication of future service concluding that:

'Ryanair are constantly reviewing their network and remain open to approaches from any airport. If the airport became operational, the airline would review its potential and fit within the wider airline network in due course, and is available to discuss terms with the owners at any time'
Ms. Kate Sherry, Deputy Director of Route Development, Ryanair

Whilst Ryanair remained somewhat open to the possibility of future services, it was in our opinion, far from a commitment to serve Manston airport if it should re-open. We received a similar position statement from KLM, effectively citing that a re-opened Manston would be included in the annual network review.

Discussions with other carriers indicated a less positive outlook for the airport, with Flybe, an airline that had previously served Manston stating:

'It is unlikely that, even if Manston should reopen, the airline would choose to serve the airport.'
Mr. Martin Pearce, Flybe

Other airlines and individuals interviewed had similar stances, stating that:

'...Manston would not be a consideration for us...'
Major European LCC

and that:

'Following the BREXIT vote many airlines will be considering their approach to the UK. During a period of uncertainty, it will be difficult for Manston to convince carriers to open routes to the airport'
Ex-Director of Network Route Development for Major European LCC

We also discussed with a major UK carrier its views on Manston Airport as part of an operational resilience strategy. This is an aspect of the airport which has been made promoted as a potential benefit to the UK aviation sector. Flight Operations within an airline is a highly scrutinised function, in particular with regards to fuel and diversionary airport selection. When calculating a Flight Plan, airlines plan contingency fuel based on regulatory standards that ensure sufficient fuel is available upon landing, meeting this minimum landing fuel is a core part of the duty of all aircraft commanders. Our contact stated that:

'It is my personal view that Manston does not offer any safety or resilience benefits of a material nature to the UK system. The airport is located in close proximity to six London airports which offer excellent resilience already'

Manager, Flight Operations, Major UK Carrier

Based on AviaSolutions interviews in relation to passenger services, we conclude that whilst there is some notional interest in passenger services at Manston Airport, no airline was committed at present, or in the future seeking to serve to the airport should it re-open. No airline wished to give any more commitment beyond that it would consider Manston as part of their process of reviewing their network.

5.5. Potential Overflow from London Area System - Model

We outlined in Section 4 the principles on which we have based our model of how passenger traffic might cascade around the London Area Airport system. In this section we set out the main assumptions and results.

Capacity

The starting point of our assumptions is the ATM capacity of the London airports. At a number of airports, the ATM capacity has a statutory cap (as opposed to an estimate based on its physical capacity). At these airports we have assumed up to 97.5% of the movement cap to reflect constraints on the optimal scheduling and peak demand profiles.

Airport ATM Capacity

| Airport | Annual ATM Capacity | Comment |
|-------------|---------------------|--|
| Heathrow | 480,000 | With two runways. Statutory limit |
| | 720,000 | With three runways, from 2030 if added |
| Gatwick | 280,000 | Estimated capacity of single runway |
| | 480,000 | With two runways, from 2025 if added |
| Stansted | 264,000 | Statutory limit. Includes 20,500 for freight flights |
| Luton | 100,000 | Estimated. Statutory passenger cap of 18 mppa |
| London City | 111,000 | Statutory cap (noise-adjusted) - passenger limit of 6.5 mppa |
| Southend | 53,300 | Statutory cap |

These ATM capacities are converted into a passenger capacity by multiplying by the average number of passengers per ATM. Passengers per ATM have historically increased over time as a result of larger aircraft with more seats and the increase in the number of seats occupied (the load factor).

We have assumed a continuation of this trend, although at a rate of 0.5% per annum, much lower than seen in recent years. It may be seen that even by 2050, the number of passengers per ATM with this assumption never exceeds 200 at any airport. This assumption acts to increase the demand that cannot be accommodated at the six London Area airports. However, it is likely that when faced with runway capacity constraints, airlines will increase passengers per ATM at a faster rate than would otherwise be the case. Our assumed rate of increase is consequently likely to lead to an over-estimation of the demand that is available to be handled at Manston.

Passengers per ATM

| Airport | Passengers per ATM | | | | | CAGR 2011 to 2015 | CAGR 2015 to 2050 | Pax per ATM 2050 |
|-------------|--------------------|-------|-------|-------|-------|-------------------------|-------------------------|---------------------|
| | 2011 | 2012 | 2013 | 2014 | 2015 | | | |
| Heathrow | 146.6 | 149.5 | 155.0 | 156.8 | 159.7 | 2.2% | 0.5% | 190.2 |
| Gatwick | 137.9 | 142.5 | 145.2 | 149.7 | 153.5 | 2.7% | 0.5% | 182.8 |
| Stansted | 142.3 | 144.1 | 146.3 | 149.2 | 155.9 | 2.3% | 0.5% | 185.6 |
| Luton | 136.4 | 139.0 | 141.8 | 143.3 | 145.1 | 1.5% | 0.5% | 172.8 |
| London City | 49.2 | 46.9 | 49.7 | 52.0 | 54.5 | 2.6% | 0.5% | 64.9 |
| Southend | 33.8 | 84.9 | 102.4 | 95.5 | 100.4 | 5.7%* | 0.5% | 119.5 |

* 2012 to 2015

Demand

We have based our forecasts of future passenger traffic on those set out in the Davies Commission Report - unconstrained carbon traded forecast (the most optimistic). Given that the early forecast volumes have been superseded by actual performance, we have uplifted the forecast figures to reflect actual demand seen across the London System in the intervening years.

Demand Allocation London System

Demand is then compared to capacity available, and assigned to the airport which Davies assumes is its natural first choice. The greatest demand is for Heathrow, and traffic not accommodated there is assumed to (a) spill to other non-London Area airports for connecting traffic, (b) 5% is assumed not to travel (by air), or (c) spill to Gatwick.

A similar process is then followed for Gatwick, with any unallocated demand being allocated to one of the other four London Area airports, until each has reached its capacity. At this point, any unaccommodated demand becomes available for other airports outside the London System to handle. We summarise below the forecast demand at the London Area airports in 2050 for each of our defined scenarios, together with unaccommodated demand.

Forecast Passenger Demand (mppa) at London Area Airports, 2050

| Airport | Scenario | | | |
|----------------|----------|--------|------|---------|
| | LHR R3 | LGW R2 | Both | Neither |
| Heathrow | 134 | 89 | 134 | 89 |
| Gatwick | 51 | 88 | 88 | 51 |
| Stansted | 45 | 45 | 45 | 45 |
| Luton | 17 | 17 | 17 | 17 |
| London City | 7 | 7 | 7 | 7 |
| Southend | 2 | 2 | 2 | 2 |
| Unaccommodated | 44 | 40 | 5 | 79 |

Unaccommodated Demand (mppa) by Scenario and Year

| Year | Scenario | | | |
|------|----------|--------|------|---------|
| | LHR R3 | LGW R2 | Both | Neither |
| 2020 | 5 | 5 | 5 | 5 |
| 2025 | 11 | 9 | 9 | 11 |
| 2030 | 17 | 6 | 2 | 25 |
| 2035 | 9 | 9 | 4 | 36 |
| 2040 | 16 | 16 | 5 | 49 |
| 2045 | 27 | 27 | 3 | 61 |
| 2050 | 44 | 40 | 6 | 79 |

Demand Allocation - Regionals

This Unaccommodated Demand is potentially available to airports other than the six London airports and specifically to airports in regions other than the South East as well as to Manston. Using CAA data, we have calculated the origin and destination distribution of passengers at the London Airports split by the part of the UK they are travelling either to or from. This indicates that 49% of total passengers are travelling to or from Greater London and 4% to or from Kent. We have assumed that the distribution of future Unaccommodated Demand matches the pattern of demand seen in 2014, such that if 100 passengers were unaccommodated, 49 of those are travelling to or from Greater London and 4 to or from Kent.

We have then estimated how much of this Unaccommodated Demand Manston may reasonably be assumed to capture. Given its location in Kent it is reasonable to assume it would capture a large share of the Unaccommodated Demand for Kent (4 passengers in the example above). We have assumed that this share is 90% (90% of the 4 passengers). Applying a similar logic, we assume that the Greater London passengers would have more choice and therefore Manston would capture a smaller share of this market. We have assumed Manston will capture 10% of the Greater London market (10% of the 49 passengers).

It is also important to recognise that currently 27% of passengers using the London Area airports do not have origins or destinations in the South East region, but use surface means to access the air services at the London airports. It is our view that airlines will consider adding additional capacity at airports to the North and West of London (potentially Southampton, Bournemouth, Cardiff, Birmingham, Manchester) to dissipate this excess demand and permit the London System to absorb the demand growth in the Greater London area. These non-London airports, in general, have a wider catchment area already provide services from many carriers with the associated economics of scale and mature presence in these markets.

Surface Origin/Destination of Terminating Passengers at London Area Airports, 2014 (mppa)

| Area | LHR | LGW | STN | LTN | LCY | Total | % |
|--------------------------|-------------|-------------|-------------|-------------|------------|--------------|------|
| South East | 36.0 | 28.1 | 11.6 | 10.2 | 3.3 | 84.2 | 73% |
| of which | | | | | | | |
| Greater London | 24.9 | 15.0 | 10.1 | 5.3 | 3.1 | 56.7 | 49% |
| Kent | 0.9 | 2.5 | 0.4 | 0.1 | 0.1 | 4.1 | 4% |
| Other UK regions | 11.3 | 7.2 | 7.5 | 5.0 | 0.3 | 31.2 | 27% |
| Total Terminating | 47.3 | 35.2 | 19.1 | 10.2 | 3.6 | 115.4 | 100% |
| Connecting | 25.8 | 2.6 | 0.8 | 0.2 | 0.1 | 29.5 | |
| Total Terminal | 73.1 | 37.9 | 19.9 | 10.4 | 3.6 | 144.9 | |

Source: CAA Passenger Survey

In addition to this overflow of unaccommodated demand, in each of our scenarios we have added the introduction of an LCC base of two aircraft supporting 800,000 passengers per annum from 2018, equivalent to two Ryanair B737-800 aircraft. This base continues at Manston until a new runway is opened at Heathrow and/or Gatwick. In the year when new capacity is introduced, the Manston based aircraft are assumed to transfer to the airport with the new runway, as the airline concerned seeks to establish presence at that airport at the same time as consolidating its operations in the London area.

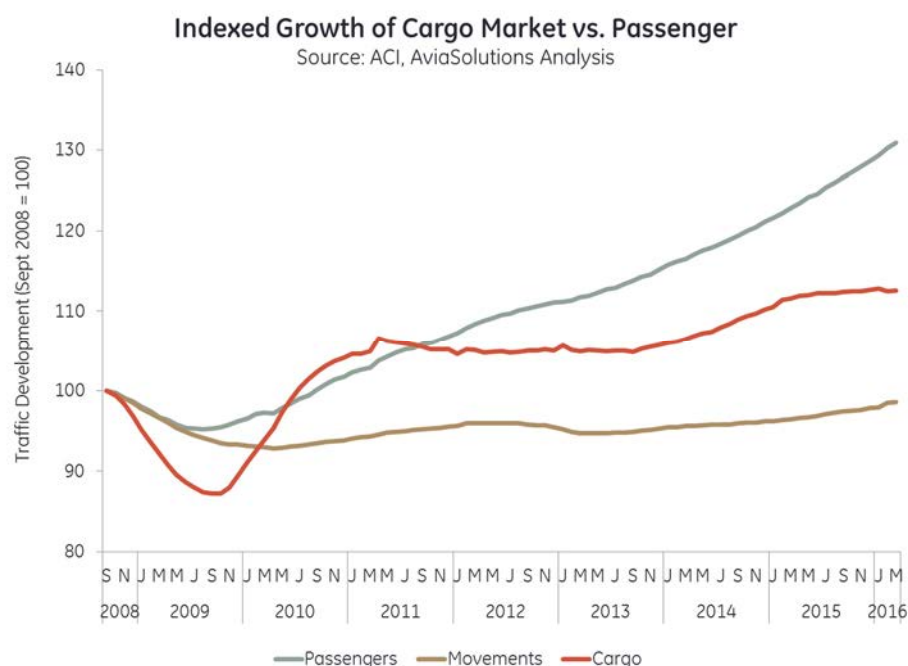
6. Cargo Analysis

6.1. Introduction

In this chapter we examine the air cargo market and its overall prospects. We also consider how freight traffic might develop at Manston Airport in our scenarios.

6.2. Overall Cargo Market

The air cargo market declined significantly after the global financial crisis of 2008. Although cargo volumes recovered to previous levels within two years following the crash in 2008, growth over the last five or six years has been modest.

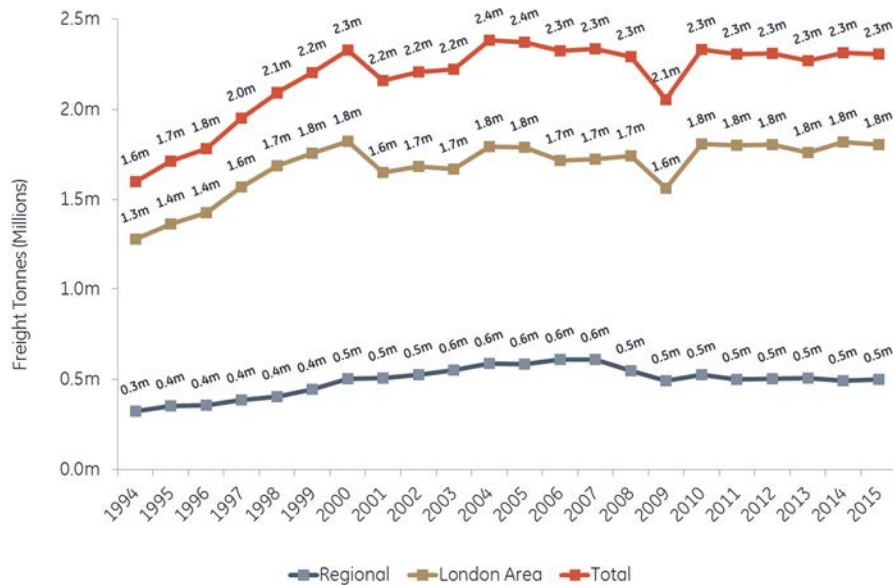


A similar pattern has been observed in the UK. Indeed, total air freight handled at UK airports has been virtually constant at around 2.3 million tonnes per annum since 2000, with the exception of reductions immediately after the start of the recession in the early 2000s and the financial crisis in 2008. Prior to this period, demand for air freight had grown at CAGR of 8% since 1990.

There is a reasonably even split between freight set-down (imports for international freight) at 52.5% and freight picked-up (exports) at 47.5%. More than 95% of UK air freight in 2015 was international.

Total UK Freight Freight by Airport Type

Source: CAA, AviaSolutions Analysis



Within this national context, individual airports' performance has varied, with the five London area airports (Heathrow, Gatwick, Stansted, Luton and City) increasing their aggregate share slightly to just under 80%, with regional airports reducing by an equivalent amount.

The busiest airport for freight has consistently been Heathrow, responsible for two thirds of the country's air freight. This position owes much to the very considerable cargo capacity in the holds of the wide-body aircraft providing the many long haul passenger services from the airport. In contrast, East Midlands' position as the second busiest freight airport is due to its role as the centre of the UK distribution network of the integrated cargo carriers, especially DHL but also UPS and Royal Mail. Stansted is preferred by FedEx and is also used by the cargo operations of a number of airlines. These included British Airways before it discontinued its all-freighter operations in April 2014 and switched to the freighter operations of Qatar Airways.

It has been argued by, for example, York Aviation on behalf of the Freight Transport Association that the stagnation of growth in UK air freight market since 2000 has been caused by a lack of airport capacity in the London area and specifically at Heathrow. Whilst the lack of ATM growth at Heathrow has undoubtedly hampered the development of the national air freight market, it is also true that over this period there was adequate airport capacity available at both Stansted and Manston to support additional dedicated freighter movements. Freighter movements at Stansted decreased over the period⁶, while Manston closed. This strongly suggests that the stagnation of UK airfreight is not a consequence of capacity constraints given the excess capacity at Stansted and Manston.

Air freight activity in the UK is highly concentrated, with just six airports handling 95% of the UK's air freight volume.

⁶ Stansted's freight ATMs declined from 13,967 in 2000 to 9,956 in 2015

Freight by UK Airport

| Airport | Freight (Tonnes) | | % of 2015 Total | Cumulative Share | % carried on Freighters in 2015 |
|-----------------------|------------------|------------------|-----------------|------------------|---------------------------------|
| | 2013 | 2015 | | | |
| Heathrow | 1,422,939 | 1,496,551 | 65% | 65% | 5% |
| East Midlands | 266,968 | 291,689 | 13% | 78% | 100% |
| Stansted | 211,952 | 207,996 | 9% | 87% | 100% |
| Gatwick | 96,724 | 73,371 | 3% | 90% | 0% |
| Manchester | 96,373 | 100,021 | 4% | 94% | 10% |
| Manston | 29,306 | - | 0% | 94% | 100% (2013) |
| Belfast International | 29,288 | 30,389 | 1% | 95% | 100% |
| Luton | 29,074 | 28,008 | 1% | 97% | 96% |
| Birmingham | 21,067 | 7,164 | 0% | 97% | 0% |
| Edinburgh | 18,624 | 19,322 | 1% | 98% | 99% |
| Total | 2,267,812 | 2,304,345 | | | 30% |

Source: Analysis of CAA Statistics

In 2015, there were around 60,000 ATMs by all-freight aircraft across UK airports. These were split almost equally between international and domestic operations. Freight movements are relatively concentrated on a small number of airports, with East Midlands and Stansted accounting for 64% of movements in 2015.

| Airport | Domestic | Freighter ATMs International | Total | Int. as % of 2015 Total |
|-----------------------|---------------|------------------------------|---------------|-------------------------|
| Heathrow | 3 | 2,385 | 2,388 | 8% |
| East Midlands | 9,603 | 12,516 | 22,119 | 42% |
| Stansted | 3,445 | 6,511 | 9,956 | 22% |
| Gatwick | 0 | 3 | 3 | 0% |
| Manchester | 205 | 830 | 1,035 | 3% |
| Belfast International | 4,091 | 17 | 4,108 | 0% |
| Luton | 183 | 1,519 | 1,702 | 5% |
| Birmingham | 0 | 0 | 0 | 0% |
| Edinburgh | 3,883 | 1,088 | 4,971 | 4% |
| Other | 10,136 | 5,032 | 15,168 | 17% |
| Total | 31,549 | 29,901 | 61,450 | 100% |

Source: Analysis of CAA Statistics

It is important to note that, in the UK market, only 30% of airfreight is carried on dedicated freight aircraft. This is substantially less than the global average, where approximately 56% of RTK's are transported on freighters. In part, this disparity is due to the excellent belly-hold networks available from UK airports and in particular from Heathrow.

As passenger demand increases additional belly-hold capacity will enter the market. This capacity growth is unhooked from the demand scenario for belly-hold cargo and can result in excess capacity in the market. As a result airlines will often sell this belly-hold capacity using a marginal cost pricing structure. This pricing structure does not need to account for the high cost of the aircraft and must only meet the additional marginal cost that each kilogram of cargo incurs. Through the application of this pricing

structure, belly-hold cargo often undercuts the minimum price that can be charged on dedicated freighter operations.

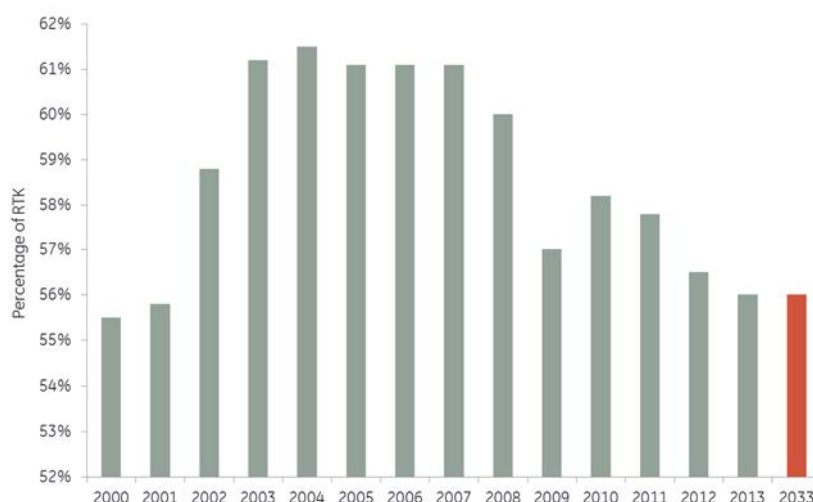
As a result of this market dynamic, an airport focused on airfreight carried by dedicated freighters may be overly exposed to a declining or stagnant total market, or at best to a market that is not exposed to strong potential.

However, there are some elements of the market that appear to be limiting the increase in belly-hold capacity. These include

- Some of the newer aircraft types have a smaller belly-hold cargo capacity than the aircraft they replace; and
- Low Cost Carriers (such as easyJet and Ryanair) are gaining market share but generally ignore the freight market.

World RTK's Carried on Freighters by Percentage

Source: Boeing



Manston

Before its closure in 2014, Manston Airport was the sixth busiest airport in the UK for freight. For the last ten years of operations the airport handled between 25,000 and 30,000 tonnes of freight annually, representing just over 1% of the UK market (refer table 'Freight by UK Airport' on previous page)

In 2013, the overwhelming majority of the airport's freight was carried on all-freight aircraft, CargoLux being the primary operator. There were 511 freighter movements (landings or take-offs) during the year, with an average of 57 tonnes of freight per movement. In reality Manston was almost exclusively used for imports, and this averaged 107 tonnes per import, with virtually no export volume.

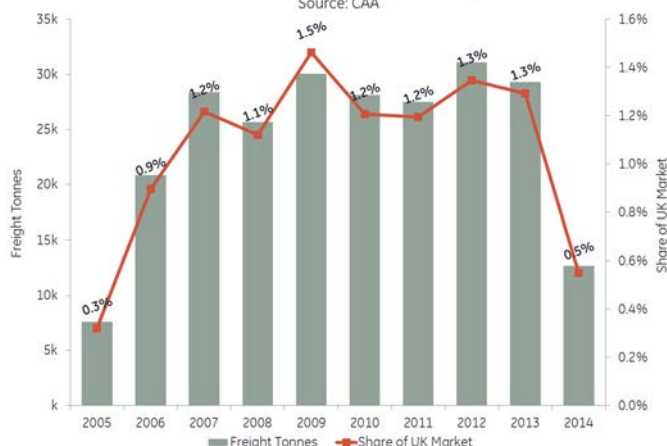
6.3. Freight Industry Interviews

Our discussions with representative of the cargo industry indicate that much of the cargo at Manston was fresh produce from Africa. The airport was popular with shippers as it was uncongested, offered good quality handling services (provided by airport staff) and the airport charges were competitive. While it is close to continental Europe, airlines/shippers nonetheless had to incur the costs of flying freight aircraft virtually empty on the return leg to their base airport (e.g. Luxembourg, Ostend and Liege) after off-loading. When Manston closed, it is understood that some movements transferred to Stansted, whilst others switched to airports on the near-Continent and their loads trucked across the Channel to the UK.

Our primary interest in interviewing representatives of the freight industry (current and former executives), and previous users of the airport was to assess potential future use. It was clear from these discussions that whilst the airport clearly offered a professional service, the strategic position of the airport was a clear disadvantage.

Manston Airport Freight History

Source: CAA



'Airlines base the decision on where to operate their freighters based on a multitude of factors. However, the overriding factor is based on where investments in infrastructure have been made by

their clients, freight forwarders. These capex investments by freight forwarders are required to ensure they maintain economies of scale through their transit facilities and distribution centres. In the UK, these investments are centred at Heathrow, and more recently Stansted'
Senior Executive in Cargo Division for airline operating freighters at Stansted.

The individual went on further to discuss the possibility of relocating his freighters to Manston Airport and was unequivocal in his position:

'The airline would be extremely unlikely to consider moving services to Manston, even if we were no longer able to serve Stansted, regardless of the commercial terms offered. If the airline had to move services, we would consider East Midlands and Manchester or other centrally located airports before Manston'
Senior Executive in Cargo Division for airline operating freighters at Stansted

This view was echoed by Mr. Stanley G. Wraight, a cargo professional with a global reputation, and over 40 years' experience in the cargo industry:

'The conclusion is there is virtually no incentive for operators to move operations to Manston, there are alternative UK airports that offer competitive services on reasonable terms. The UK doesn't need another airport for freight that has no USP. If Manston were to be developed it would be essential for it to gain a niche market such as becoming an Amazon or Alibaba e-commerce base'
Mr. Stanley G. Wraight – Senior Executive Director Strategic Aviation Solutions Limited

Balancing this view were those of an air cargo charter broker who had previously used Manston for charter services. The airport had offered excellent service and, while the broker's use might be for a moderate level of ATMs, it would be keen to re-establish a presence, provided the right commercial terms could be agreed:

'...we would certainly be interested in using the airport again if it re-opened but in order to do so, we would be looking to secure competitive rates for landing, parking and screening charges...'
Air Cargo Charter Broker – UK

We conclude therefore that there is limited interest from the cargo industry in using a re-opened Manston Airport for air freight. The larger scheduled freighter operators are unlikely to relocate their services to the airport, particularly if the airport does not have a unique product offer. We believe it is more likely that were Manston Airport to re-open, the most likely role would be to serve smaller freight operators and the larger operators on an *ad-hoc* basis. There is no compelling reason to believe that the airport would be able to generate appreciably more freight activity than previously, other than in the context of a shortage of airport capacity in the London area.

6.4. Potential Future Freight Operations - Model

Based on our research and analysis, it is AviaSolutions' view that if Manston were to re-open as an airport, it would attract some dedicated freighter operations. However, in the absence of a firm commitment from a multinational to establish a distribution centre near Manston, the growth of freight activity at the airport would be in line with historic performance, with incremental growth resulting from a general expansion of the UK cargo market and a diversion of freighter flights if these were constrained at Stansted.

Demand

There are very few national forecasts for the development of air freight. One example is the report developed by Oxford Economics and Ramboll for Transport for London as part of the investigation of the development of an estuary airport for London. A potential cause of the stagnation of growth in air cargo since 2000 was identified as the increase in oil and jet fuel price. Trend forecasts were based on average growth from 2000 to 2012 (the Lower Bound) and from 1990 to 2012 (the Upper Bound). The difference in growth rates of the two periods produce very different forecast outcomes.

| Average Annual Growth | Period | London Area Airports | UK |
|-----------------------|--------|----------------------|----|
|-----------------------|--------|----------------------|----|

| | | | |
|-------------------------|-----------|-------|-------|
| Belly Hold Cargo | 1990-2012 | 2.95% | 2.87% |
| Belly Hold Cargo | 2000-2012 | 0.49% | 0.48% |
| Dedicated Cargo | 1990-2012 | 2.76% | 3.52% |
| Dedicated Cargo | 2000-2012 | 0.02% | 0.40% |

Source: Oxford Economics

We note that despite being one of the world's leading economics consultancy's, Oxford Economics relied on a forecasting technique based on historic trends, rather than econometric regression analysis seeking to correlate historic growth in air cargo with changes in external/exogenous variables such as GDP, international trade etc. that might be driving the freight growth. Boeing and Airbus base their long term forecasts on GDP changes. The Oxford Economics' approach is consistent with it either not being confident in any relationships that exist, or simply not finding any explanation for the stagnation of air freight. Certainly, the forecasts produced have an exceptionally large range between low and upper bounds, which indicate the difficulty of forecasting cargo growth with confidence.

We have used the mid-point of these forecasts to drive our cascade model of how traffic might be distributed across the London area airports as and when airport capacity becomes constrained. We have estimated available capacity for cargo based on belly hold capacity generated on passenger services and on dedicated freighter flights.

Capacity

We have considered only belly-hold capacity Heathrow and Gatwick. At Heathrow with a significant number of wide-bodied aircraft (35%), we estimate the average belly-hold freight capacity to be 7 tonnes per ATM at LHR (2015), significantly higher than the actual freight per ATM of 3 tonnes. In an environment of freight growth, we have assumed this figure would increase at 1% per annum, reaching 4.3 tonnes per ATM in 2050, a load factor of 61%.

Currently, the majority of flights (85%) at Gatwick are narrow-bodied aircraft to short haul destinations, and likely to carry minimal volumes of freight. We estimate Gatwick's belly-hold capacity to be two tonnes per ATM. In 2015, actual belly-hold loads averaged less than 0.3 tonnes per ATM. We have assumed that this increases at 1.5% per annum, and reaches just over 0.3 tonnes per ATM in 2050, reaching a load factor of 15%.

We have assumed that the number of dedicated freighter flights remains at the average activity of the last five years at Heathrow and Luton. However, at Stansted permitted freighter movements may approach the statutory cap of 20,500 per annum. We have not included freighter movements at any of the other London airports. As the capacity per ATM on freighters at both Heathrow and Stansted was significantly above the loads actually carried, we have assumed that loads on freighters at these airports would grow by 1.5% per annum if UK freight market was growing at the forecast rate noted above. These assumptions take average loads on freighters to 55 tonnes and 53 tonnes respectively in 2050, still materially lower than the available capacity. We have assumed that the average load on freighters at Luton continues at 2015 levels.

| Airport | Capacity Type | 2011 | 2012 | 2013 | 2014 | 2015 | Capacity 2015 |
|-----------------|--------------------------|-------------|-------------|-------------|-------------|-------------|----------------------|
| Heathrow | Belly Hold load (tonnes) | 3.0 | 3.0 | 2.9 | 3.0 | 3.0 | 7 |
| | Freighter ATMs | 2,456 | 2,380 | 2,365 | 2,084 | 2,388 | 2,388 |
| | Freighter load (tonnes) | 31.3 | 30.0 | 29.9 | 32.8 | 32.9 | 83 |
| Gatwick | Belly Hold load (tonnes) | 0.4 | 0.4 | 0.4 | 0.3 | 0.3 | 0.3 |
| Stansted | Freighter ATMs | 9,359 | 9,602 | 9,788 | 9,340 | 9,741 | 20,500 |
| | Freighter load (tonnes) | 20.3 | 21.3 | 21.2 | 21.7 | 21.0* | 80* |
| Luton | Freighter ATMs | 1,717 | 1,810 | 1,716 | 1,520 | 1,701 | 1,693 |
| | Freighter load (tonnes) | 15.6 | 15.9 | 16.3 | 15.1 | 15.8 | 15.8 |

* The average load in international freighter ATMs in 2015 was 31.7 tonnes per ATM, and the capacity on these movements 80.3 tonnes. We have used this as our forecasting base since most freight traffic is international.

Demand Allocation

These assumptions indicate that all forecast freight demand can be accommodated in all scenarios up to 2045. It is only in this year that some demand remains unaccommodated in two of the scenarios, although by 2050 there is unaccommodated demand in all scenarios.

Unaccommodated Demand (Tonnes x 1,000) by Scenario and Year

| Year | Scenario | | | |
|------|----------|--------|------|---------|
| | LHR R3 | LGW R2 | Both | Neither |
| 2020 | 0 | 0 | 0 | 0 |
| 2025 | 0 | 0 | 0 | 0 |
| 2030 | 0 | 0 | 0 | 0 |
| 2035 | 0 | 0 | 0 | 0 |
| 2040 | 0 | 0 | 0 | 0 |
| 2045 | 0 | 35 | 0 | 123 |
| 2050 | 173 | 178 | 62 | 278 |

There is strong anecdotal evidence that a material proportion, probably around 20%, of air freight flying to and from the UK actually originates or is destined for continental Europe and is trucked across the channel. We have assumed that 20% of unaccommodated demand is lost to the UK air freight industry and flies from continental European airports. For the purposes of our assessment and in recognition of RiverOak's stated intention to develop Manston as a freight airport, we have assumed that half of the remaining unaccommodated demand is flown via Manston, with the other half going to other UK regional airports, potentially led by East Midlands and Manchester.

7. Financial Analysis

7.1. Introduction

In this section, we present the findings of our financial analysis based on the passenger and cargo forecasts set out in the earlier sections following an assumed re-opening of Manston Airport. The principles of the financial model and underlying assumptions are explained, followed by the outputs of the model for the Heathrow Third Runway scenario as it is the recommendation of the Davies Commission to Government. Finally, we present summary results of the other scenarios. A more comprehensive description of the outputs for the other scenarios is given in Appendix C.

7.2. Model Description and Input Assumptions

7.2.1. Financial Model

AviaSolutions has developed a model to assess the financial viability of a re-opened Manston Airport. This model assesses the financial performance of the airport based on various assumptions for four London area capacity scenarios which result in different demand scenarios for Manston. The assumptions have been developed in a number of different ways and draw on a wide range of sources including; analysis of the wider aviation industry, published financial accounts of the companies responsible for Manston Airport, benchmarking of comparable airports, information from our stakeholder interviews and our independent judgment based on knowledge and expertise within the aviation industry.

7.2.2. Brief Overview of Model

The model simulates the financial performance of the airport under different scenarios. This performance is measured through simplified financial statements including a Profit and Loss Statement (P&L), Cash Flow Statement and Balance Sheet. It should be noted that these are simplified statements used to illustrate performance and have not been produced to GAAP standards. The financial statements are modelled over a period from FY2017 to FY2050, on the assumption that the airport is reinstated on the site in FY2018. The Financial Year is assumed to correspond to the calendar year. This time period is typical of that used to evaluate long term infrastructure assets such as an airport, and the specific dates correspond with the period of the passenger forecasts used by the Davies Commission.

7.2.3. Approach to Assumptions

Throughout the research AviaSolutions has consistently taken a positive outlook with regards to the underlying demand assumptions. Specifically, this means that we have opted for the upper bounds of traffic, the upper bounds of unit operating revenue, the lower bands of unit operating costs, and minimal asset costs and capital investment requirements.

We therefore conclude that the assumptions and analysis that follow present the prospects of Manston airport in a very favourable context. We would consider these outputs to represent a 'High Case' and believe they present the airport in a situation where there is a very limited prospect of additional revenue or lower cost structures.

7.2.4. General Assumptions

Revenue

Airports generate revenue from two primary sources: from the charges levied on airlines for using their facilities (referred to as Aeronautical Revenue), and from more discretionary activities including retail, car parking and property (referred to as Non-aeronautical or Commercial Revenue). Manston Airport historically provided ground handling services to its customer airlines, and revenue from these activities is included in Aeronautical Revenues. Previously Manston Airport supplied fuel to some airlines, and our model includes this as a separate revenue line (as a net revenue so that the cost of the fuel does not need to be considered).

Revenue Assumptions within AviaSolutions Model

| Revenue | |
|------------------------------------|--------|
| Aeronautical Revenue per Passenger | £7.00 |
| Revenue per Tonne of Freight | £50.00 |
| Commercial Revenue per Passenger | £5.00 |
| Fuel Revenue per WLU | £0.93 |

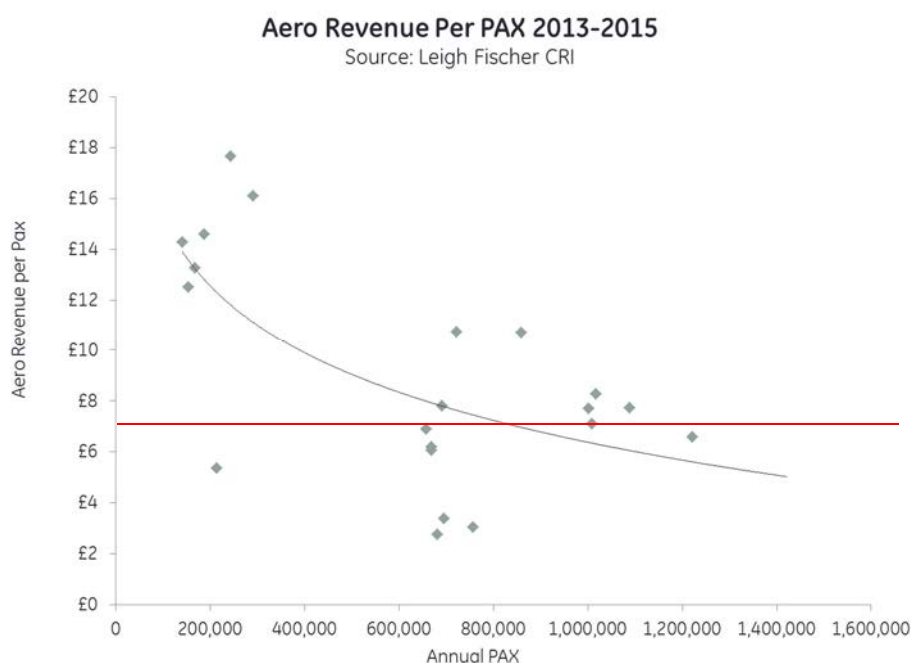
Aeronautical Revenue per Passenger

This revenue includes all airline related fees, including landing charges, passenger charges, and aircraft parking charges. However, it excludes Air Passenger Duty (APD), which is collected by the airline but passed on directly to the UK HMRC. It is normal industry practice, however, and for LCCs in particular to agree a fixed fee per passenger covering the entire range of airport operations (excluding any property rental).

Our experience is that the fees generated by the airport are greatly affected by the type of airline operating at the airport and the level of throughput achieved by the airline. Ryanair's airport charges, across its entire European network in 2015, amounted to €7.80 per total passenger (€15.60 per departing passenger) and during our stakeholder interview the airline indicated it would need to secure a highly competitive airport charge to base aircraft at Manston. The Ryanair average airport charge of €7.80 will include many capital city airports where the airline is very likely to be paying significantly above this average.

We also considered the average aeronautical revenue per passenger of airports that operate with a large share of LCC traffic, as would be expected at a re-opened Manston Airport. In the most recently published accounts (2015) Luton and Bristol airports reported aeronautical revenues of £5.66 and £4.24 per total passenger (£11.32 and £8.48 per departing passenger) respectively.

We have also assessed the aeronautical revenue per passenger achieved across a large sample of similar sized airports in the UK.



Based on these comparisons, we have concluded that a reasonable aeronautical revenue assumption for Manston Airport would be £3.50 per total passenger (£7 per departing passenger) for LCC traffic, and £7.00 per total passenger (£14 per departing passenger) overflowing from the London area.

Revenue per Tonne of Freight

The published accounts of Kent Airport Limited from 2013 identified revenues generated by freight activities. These revenues will reflect the landing charges from freighter movements, the use of the freight warehouses and the handling services provided to the airline. We have confirmed through an independent source that the historic revenue per tonne for freight achieved at Manston is consistent with market rates generally in the UK.

Commercial Aeronautical Revenue

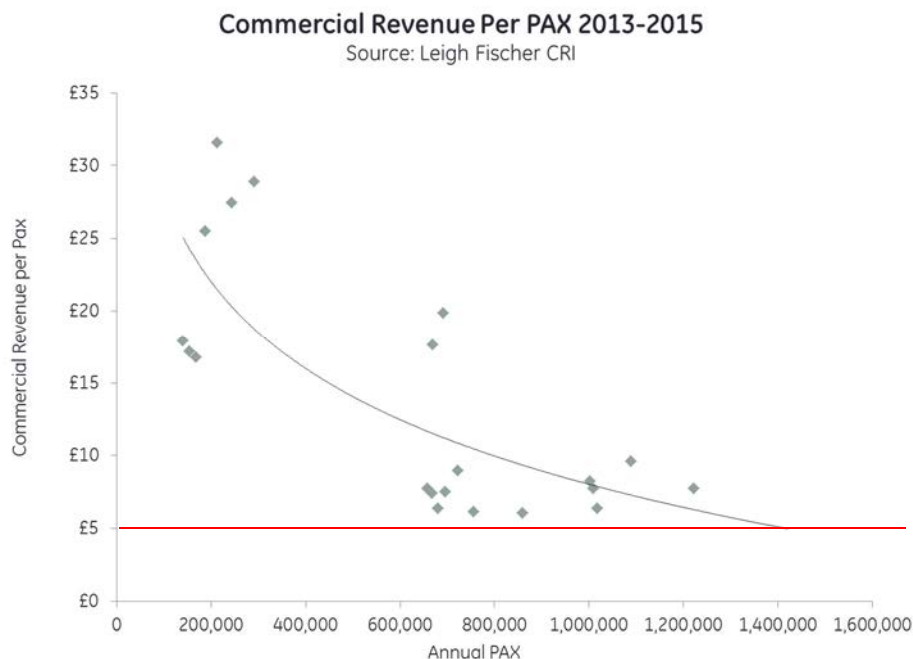
Commercial revenue is generated from passenger-facing services at the airport. One of the main sources of revenue are the airport concessions to operators of the retail shops (including duty free), food and beverage (F&B) outlets, car rental and currency exchange services. The operator will typically pay a percentage of turnover to the airport. Car parking is another source of revenue, with some airports managing operations in-house, whilst others out-source to specialist operators, such as APCOA or NCP.

Property revenue at Manston was £110,000 in 2014, and we have assumed that at a re-opened Manston Airport arrangements would continue on a similar basis.

We have built-up an estimate of potential commercial revenue per passenger by considering typical passenger spending and concession rates (turnover rent) that could be expected at a relatively small airport such as Manston.

In aggregate we have assumed that Manston could generate around £5.00 per total passenger (£10 per departing passenger).

We have also compared the unit commercial revenues generated at a number of smaller UK regional airports. It may be seen that there are a number of airports with low passenger throughputs which record high levels of commercial revenue per passenger. This is almost certainly caused by dividing a relative fixed rental income by a small number of passengers leading to an artificial inflation of the commercial revenue when measured on a per passenger basis.



We therefore conclude that a reasonable initial assumption for commercial revenue per passenger across all non-aeronautical activities is £5.00.

We have also considered the forecast expansion of the terminal to provide the necessary passenger capacity in later years under some scenarios. The terminal expansion would be expected to improve the retail and F&B offer and is assumed to contribute increased commercial revenue by £2 per passenger.

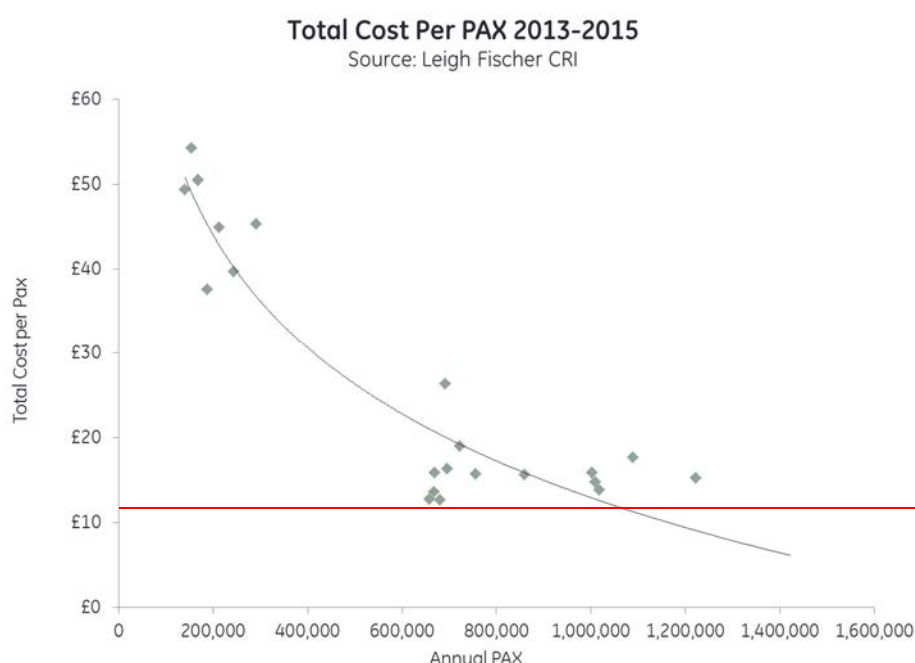
Aviation Fuel

The forecast for aviation fuel revenue is based on the net revenue after cost of fuel has been subtracted. The revenue is effectively the margin payable to the airport for fuel flowage. The margin has been estimated based on industry experience ranging from 3.5% - 7.5%. We have assumed Manston is able to achieve a margin of 5.5% and applied this to the total fuel revenue published in Kent Airport Limited's accounts (2014) to identify the fuel revenue per passenger or tonne of freight.

Total Operating Costs

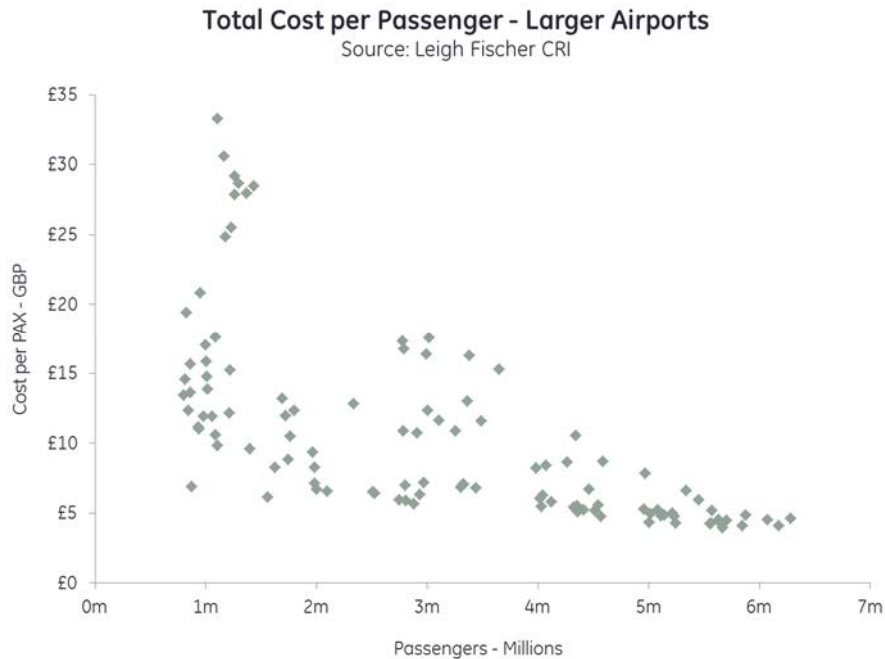
Airports with very low throughput have a high cost of operation per passenger: the fixed cost of airport operations can only be distributed across a low volume. Within a limited range, the marginal operating cost of an additional passenger is zero, but the marginal revenue of an additional passenger will be close to the average revenue per passenger.

This financial characteristic is common to capital intensive infrastructure assets. The chart below illustrates the relationship between volume and unit operating costs (per passenger) at a sample of small UK regional airports.



To reflect the expected evolution of the airport's operating costs over the forecast period we have assumed a fixed total operating cost of £7 million when annual passenger throughput is below 0.5 million. As passenger volume increases beyond 0.5 million we assume that the total operating cost per passenger will decline on a linear basis to reach £12 per passenger at around 1.0 million passengers. This would position Manston Airport amongst the best in class cost per passenger within its UK peer group.

It is reasonable to assume that unit operating costs will continue to decline with further increases in throughput leading to additional economies of scale, as illustrated below. We have linked unit costs to annual passenger throughput such that when annual throughput reaches 6.5 million passengers the unit cost would be £5.00.



Costs specifically associated with freight have been estimated at circa 60% of freight revenue based on the historic performance at Manston.

Overheads

Overheads have been obtained from the published accounts of Kent Airport Limited (2014) and exclude any restructuring costs. In a standard business plan these would often be linked with elasticity to revenue growth. However, as growth would come from a very low base AviaSolutions' view was this would have introduced too many additional costs into the business. Therefore, we estimated that these costs grew at a rate of 0.1x Work Load Units.

Other Assumptions

We have made several assumptions about the initial equity and purchase price of the airport. These assumptions have come from our stakeholder interviews and other research. They are for illustrative purposes only and may differ significantly from any actual investment.

Our estimate of the site purchase price is derived from the recognised value of the airport in Kent Facilities Limited's 2014 published accounts (£7 million) inflated by circa 50%. It is believed that this could be considered a conservative valuation of the site, dependent on the designation of the land at the time of acquisition. The current owners (Stone Hill Park) are seeking planning permission for up to 2,500 dwellings, should this permission be granted, we would assume the land to be valued far in excess of £10m.

We have developed our own estimate of the costs of re-establishing the site as an operational airport based on our industry experience and a site visit. The estimate includes the necessary work to return the airport to a serviceable condition that would satisfy the CAA and facilitate the handling of up to about 2 million passengers annually. We have excluded any advisory or legal fees associated with the Development Consent Order, though these may be considerable.

| Cash Flow & Balance Sheet | |
|-------------------------------------|------------|
| Initial Capital Injection | 50,000,000 |
| Airport Site Purchase Cost | 10,000,000 |
| Airport Site Development Costs | 27,000,000 |
| Debt Interest Rate P.A | 3.0% |
| Straight Line Depreciation Years | 60 |
| Effective Tax Rate on Net Income | 20% |
| Dividend Payment % of Profit / Cash | 0% |

We have also assumed that the investment in Manston is funded solely by equity with no debt facility. This is in part to reduce the assumed cash outflow in the early years of operations, but also because we believe that debt-financing would be difficult to secure and relatively expensive.

Additional Capital Expenditure (CAPEX)

Additional capital expenditure is assumed to be required at the point when the airport reaches 2.0 million passengers per annum and is forecast to remain at this level or above. Where the airport is growing rapidly (notably in the 'No Runway' scenario), the additional capacity investment is in two £50 million stages. Where the airport is expected to grow more slowly, additional capacity investment is assumed in a single £30 million stage.

Financial Statements

Taking the combined effect of the financial assumptions and the demand scenarios we have developed a number of illustrative financial statements. These include:

Profit and Loss:

- Operating Statistics
- Revenue Lines
- Direct Cost Lines
- Gross Income
- Overheads
- EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation)
- EBITDA Margin (EBITDA as a percentage of revenue)
- EBIT (Earnings Before Interest and Tax)
- Net Income (EBIT less Interest and Tax)

Cash Flow Statements:

- Opening Cash Balance
- Net cash flow from Operating activity
- Net cash flow from Investing activity
- Net cash flow from Financing activity
- Closing Cash Balance

Balance Sheet:

- Total Assets
- Long Term Liabilities
- Owner Equity
 - Retained Earnings (which in part determines the ability to dividends to equity investors)
 - Share Capital

7.3. Outputs for LHR Third Runway Scenario

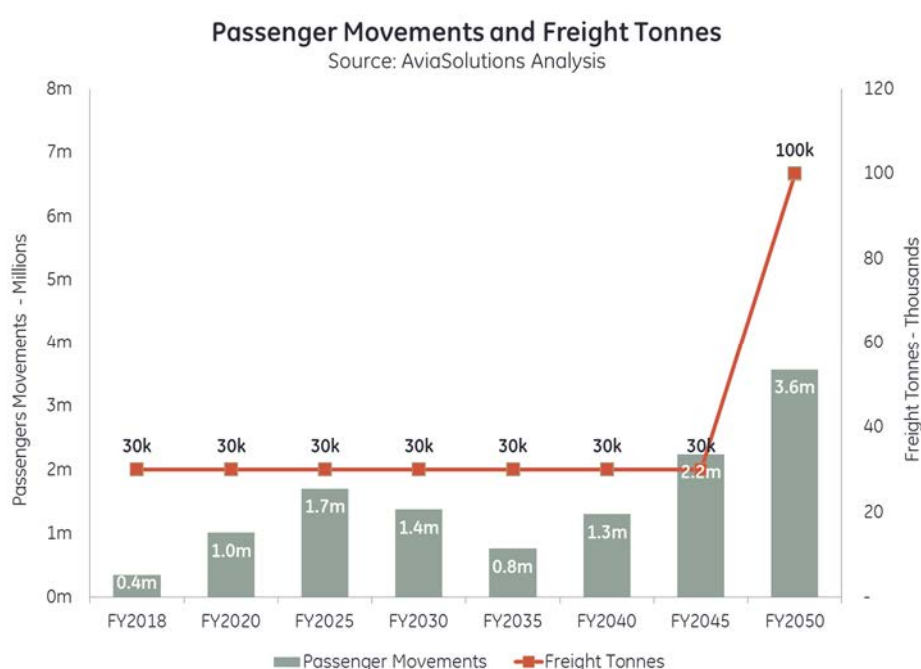
In the following paragraphs we explore the financial viability of Manston Airport based upon there being a third runway at Heathrow. This is the option which was recommended by the Davies Commission and therefore may be presumed to be the most likely outcome. However, the likelihood is that a runway at Heathrow would take longer to commission than one at Gatwick so consequently, Manston may have an initial boost to traffic before falling back and then growing again. This scenario takes spill from the London system in addition to a base level of activity generated from the presumed small LCC operation and freighters. This scenario is more favourable for Manston Airport than a development at Gatwick, and is perhaps the most likely.

7.3.1. Volume Profile

Passenger numbers are forecast to grow to nearly 2.5 million by 2029, the year before the assumed opening of the third runway at Heathrow Airport, but immediately fall back from 2030 and decline to a low of 0.5 million in 2033. From this low point, traffic volume grows as a result of the resumption of overflow, reaching 3.5 million passengers in 2050. Overall growth between FY2018 and FY2050 averages 10% annually.

Freight is not forecast to grow beyond the 30,000 tonnes of the core freighter operations until FY2040, but at that point, freight is assumed to spill from the London Area taking it to some 100,000 tonnes by FY2050.

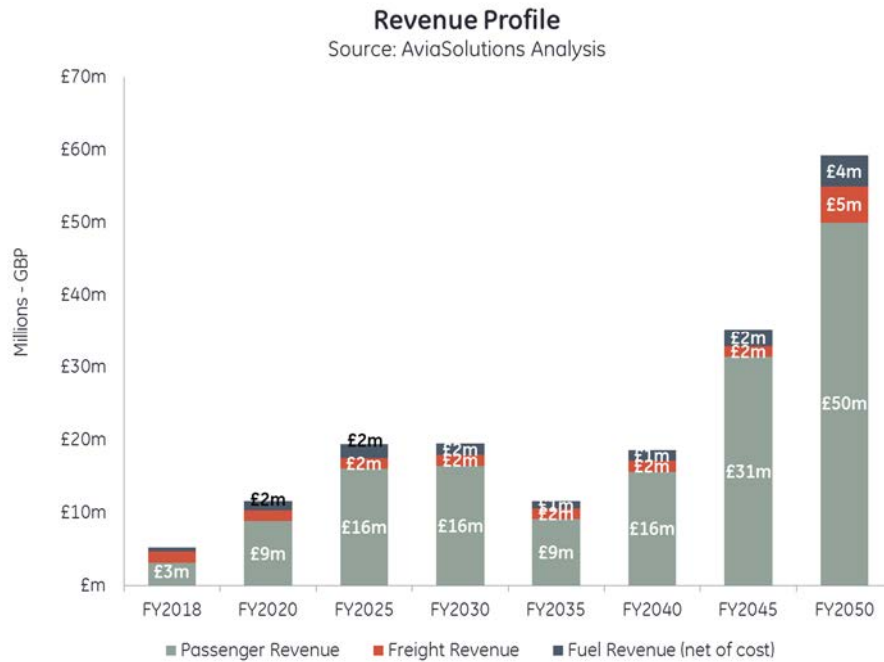
| | FY2018 | FY2020 | FY2025 | FY2030 | FY2035 | FY2040 | FY2045 | FY2050 |
|---------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Passenger Movements | 350k | 1,010k | 1,700k | 1,370k | 760k | 1,300k | 2,240k | 3,570k |
| Freight Tonnes | 30k | 30k | 30k | 30k | 30k | 30k | 30k | 100k |
| Total ATMs | 1,100 | 2,900 | 6,400 | 9,600 | 5,300 | 9,200 | 15,800 | 28,000 |



7.3.2. Revenue Profile

Airport revenue is forecast to grow at CAGR 12% between FY2018 and FY2030, driving revenues to about £20m by FY2030, and at CAGR 8% between FY2018 and FY2050 to reach total annual revenues of around 0m by FY2050.

| | FY2018 | FY2020 | FY2025 | FY2030 | FY2035 | FY2040 | FY2045 | FY2050 |
|----------------------|------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Total Revenue | £5m | £12m | £19m | £19m | £12m | £19m | £35m | £59m |

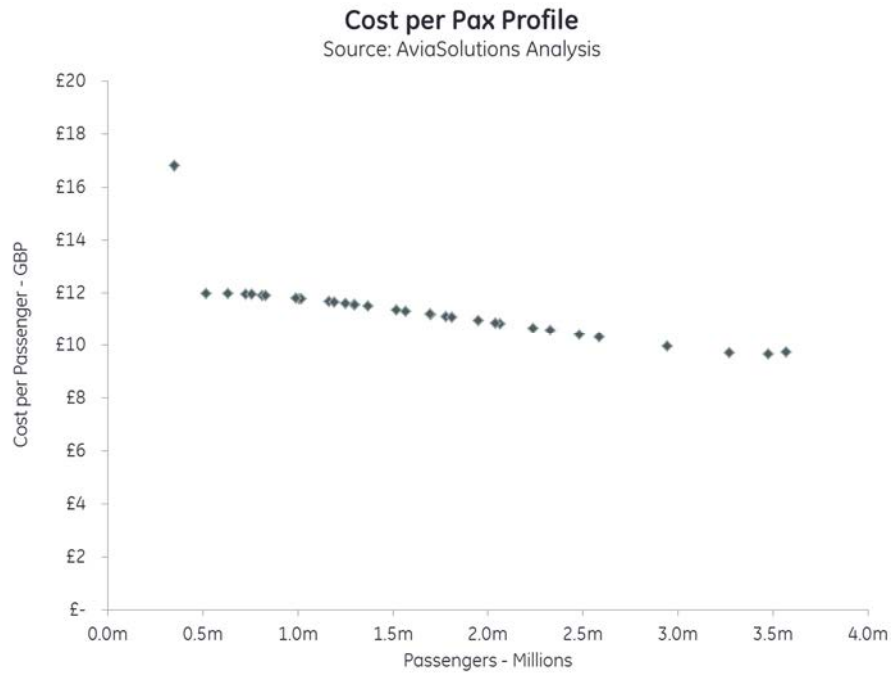


7.3.3. Cost Profile

Total Costs are forecast to grow at 8% per annum on average between FY2018 and FY2030, resulting in total costs of about £15m by FY2030, and at 5% per annum between FY2018 and FY2050 to produce total annual costs of £35m by FY2050.

| | FY2018 | FY2020 | FY2025 | FY2030 | FY2035 | FY2040 | FY2045 | FY2050 |
|-------------------|------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Total Cost | £7m | £12m | £19m | £16m | £10m | £16m | £24m | £35m |

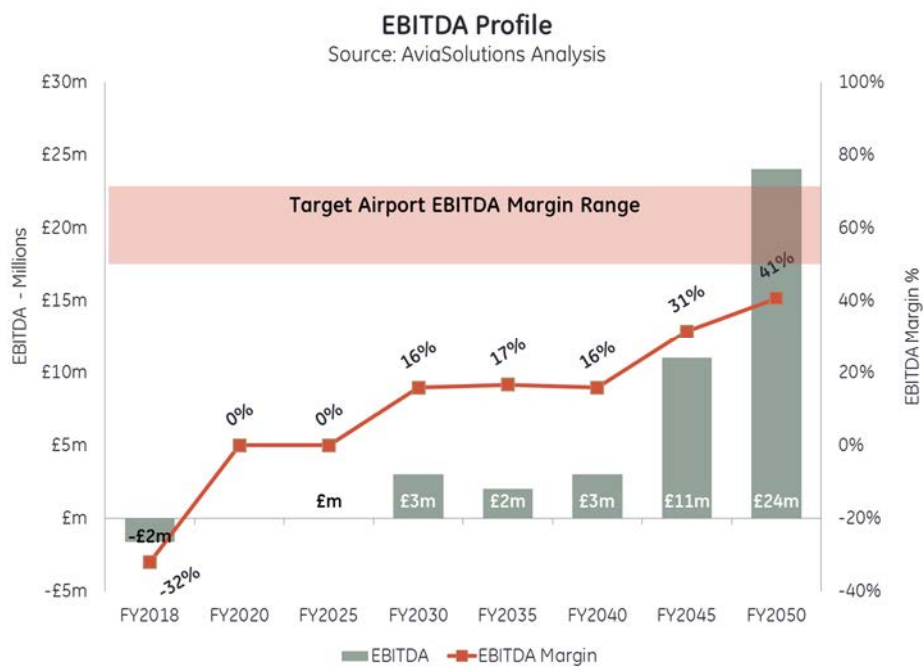




7.3.4. EBITDA Profile

EBITDA is initially forecast to be negative, indicating that the airport would be loss making in the early years at an operational level. It first returns an operating profit in FY2030, generating £9m of operating income and an EBITDA margin of 16%. As the third Heathrow runway comes on-stream, EBITDA at Manston would stagnate due to the lack of available volumes. The EBITDA margin in the long term is forecast to reach 41%, with an EBITDA of £24m in FY2050. This level of EBITDA is significantly below that which we would typically expect for an airport to be attractive to the investment community.

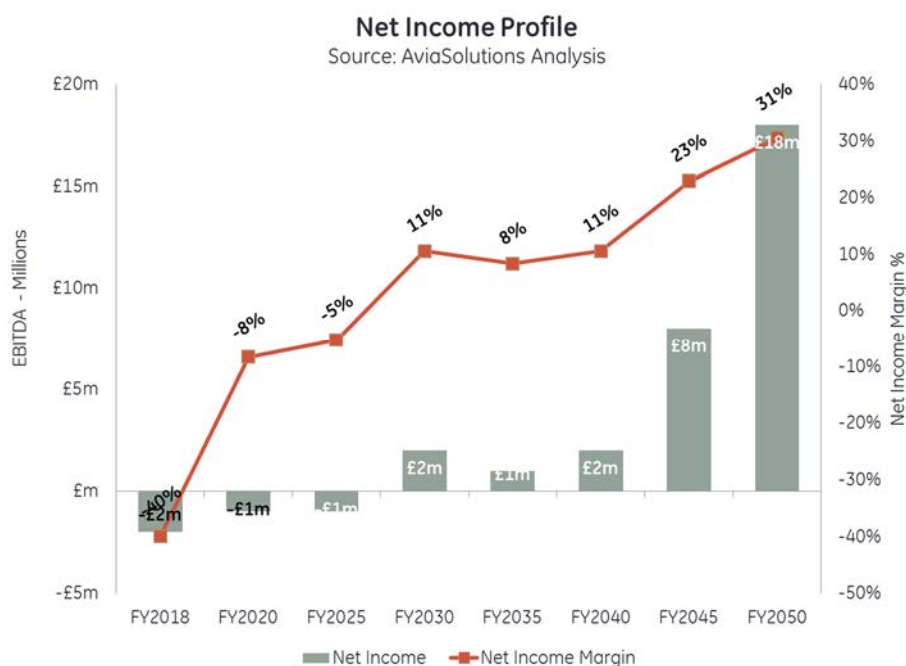
| | FY2018 | FY2020 | FY2025 | FY2030 | FY2035 | FY2040 | FY2045 | FY2050 |
|---------------|--------|--------|--------|--------|--------|--------|--------|--------|
| EBITDA | -£2m | £m | £m | £3m | £2m | £3m | £11m | £24m |
| EBITDA Margin | -32% | 0% | 0% | 16% | 17% | 16% | 31% | 41% |



7.3.5. Net Income Profile

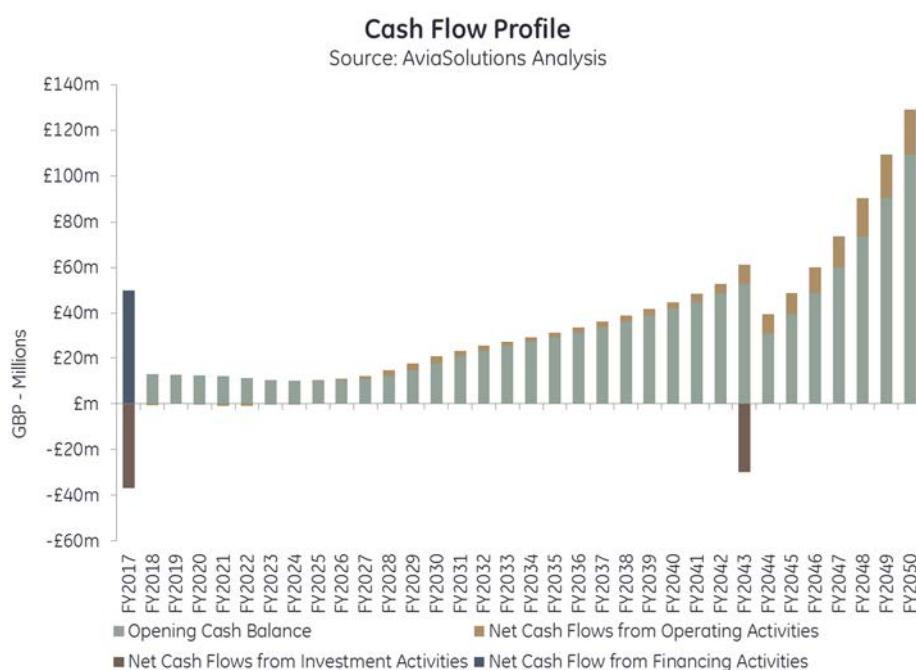
Net income, the profit after deductions, is forecast to be negative until FY2025. The first positive results are generated around FY2030 when the airport is expected to generate net income of £2m. The income stream remains constant for the following 15 years before increasing as capacity becomes constrained once more in the London system. It reaches £18m in FY2050.

| | FY2018 | FY2020 | FY2025 | FY2030 | FY2035 | FY2040 | FY2045 | FY2050 |
|-------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Net Income | -£2m | -£1m | -£1m | £2m | £1m | £2m | £8m | £18m |
| Net Income Margin | -40% | -8% | -5% | 11% | 8% | 11% | 23% | 31% |



7.3.6. Cash Flow

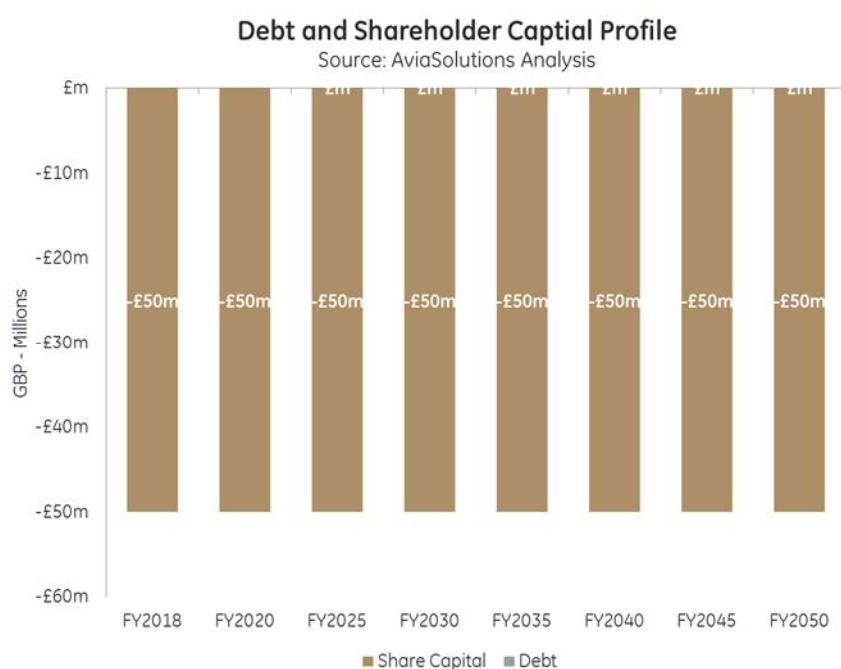
The airport is forecast to develop its cash position with limited additional capital requirements until FY2042 when there would be a requirement to expand the terminal. We have assumed that although demand would exceed terminal capacity in the late 2020s, new terminal capacity would not be provided in anticipation of the loss of traffic following the commissioning of the third runway on 2030. The position shown below excludes any dividend payments that the owner may wish to extract from the asset: such payments would reduce its cash position.



7.3.7. Debt and Shareholder Capital

Whilst the exact nature and mixture of debt and shareholder capital would be subject to complex financial optimisation, we have illustrated below a simple capital structure used in the analysis to illustrate the need for additional capital throughout the period. To maintain the business no further financing would be required. Whilst the business does not generate significant revenues or income, there is little requirement for significant CAPEX investments, thereby eliminating the requirements for additional financing

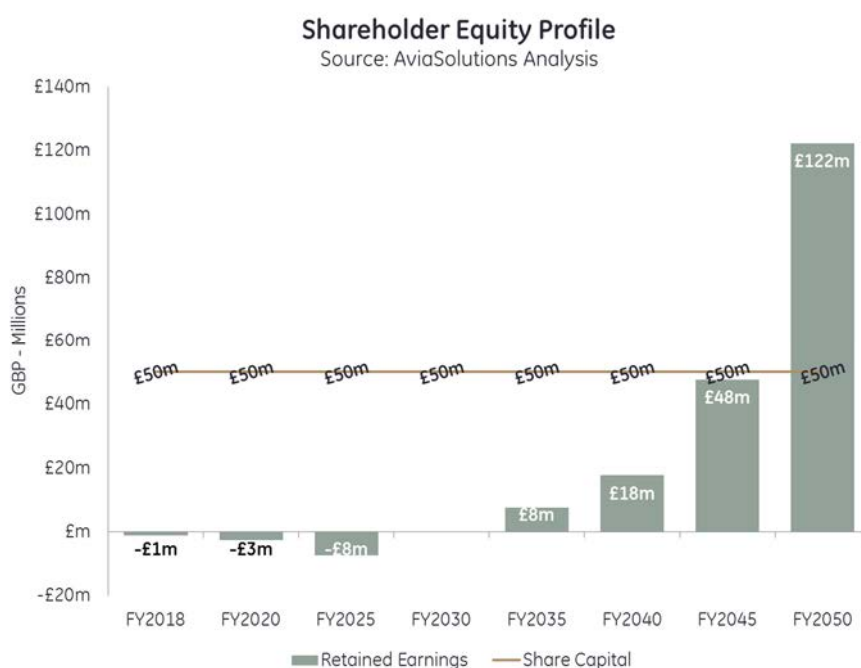
| | FY2018 | FY2020 | FY2025 | FY2030 | FY2035 | FY2040 | FY2045 | FY2050 |
|---------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Debt | £m | £m | £m | £m | £m | £m | £m | £m |
| Share Capital | £50m | £50m | £50m | £50m | £50m | £50m | £50m | £50m |



7.3.8. Shareholder Equity

Considering the effects of earnings on shareholder equity, the business does not post positive retained earnings until nearly FY2035. This in effect limits the business's ability to pay dividends to shareholders until this point at the earliest.

| | FY2018 | FY2020 | FY2025 | FY2030 | FY2035 | FY2040 | FY2045 | FY2050 |
|-------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Retained Earnings | -£1m | -£3m | -£8m | £m | £8m | £18m | £48m | £122m |
| Share Capital | £50m | £50m | £50m | £50m | £50m | £50m | £50m | £50m |



7.3.9. Conclusion

The asset would require significant long term investment but would only generate a marginal return on the capital invested. These returns are also predicated on a large number of external variables over which the owner of Manston Airport has limited influence. It is AviaSolutions' view that based on this scenario there is no viable long term prospect of an economically viable airport being established at Manston. It should also be noted that the scenario outlined above excludes any return to the investor, and we have therefore effectively weighted the cost of equity at zero in our model. Investors will always be seeking to maximise the return on their investment in a manner appropriate to the risk they bear in the asset. Given the risks involved with Manston, it would be right to consider that any investor would be seeking the potential for above average returns, which, according to the analyses, may not materialise.

7.3.10. Non-Technical Summary

AviaSolutions' analysis indicates that the airport, operating as a standalone trading entity and in the scenario where a third runway is built at Heathrow, is unlikely to be a financially viable proposition. Airport operations are not anticipated to generate material profit until FY2040.

This is due to the relatively low level of revenue that can be generated and the high level of fixed costs required to operate the airport. This in turn means that the airport would not be able to distribute profits to investors in the airport for many years.

Generally, investors seek to achieve a return on their capital with an expected return commensurate with the risk of the investment. As the risks of investing in Manston are significant there would need to be reasonable prospects of a high return, which does not appear likely based on our analysis.

7.4. Summary of Other Scenarios

We have presented in this main body of text the scenario deemed most likely to occur e.g. LHR3. This is the current recommendation of the Davies Commission and therefore, at the time of writing, believed to be the Government's current preferred option. Details of the three other capacity development scenarios are given in Appendix C.

7.5. Comparison of Scenarios

We compare some key aspects of the four scenarios below.

| Measure | LHR R3 | LGW R2 | Both | Neither |
|---------------------------------------|--------|--------|-------|------------|
| First year retained earnings positive | 2031 | 2032 | N/A | 2029 |
| Retained Earnings at 2050 | £122m | 109m | -£20m | £516m |
| Refinancing | | | | |
| When? | None | None | None | 2028, 2029 |
| Why? | n/a | n/a | n/a | Capex |
| How much? | n/a | n/a | n/a | £40m |
| EBITDA Margin | | | | |
| Year first greater than 50% | n/a | n/a | n/a | 2043 |
| or in 2050 | 41% | 40% | 34% | 60% |
| Probability | 40% | 40% | 10% | 10% |

8. Conclusions

8.1. Introduction

In this chapter we draw together the conclusions of our research and analysis to form our conclusions, specifically to opine on whether there is a realistic prospect of a financially viable airport operating on the Manston Site.

8.2. Summary

It is AviaSolutions view that having considered the stakeholder interviews and independent research and analysis into historic accounts and 'reasonable' adjustments for one-off costs that there is little prospect of a financially viable airport on the site.

The only circumstances in which we believe the airport may be viable is that in which no new runway were developed in the South East of England. However, this scenario presents extreme risk to the investor, as a decision to increase runway capacity at those not physically constrained (e.g. legally constrained LHR and STN) could be made at any time, or a new runway may be authorised at any time in the future.

8.3. Stakeholder Interviews

Our stakeholder interviews were split between those focused upon passenger development and those focused upon freight development. The range of interviews provided an understanding from the industry as to their position on the airport.

Our passenger service interviews suggested that overall there is little interest in serving the airport, in particular from airlines that had previously served the airport such as Flybe. There was some limited interest from airlines such as Ryanair and KLM, who would consider the airport as part of their standard UK market review, however they were not actively seeking to serve the airport. It is our view that we must consider this in light of its context; for an airline that bears no risk in an airport's reinstatement and for whom its reinstatement may present upside risk, it would be illogical to rule out the possibility of serving it. Overall, our interviews suggested there was very limited interest in the airport for passenger services thus suggesting a long term viable passenger service may be difficult to sustain.

Our freight interviews indicated that the demand to use the airport for freight was very limited. This, in large parts, is due to two factors; the infrastructure investments that have already been made by the industry around Heathrow and Stansted, and the geographical location of the airport. Infrastructure, and the associated knowledge, skill and supporting industry at airports such as Heathrow and Stansted, as well as the major European hubs such as Frankfurt, and Paris, would be almost impossible for Manston to replicate. The geographic location of the airport, tucked into the corner of the UK, cannot compete with airports such as East Midlands for Integrator services that are sold as fast delivery, due to the increases in surface transportation times. The interviews did however indicate that charter services and ad-hoc freighter flights would certainly return, providing some revenue income for the airport. In summary, we conclude that freight would return to the airport in limited quantities, not dissimilar to the tonnage previously processed at the airport.

8.4. Simulations

AviaSolutions' models provided simulations of the financial performance of an airport on the site under different demand scenarios. These scenarios were developed with a positive view of the potential demand profile, unit revenue and unit cost and investment costs. Two simulations (LHR3 and LGW3) suggested that the airport was unlikely to generate profits at an operational level (EBITDA) until circa FY2025, and that these profits would remain muted through until FY2040. The EBITDA profile suggests that, based on recent industry exit multiples, it would not be possible to recover the initial equity through a sales process as this point. Furthermore, these scenarios suggest that retained earnings would not turn positive for 15 to 20 years, thus limiting the ability of an investor to recover their costs of equity. In summation, these scenarios present very large risks with small returns over a long time horizon.

Our 'Both' runway scenario, naturally, provides an even less favourable result for Manston airport. If this runway scenario were to materialise there would be no prospect of Manston operating on a sustainable basis.

Our 'No Runway' scenario presents some opportunity for the airport. As demand through the London System increases and capacity remains muted, this demand will be spill to alternative airports. Manston, located within reasonable distance to London could be an airport to benefit from this spill, along with airports such as Southampton and Birmingham who are well connected by train to London. In our simulation, this scenario generated sufficient operational income (EBITDA) to support itself, and only required additional financing to expand. However, we must caution that this scenario is balanced in a careful equilibrium, should this be disturbed through the introduction of additional capacity via a new runway or loosening of regulation, the prospects of Manston could be severely diminished.

9. Appendix A: Stakeholder Interviews

Throughout the study, AviaSolutions spoke to many companies and individuals to gather their feedback. Given that these companies operate in a competitive commercial environment, it is not unsurprising that many of those spoke on the condition of anonymity. This is not unusual, particularly given the particular sensitivities around the project. In the following section detailing our interviews, and summarising the comments made, any company or individual that spoke on the basis of anonymity has been identified by only their sector and seniority.

AviaSolutions spoke to the follow stakeholders and / or their representatives:

- Discovery Park / Stone Hill Park
- RiverOak Investment Corporation
- Ryanair Ltd
- Flybe
- KLM
- Mr. Stanley G. Wright
- Sir Roger Gale MP

Anonymous Sources

- Major European LCC
- Freighter Operator at Stansted
- Air Cargo Charter Broker – UK
- Ex-Director of Network Planning – Major European LCC
- Manager, Flight Operations, Major UK Carrier
- Ex-Senior Executive DHL

Disclaimer: The following Stakeholder Interview notes are representative of the views and opinions of the stakeholders only and not that of AviaSolutions. The notes represent, in AviaSolutions view, an accurate account of the interview but are not a verbatim account of our interview.

Mr. Paul Barber, Managing Director, Discovery Park

Mr. Paul Barber is the Managing Director of Discovery Park, and represents the current owners of the airport site.

- Mr. Barber outlined the ownership structure of the airport site. The airport is owned by Lothian Shelf 718 which is ultimately owned by Chris Musgrave, Trevor Cartner and Ann Gloag.
- Paul Barber is Managing Director and responsible for the day-to-day running of Discovery Park which is the *de facto* administrator of the site.
- The current owners, Mr. Cartner and Mr. Musgrave, are specialists in the redevelopment of the brownfield sites; they have redeveloped Discovery Park and a second site in the north of England.
- Mr. Barber gave a frank view as to the difficulties PricewaterhouseCoopers had when attempting to dispose of the site. After two years the only offer made on the site was from Ann Gloag for £1. Thus, in the view of the current owners, demonstrating the lack of financial interest in the site as an airport.
- During the period of ownership by both Manston Skyport, and under Lothian Shelf 718, Mr. Alistair Welch was heavily involved in the airport. Whilst under Manston Skyport, Mr Welch was chairman of the airport. Later in his career Mr. Welch became Managing Director of Southend Airport and was responsible for introducing EasyJet to Southend.
- Throughout the period of ownership whilst the airport was open Mr. Welch made high-level contact with every reputable airline and not a single airline was interested in operating from Manston, even with aeronautical charges at zero. The only airline that even considered operations was Ryanair, but the option was declined within 48 hours.
- Whilst the airport was open for operations freight was the main source of income. This freight was predominantly import driven from Africa. Whilst the site was able to offer quick access from aircraft to road there was little value-add to clients.

- Thanet Parkway Railway Station will add little value. It is not certain if or when it will be operational, and costs appear to be overrunning already. There is a funding gap and it does not improve journey time to London by more than 10-12 minutes.
- Due to the lack of airlines operating from the airport, Mr. Barber stated that the airport losses were running at close to £5.0m per annum.
- Mr. Cartner and Mr. Musgrave bought into the airport site after the airport had closed. They had no stake in the business whilst it ran as an airport. The business men approached Ms. Gloag given their proximity to the airport and specialisms in the development of brown field sites.
- Stone Hill Park Ltd was formed with Ms. Gloag, Mr. Cartner and Mr. Musgrave. The company believe that Thanet District Council require an additional 15,600 homes. The development will offer around 2,500 of these homes, mixed between starter homes up to five bed executive homes. The planning application includes a provision for social infrastructure such as schools.
- At present there are some small costs associated with the site, but these are mainly the single employee and the security of the site, and utilities. The current owners are not fundamentally against the concept of an airport being run, however they see no credible business plan to evidence its possibility, nor do they believe it is best economical use of the site.
- When pressed on RiverOak's desire to reopen the airport, Discovery Park "don't know where RiverOak are coming from stating an airport is viable". Discovery Park has not had sight of any business plan from RiverOak and RiverOak have not made any credible offers for the site.

RiverOak Investment

AviaSolutions met with RiverOak Investment and its representatives:

- Mr. Tony Freudmann
 - Ms. Sally Dixon
 - Mr. Richard Connelly
 - Ms. Angela Schembri
- RiverOak Investment (RiverOak) became interested in Manson airport due to a previous project in the U.S.A. A RiverOak Partner (Nial Oldman) had organised a bond for a U.S airport that was freight driven and found excellent returns on the investment, thus sought an investment of similar characteristics.
 - With regards to the asses itself, RiverOak believes the airport is geographically well positioned to capture freight, being in the South East and near the Channel Tunnel. It acknowledges that considerable investment will be required to return the airport to an operational state. However, they are confident through their initial plans that this is feasible and the asset can quickly be returned to a state in which is can handle in excess of 10,000 freighter movements per annum.
 - The total investment that RiverOak would seek to make is in the region of £300m over the course of a 12 year period. This would ensure the airport site delivers a high level product and service. Further to this investment, the group would need to sink costs in the DCO process, the DCO purchase cost (circa. £4m in RiverOak's view) and finally in compensation to the current owners (although RiverOak have a value in mind, they are unable to disclose). RiverOak believe the minimum investment needed to bring the airport back to viability is circa £20m, excluding DPO, site purchase and compensation.
 - The driving force behind the business plan is air freight and is the vital link to secure a NSIP designation.
 - The absence of a national freight strategy is an opportunity which RiverOak seek to influence and develop.
 - When probed as to the previous failures at the airport, the RiverOak team held strong views as to the causes of this, and what could be done to overcome this situation in the future. The team had strong views that whilst the airport offered excellent service, the previous owners had done nothing to exploit the asset, or its niches, or to improve its market position. In particular, the team felt strongly that the airport had not made any efforts to promote the airport to Freight Forwarders.
 - It is RiverOak's understanding that the airport should be heavily involved in the sale of capacity on board freighters. They believe the previous owners were satisfied to allow freighters to depart with unutilised capacity, and this is an area they would seek to address as owners. **(Note, AviaSolutions understand this to be an irregular market position to take and pressed to clarify this point during our interview).**
 - RiverOak have also considered the geographic location of Manston airport and how it feeds into the ATC systems. They believe Manston is ideally located for aircraft to plug in and out of the national ATC

network. Furthermore, they would expect to receive an EASA license and have had discussions with the CAA to understand the processes required to re-license the airport.

- Further to passenger and freight traffic, RiverOak believe the airport would offer additional services as a diversionary airport within the UK system. There may also be revenue streams from permitting the airport to be used for training purposes.

Traffic

The team talked to AviaSolutions briefly on their Traffic forecast, this area of the business plan has been developed by Ms. Sally Dixon.

- Initially, Ms. Dixon began by reviewing the currently available literature. York Aviation's report of January 2015 suggested that due to capacity constraints 2.1m tonnes of freight will be lost from the London system if no runway is built. RiverOak estimate that this is the equivalent to 100,000 truck movements across the Channel, should this freight all be lost to Europe.
- With regards to capacity type, RiverOak stated that capacity is 70/30 split in the UK with only 30% of capacity offered on Maindeck-freighter services. In Europe, it is stated that this is much closer to 60/40. It is RiverOak's belief that this is caused through a lack of slot availability for freighters in the UK, thus the demand is being constrained.
- The business plan forecast that Manston would achieve 10,000 freighter ATMs in the fifth year of service, these ATMs would be predominantly wide-body aircraft. This level of freighter movement is supported, in RiverOak's view by the wider industry.
- The airport would also seek to develop a passenger business and seek volume from several sources. RiverOak believe that KLM would be keen to return to the airport (despite low load factors). They also state that they are in advance discussions with Ryanair over the potential to base two to three aircraft at the airport. RiverOak are also in preliminary discussions with EasyJet. Finally they believe there is a potential to develop Charter traffic, in particular with the cruise markets and Dover port.
- Taking all these considerations together RiverOak state that they would 2m passengers per annum in the second year of operations.

Ms. Kate Sherry, Deputy Director of Route Development, Ryanair

- Ryanair have recently discussed with RiverOak potential future operations at Manston airport. These conversations have been on the same basis as Ryanair is open to discussions with any airport wishing to obtain services from the airline.
- Previous to these discussions, Ryanair held talks with the owners of Manston airport prior to its closure. These talks were halted when the airport closed and therefore not concluded.
- If Manston were to become an operational airport once again, it is not a foregone conclusion that Ryanair would serve the airport. The airline would look to base any decision on a multitude of factors, including the size and depth of the catchment area and also the commercial terms proposed. Securing a low cost base to the airline is a core aspect of the analysis; this includes the handling and airport charges, effects of APD, operating economics of the route, and in the case of the UK, FX rates to Euros.
- When considering the Catchment delivered from population size Ryanair would look to the airport to sell the benefits of their specific catchment. It is difficult to comment at present on the quality of the Catchment.
- When considering the effects of the London System, Ryanair are not currently concerned with spillage from the London System to periphery airports. The airline is comfortable that there is room for expansion at Stanstead.
- If Ryanair were to serve the airport, the depth of the network would permit the airline to serve it without necessarily basing aircraft at Manston. However, it is possible in the future that the airline could choose to base a single aircraft at the station.
- Once a decision to operate had been reached, generally a lead time is permitted to allow the sales and marketing processes to embed. This also ensures the airline can plan its schedule appropriately, working approximately six to nine months in advance.
- As has been recently stated in the media, BREXIT remains a concern for Ryanair and any effects of the UK's exit from Europe would be factored in to a decision to operate.
- In summary, Ryanair are constantly reviewing their network and remain open to approaches from any airport. If the airport became operational, the airline would review its potential and fit within the wider airline network in due course, and is available to discuss terms with the owners at any time.

Mr. Martin Pearce, Flybe

- Europe's largest regional airline, Flybe, operated several routes from Manston in the years' preceding its closure. The airline did not base aircraft at Manston. In their experience the service offered was excellent with no issues arising from handling or passenger services. The passengers traffic was were mainly leisure and VFR, with very few business passengers.
- Mainly outbound e.g. Manston to the destination, very little in terms of other end originating
- These routes closed predominantly due to poor load factors, there was insufficient demand for the service from the local catchment area and very little demand for inbound traffic to Manston. Furthermore, the yield profile of the traffic did not meet with the airlines expectations.
- In normal circumstances the airline would permit a two to three year ramp up period following a route opening, however given the operating conditions the airline ceased operations within 12 months.
- The reasons the route performed below expectations are varied, but these are believed to have been exacerbated by the relatively small local catchment, less favourable average economic development and poor public transport infrastructure links to London.
- The airlines have reservations as to whether the airport could serve the South East catchment, and do not believe that the airport could realistically serve spilled traffic from the London system.
- It is unlikely that, even if Manston should reopen, the airline would choose to serve the airport.

Major European LCC

- Manston is not an airport the airline is considering. The company focuses on core catchment areas with less than 60 minute travel to the airport, and at most 90 minutes.
- Manston has a weak demand and the local catchment area is not overtly wealthy.
- Alternative airports offer better options, Southend and Stansted tap the London catchment area and can be really cost-effective airports
- Manston would have to tap into Gatwick's catchment and price would need to be very low (no more than a few pounds per passenger).
- The airport is probably not for the LCC in question. If there was no runway capacity available in the South East, the LCC would opt for a larger aircraft type before selecting Manston and would probably consider alternatives such as Southampton and Bournemouth first.
- Other carriers without a footing in Gatwick might consider Manston, as might freighters.

Ex-Director of Network Route Development for Major European LCC

- Following the BREXIT vote many airlines will be considering their approach to the UK. During a period of uncertainty it will be difficult for Manston to convince carriers to open routes to the airport.
- LCC's would look to secure deals with minimal aeronautical charges. Without an extremely competitive rate there is no possibility an LCC would locate services at an airport. In some cases, LCC's have walked away from airports offering negative aero-charge deals due to poor volumes.

Manager, Flight Operations, Major UK Carrier

- The individual plays a key role in the Flight Operations team at a major UK carrier.
- It is the individual's view that Manston does not offer any safety or resilience benefits of a material nature to the UK system. The airport is located in close proximity to six London airports which offer excellent resilience already.
- The airline would also not consider using Manston airport as diversion airport except in an on-board Mayday emergency (which are extremely rare).
- When considering diversion airports the airline considers multiple factors such as; does the airline already offer services at the airport, the size of the airport, the facilities at the airport to handle passengers, the local facilities to provide hotel and accommodation, the equipment at the airport to handle all types of aircraft required e.g. GSE equipment, and other legal requirements such as the provision of sufficient Fire Cover. On these measures, it is considered unlikely that Manston would be selected as an alternative airport, when Gatwick, Heathrow and Stanstead can all provide superior services within London.
- In the individuals view, whilst Manston would be used in an absolute emergency, it would be very unlikely to receive regular diversions for routine operational reasons, such as weather or runway closures.

KLM Position

- We are evaluating our network to the UK on a yearly basis. We are constantly being approached by airports who would like us to operate to their airports. These opportunities that arise are being looked into and MSE could be one of them.
- It is not possible to say how likely the chance would be that this would materialize in a new operation in the next 5 years in case MSE airport would be operational again

Senior Executive in Cargo Division for Airline Operating Freighters at Stanstead

- Airlines base the decision on where to operate their freighters based on a multitude of factors. However, the overriding factor is based on where investments in infrastructure have been made by their clients, Freight Forwarders. These CAPEX investments by Freight Forwarders are required to ensure they maintain economies of scale through their transit facilities and distribution centres. In the UK, these investments are centred at Heathrow, and more recently Stanstead.
- The airlines first choice of destination was Heathrow, as the majority of Freight Forwarders have their major infrastructure in and around Heathrow. The airline was unable to access slots at Heathrow and so selected Stanstead due to runway length, a mature offering including infrastructure development and third party handlers
- Stanstead operates a world class facility and has the competencies to handle freighters. It is questionable whether this would be possible, at least initially, at Manston.
- The airline would be extremely unlikely to consider moving services to Manston, even if they were no longer able to serve Stanstead, regardless of the commercial terms offered. If the airline had to move services they would consider East Midlands and Manchester or other centrally located airports over Manston.
- The individual also believes that there is virtually no chance that a Freight Forwarder would choose to relocate services to Manston.
- Furthermore, as air cargo is a commodity virtually all operators offer the same service and compete on prices. Therefore, most operators implement similar strategies and business models. The result of this is that, in the individual's opinion, other freighter operators would also take a similar stance.

Air Cargo Charter Broker – UK

- The company had made use of Manston Airport in the past (circa. Up to 2 x flights per week) and found it to be a reliable and efficient airport that was well placed for access to the South East of England. The airport had the facilities to handle many aircraft gauges, from small freighters right through to B747F operations. The airport provided good access and the company had no difficulty in obtaining slots. The cost of operating from Manston was more effective than at Stansted, this included the aeronautical landing fees and associated handling costs.
- The company's overriding view was that Manston was an easy airport to use, it provided a good service and gave priority to freight.
- The airport provided all services on the ground, including ramp handling for freight.
- The company was aware that many of its competitors also used the airport along with scheduled operators such as Cargolux and ANA.
- The company was cognizant that, whilst the inbound demand for freight existed, there was little demand for outbound freight, which resulted in aircraft departing with unutilised capacity. The inbound demand was largely from West Africa, with strong volumes of fresh flowers and produce imported. Manston was particularly efficient at handling this cargo and permitted road feeder services to access the apron which resulted in quick access to the UK road network.
- Alongside produce, the airport had a reputation as being able to handle outsized freight such as engines and turbines.
- The airport's location prohibited its use for more northern destinations, East Midlands and Doncaster were favourable in these instances
- The Air Cargo Charter Broker confirmed that they would certainly be interested in using the airport again if it re-opened but in order to do so they would be looking to secure competitive rates for landing, parking and screening charges.

Ex-DHL Aviation Senior Sales Executive

The individual has held senior positions in the cargo industry for over 15 years.

- Whilst Manston may offer an opportunity for some it is unlikely that DHL would relocate its operations. The setup at East Midlands is tuned to its needs. Further, East Midlands is geographically well located for quick access to the UK road network which is exceptionally important for the courier business model.
- In their experience, they believe it unlikely that any integrator would be interested in moving their operations to Manston.
- Generally, more and more freight is being shipped as General Cargo from Heathrow. Given the six hour close out period, it is reasonable to assume carriers could then use road feeder services to distribute this via Manston.
- Regarding other freight uses, Charter operators and scheduled all cargo operators may wish to locate services at Manston but this is highly dependent on the commercial offer. The sole purpose of utilising Manston would be to reduce cost, either through reduced flight operations or lower airport charges.
- One point of note is that the UK is a lot cheaper to export from at present. Thus, a lot of freight originates in continental Europe and moves via belly hold.
- Overall the individual's view was that whilst Manston would undoubtedly attract some business it is unlikely to be significant volumes.

Mr. Stanley G. Wraight – Senior Executive Director Strategic Aviation Solutions Limited

Mr. Wraight is an industry veteran with over 40 years' experience in the air cargo industry. Previously, Mr. Wraight held the position of CEO at AirBridgeCargo, and Senior Executive roles at Atlas Air and KLM.

- The airport offered a good location for freight being imported from Africa; this was the predominant origin market. Generally, the freight that was imported was pre-packed shop-ready fruit and vegetables that could be transported directly into the supply chain.
- When the airport closed, Doncaster and Stanstead tried to win the business from Manston, whilst some gains were made, the majority of the business relocated to European hubs as they are more closely located to the final destination, thus reducing overall cost.
- There are few all-cargo operators who would consider locating operations at the airport. Operators will be tied into their networks, in part due to their clients locating their facilities at the main airports (Heathrow and Stanstead). One opportunity could be Cargo Logistics, an off chute of AirBridgeCargo.
- In order to secure freighters movements at the airport, it will be necessary to demonstrate a cost advantage over competitors. This could be through a reduction in the overall Flight Hours required for operations, however the ability to do this is limited given much of the freight is destined for Europe. The ideal origin market for freight, on minimum Flight Hours basis is the USA.
- With regards to Integrators basing operations at Manston, the probability of this is viewed as slim. The Integrators have committed large capital expenses to existing operations at Stanstead and East Midlands, these barriers to exit are substantial and would be difficult to overcome, in particular given Manston's inferior geographical position within the UK.
- It would be difficult for Manston to compete with East Midlands or Stanstead. EMA in particular offers 24/7 cargo operations with customs available 24/7. They have developed economies of scale in both service and cost.
- Further to this, the saturation of regional airports in the UK and Scotland in conjunction with additional wide-body passenger aircraft create difficult trading conditions for a new regional airport.
- Finally, the centre of power within the industry is held by Freight Forwarders, the majority of whom are based at LHR. As the industry is ever increasingly commoditised, Forwarders refuse to divert their business from Heathrow, instead choosing to truck cargo in from the regions to feed the facilities and consolidation business centred there and achieve the necessary economies of scale required to compete.
- The conclusion being that there is virtually no incentive for operators to move operations to Manston, there are alternative UK airports that offer competitive services on reasonable terms. The UK doesn't need another airport for freight that has no USP. If Manston were to be developed it would be essential for it gain a niche market such as becoming an Amazon or Alibaba e-commerce base.

AviaSolutions Meeting with Sir Roger Gale MP – 13th Sept 2016

As part of the stakeholder engagement process AviaSolutions has, at his request, interviewed Sir Roger Gale (MP for North Thanet) to seek his perspective on the commercial viability of and political support for, Manston Airport. The following comments are intended to reflect the substance of the meeting, rather than a verbatim transcript.

- Sir Roger Gale MP (“SRG”) stated that Manston Airport and its associated runway are national assets of strategic importance to UK PLC.
- SRG noted that he does not support any particular group wishing to use the asset as an airport and that his interest is in solely in keeping the airport open. He notes, however, that to date RiverOak offers the only sustained and viable interest in operating Manston as an airport. SRG noted that he had seen the outline River Oak business plan which in his view was credible. SRG was not surprised that River Oak did not disclose the plan to AviaSolutions, and was not willing to divulge any of the details for reasons of commercial confidentiality. However, SRG also added that all of RiverOak’s case would be made public when the company submitted its` application for a Development Consent Order to a Planning Inspectorate that was qualified to subject the submission to detailed public scrutiny and inquiry.
- SRG said that it was clear that the intentions of those currently in control of the site were to develop the land for residential and commercial purposes, rather than invest in the airport facilities and expand the air service network.
- SRG provided a brief summary of the historical evolution of the airport, including services by Silver City to Jersey and Clive Bourne, a logistics operator.
- With regards to the development of a railway service to the airport SRG noted the scope to develop the railway is limited by the physical constraints of laying the line and precludes a link directly into the airport. The practical alternative is a Thanet Parkway station, which would initially be linked by a shuttle bus service, and ultimately could be linked by a Gatwick-style monorail.
- SRG is of the view that the primary reason that the airport has not been financially sustainable in the past is the nature of the business model that has been pursued. Previous operators have focussed on developing the passenger business, rather than the freight capacity of the airport, which is the reverse of the model that SRG believes, would be more sustainable.
- SRG noted that UK PLC is losing business to Europe already, with freight being switched from the UK to other European hubs (Frankfurt, Amsterdam, and Paris). SRG also noted that a major courier has expressed an interest in relocating to Manston. He was of the view that the UK has reached maximum capacity for London originating freight services and that excess demand was being lost to other hubs.
- SRG observed that post-Brexit it was going to be vital that the UK develops additional and alternative markets outside the European Union. These greater distances will inevitably mean an increase in the demand for air freight capacity between Britain and the rest of the world if the country is not to lose still more aviation business to mainland Europe.
- In terms of runway capacity, SRG suggested that freighter traffic currently using Heathrow could be relocated to Manston, freeing these slots to facilitate additional passenger services to the Far East. SRG also noted that operators that were forced to re-locate following the closure of Manston were waiting for the airport to reopen and would be keen to return.
- SRG stated that Low Cost Carriers are very interested in operating from the airport, and that if the airport were to re-open, would be very likely to start services at the appropriate time in the airport’s re-development. However, SRG was not willing, for reasons of commercial confidentiality, to disclose the source of this information nor the airline in question.
- SRG was keen to stress the importance of ancillary businesses to the airport’s viability, which included aircraft dismantling and engineering firms. SRG also noted the Search & Rescue operations which had recently been permanently located at Lydd. Further options for the airport would include General Aviation (GA) which would be able to access London via Battersea Heliport.
- SRG noted the widespread political support for Manston Airport, including Sir Patrick McLoughlin, the former Transport Minister, The Minister of State for Aviation, John Hayes and David Cameron when Prime Minister. He indicated that that political support at national and local levels was, particularly in the light of the Brexit decision, on-going. SRG also noted that there would not be any need for financial support from Central Government and that the airport should be able to attract sufficient private capital to exist as a standalone business.
- SRG spoke at length on the alternative proposal by Stone Hill Park for the site, noting that that the ability to develop the site for residential and commercial purposes was questionable, with several potential challenges including the likely presence of a war grave, buried low level radio-active waste,

archaeological interests, and issues with the effect upon Thanet's aquifers all needing to be addressed prior to any redevelopment. He indicated that any alternative development would, prior to change of use, require the same intensive Environmental Impact Assessment as that currently being undertaken by RiverOak for airport purposes. Furthermore, SRG noted that there is limited demand for additional industrial space in the area, that there is already a more than adequate supply of industrial land available in East Kent and that the number of new jobs generated at Discovery Park is, contrary to the claims made by the Leader of Kent County Council, low.

- With regard to a new runway in the South East, Sir Roger indicated that he believed that a runway decision would be made fairly soon but that any actual new runway would not be operational for at least 15 years. It is his belief that, even with a new runway in the London airport system, the Manston Airport remains a viable facility with freight as its primary purpose supported by passenger traffic.

Non-Reply

- The following airlines were sent a request for their position on Manston airport but chose not to submit a response.
 - Monarch
 - Thomas Cook
 - Tui

10. Appendix B: Condition Report Manston Airport

Introduction

The following section contains our report on the condition of the airport assets, it should not be read as a definitive summary of the asset condition. Our report is based on a visual inspection of the airport on 3 August 2016 under the supervision of the current airport owner's representative.

Terminal Building

Summary

The current facility has an approximate footprint of 1,900m² and in general would have been suitable for single and dual aircraft operations simultaneously. On balance we would suggest that the building in its current configuration could be re-instated but that the cost of such modifications may make it more economically viable to demolish it and erect a purpose built low cost facility. In general the basic fabric of the building was intact, although there is evidence of water entering the building via the roof at various locations.

General

We observed that the drop off/pickup area was located adjacent to the front of the terminal building. This is in contravention to current security requirements and would necessitate the offsetting of the drop off pickup area. In-turn, this would require the transforming some land currently allocated to parking. The current site could facilitate this change through lateral expansion of the parking area.

We note that the current configuration of the terminal building, along with the apron, limits lateral expansion. To accommodate significant traffic volume would require a significant change to the current layout.

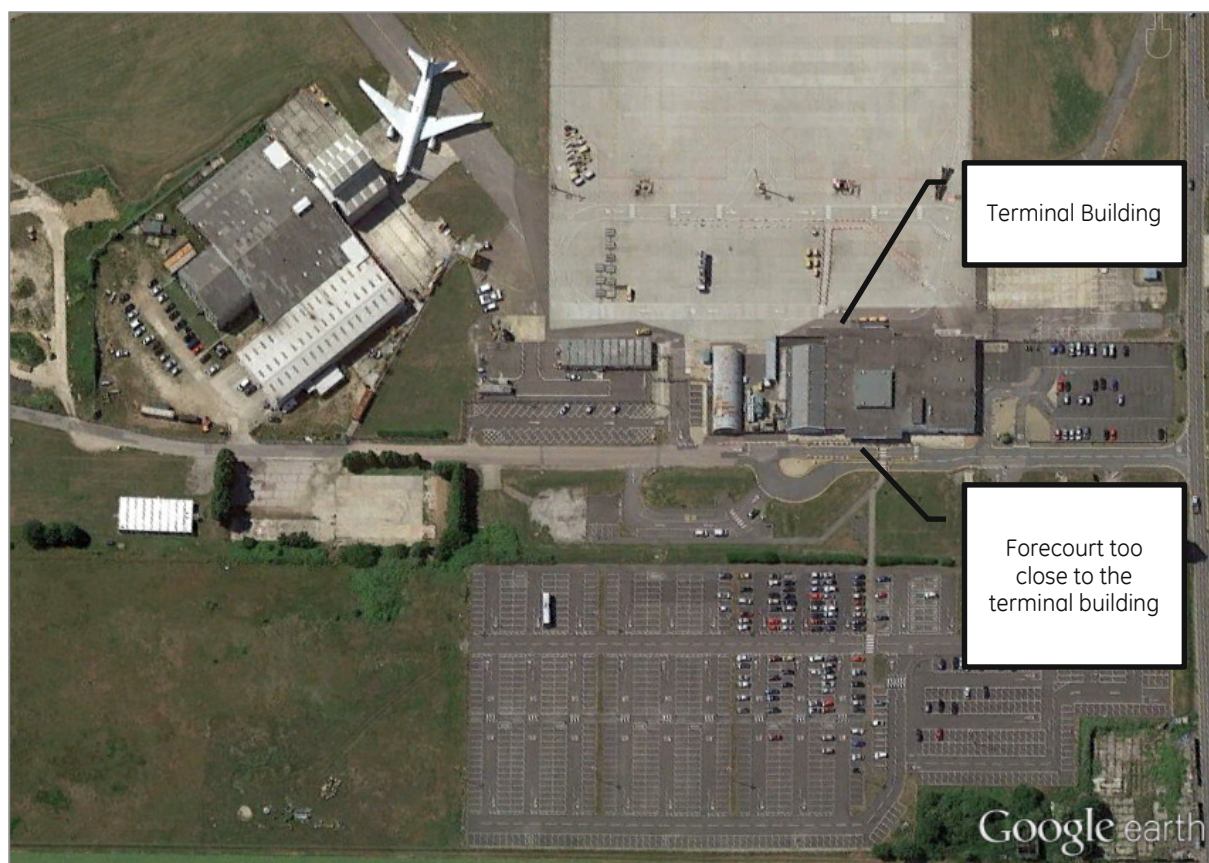


Figure 1: Google Earth image of aircraft maintenance hangar, terminal, parking area and apron (prior to the closure of the airport)



Figure 2: Evidence of water entering terminal building



Figure 3: Main foyer of terminal building from arrivals. Check-in area to the left of the image.



Figure 4: Evidence of water damage in may foyer.



Figure 5: Check in hall (desks removed)

Movement Areas

Apron

Summary

The fabric of the apron appeared to be in relatively good condition with space for up to four simultaneous Code C or two Code E operations.

General

Of note was the significant depth of the apron which accommodated a large GSE storage area at the head of the stand. To become compliant the apron marking would need to be re-established, which is relatively straight forward to accomplish.



Figure 6: Apron as viewed from terminal



Figure 7: Apron Drainage. Some growth of plants which will need to be addressed.

Taxiways

Summary

In general we observed that the taxiways were of relatively good condition with only minor spot repairs required. To re-establish services appropriate lighting and marking would be required.

Runway

Summary

A visual inspection of the runway indicated that overall it is in very good condition. There is evidence of some vegetation appearing. Discussions with the current owner's representatives identified a surface friction issue. We note that there were plans to address this through surface treatment issues but to our knowledge this work was not carried out.

General

The runway approach and edge lighting has been removed and require re-installing to permit operations. Additionally, the runway has been painted to accommodate 'Operation Stack'. Considerable work is required to remove the current markings from the runway and repaint it with appropriate aviation markings. However, it is our understanding that this work will be completed as part of the current agreement with the Department for Transport.



Figure 8: Runway (Rwy) 29 Threshold



Figure: 9 Large aggregate used for wearing course may be impacting surface friction characteristics



Figure 10: Shoulders of runway are paved. Evidence of plants establishing a presence in cracks



Figure 11: Runway 27 and evidence of plants establishing presence in cracks

Systems

Navigation

Summary

It is our understanding that the Instrument Landing System and supporting systems were sold upon the airport's closure. These systems, including backup power supply, would need to be re-instated.



Figure 12: Radar tower with radar removed

Lighting

Summary

It is our understanding that the approach, runway, taxiway and apron lighting systems and supporting elements were sold upon the airport's closure. These systems including backup power supply would need to be re-instated.

Control Tower

Summary

No appreciable control tower facilities were available to inspect. To facilitate commercial operations it would be necessary to install a new control tower and associated support systems, including appropriate radar systems.

Rescue & Fire Fighting

Summary

The current Fire Station is unsuitable for use. We believe it would require demolishing and the construction of a new Fire and Rescue Station.



Figure 13: Dilapidated Rescue & Fire Fighting Facility

Ancillary Buildings

Maintenance Hangar

Summary

Adjacent to the primary apron is a large aircraft maintenance hangar with a unique addition allowing it to accommodate aircraft larger than what it was originally designed for. It is our understanding that this building is currently under lease by a maintenance company undertaking limited maintenance work. The building fabric appeared to be in reasonable condition.



Figure 14: Maintenance hangar



Figure 15: Interior of maintenance hangar



Figure 16: Bespoke tail enclosure of hangar

Cargo Hangars

Summary

During the visit we undertook a preliminary inspection of several cargo facilities on the airport site. The location of the facilities was ideal for this type of operation, having access to the local road network and the taxiway system. In general the buildings appeared to be in reasonably good condition. We foresee no reason as to why they could not be re-instated as cargo facilities.



Figure 17: First cargo hangar exterior



Figure 18: First cargo hangar interior



Figure 19: Second cargo hangar exterior



Figure 20: Second cargo hangar interior

Re-Establishment Cost Estimate

The following is an estimate of costs associated with re-establishing the required infrastructure to operate commercial services from the airport.

For the avoidance of doubt, these costs do not include the costs associated with any acquisition of the airport site.

| Element | Cost Estimate £ | Note |
|-------------------------|------------------------|--|
| Old Terminal Demolition | 400,000 | Demolition of existing terminal building |
| Terminal Building | 7,500,000 | Construction of new modular single story terminal |
| Approach Road | 750,000 | Relocation of approach road to accommodate security requirements |
| Apron Repairs | 200,000 | Repairs to apron surface |
| Airport Lighting | 3,000,000 | Complete airport navigation lighting system |
| Navigation Systems | 2,500,000 | ILS/DME/DVOR |
| Radar | 3,500,000 | Secondary Radar System |
| Runway Treatment | 1,500,000 | Grooving of runway to address low friction characteristics |
| Cargo Building Repair | 400,000 | Minor repair to cargo buildings |
| Power System | 2,500,000 | Complete power back up system to accommodate CATI ILS approaches |
| Mobilisation | 1,200,000 | Ancillary mobilisation costs of re-instating airport operations |
| Contingency | 3,517,500 | 15% contingency |

£ 26,967,500

11. Appendix C

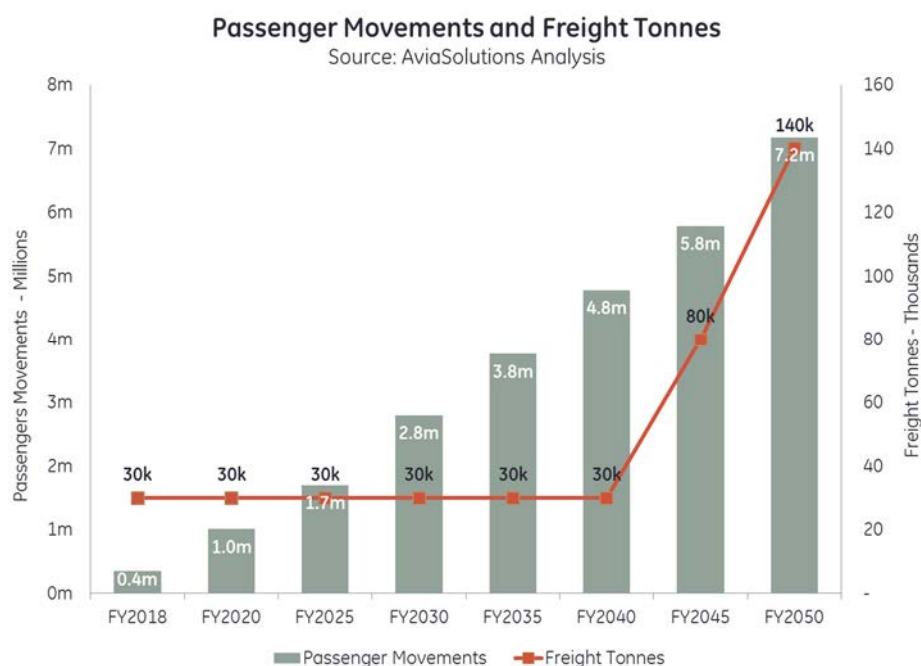
11.1. Outputs for No Runway Development Scenario

In the following paragraphs, we explore the financial viability of the airport based upon there being no new runway in the South East. This scenario takes spill from the London system in addition to a base level of activity generated from the presumed small LCC operation and freighters. Whilst this scenario is the most favourable for Manston airport, as it generates the largest number of passengers and freight, it is perhaps the least likely.

11.1.1. Volume Profile

Passenger movements are forecast to grow at CAGR 19% between FY2018 and FY2030, totalling circa 2.8m passengers by the close of FY2030, growth FY2018 to FY2050 is estimated to be at CAGR of 10%. Freight is not forecast to grow beyond the 30,000 tonnes of the core freighter operations until FY2040, but at that point, freight is assumed to spill from the London Area taking it to some 140,000 tonnes by FY2050.

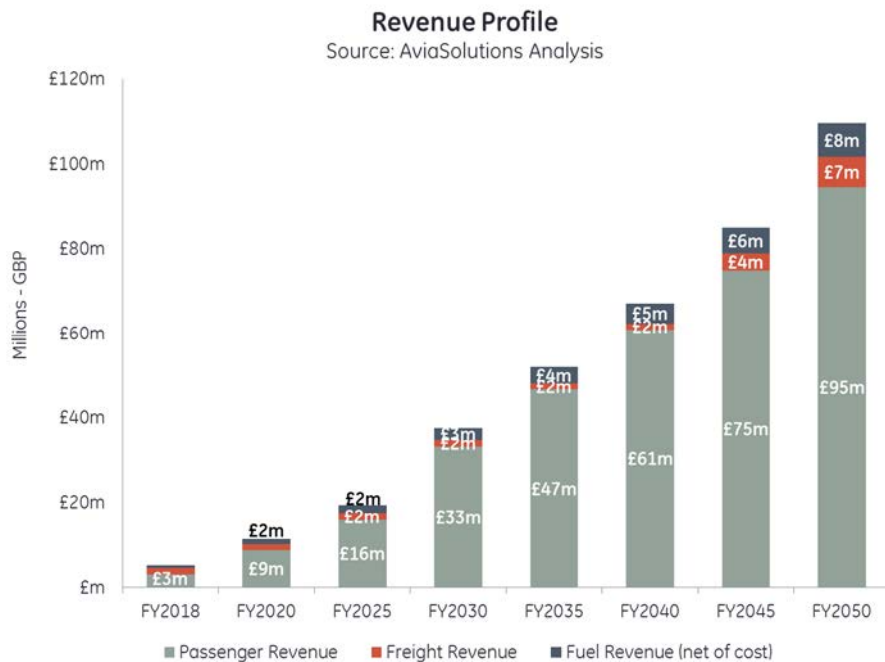
| | FY2018 | FY2020 | FY2025 | FY2030 | FY2035 | FY2040 | FY2045 | FY2050 |
|---------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Passenger Movements | 350k | 1,010k | 1,700k | 2,800k | 3,770k | 4,780k | 5,790k | 7,180k |
| Freight Tonnes | 30k | 30k | 30k | 30k | 30k | 30k | 80k | 140k |
| Total ATMs | 1,100 | 2,900 | 6,400 | 14,100 | 20,900 | 28,100 | 37,200 | 49,500 |



11.1.2. Revenue Profile

Revenue generation is forecast to grow at a CAGR of 18% between FY2018 and FY2030, driving revenues to £38m by FY2030, and at a CAGR of 10% between FY2018 and FY2050 to reach total annual revenues of £110m by FY2050. The revenue profile is exponential in nature due to the increasingly constrained London System environment permitting increasing spill to Manston.

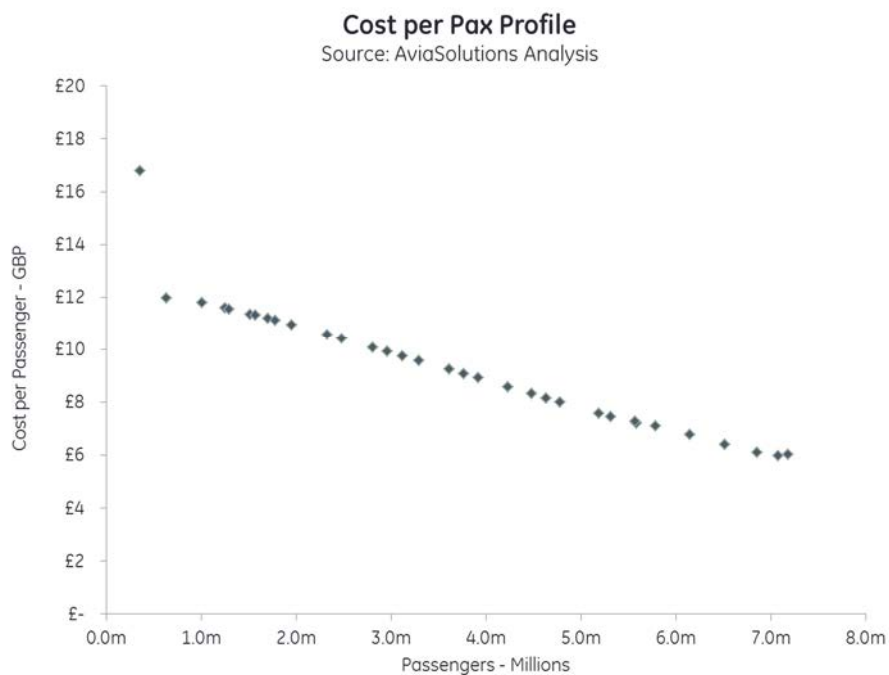
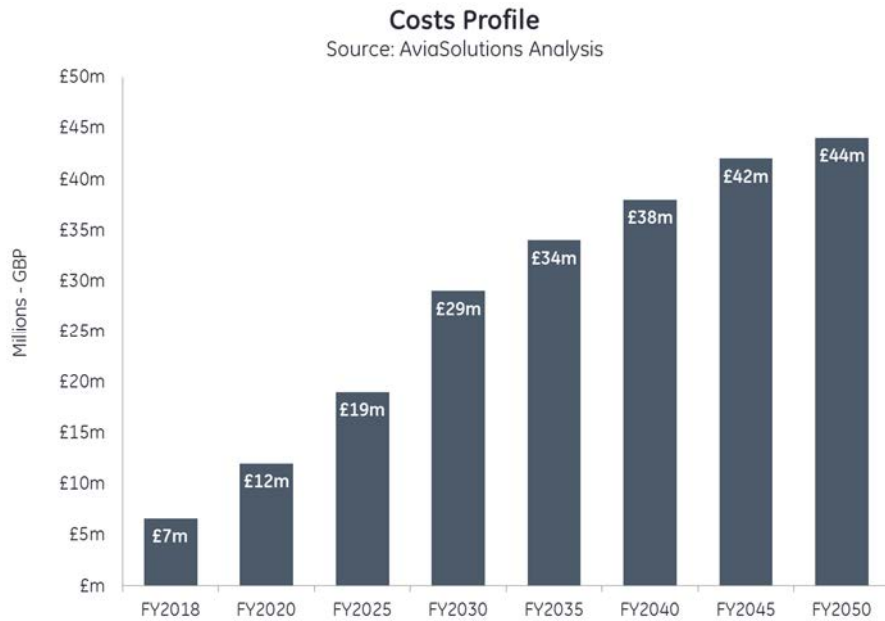
| | FY2018 | FY2020 | FY2025 | FY2030 | FY2035 | FY2040 | FY2045 | FY2050 |
|---------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Total Revenue | £5m | £12m | £19m | £38m | £52m | £67m | £85m | £110m |



11.1.3. Cost Profile

Total Costs are forecast to grow at 13% per annum on average between FY2018 and FY2030, resulting in total costs of £29m by FY2030, and at 6% per annum between FY2018 and FY2050 to produce total annual costs of £44m by FY2050. Costs are increasing more slowly than revenue, leading to greater margin generation. We consider that as the airport generates increased volumes of traffic, it is able to achieve increasing economies of scale, in particular within its passenger operation. Furthermore, as the passenger volume increases, the non-unit driven costs are distributed over an increased base, thereby reducing the average cost per passenger to the airport, an essential element in increasing margin.

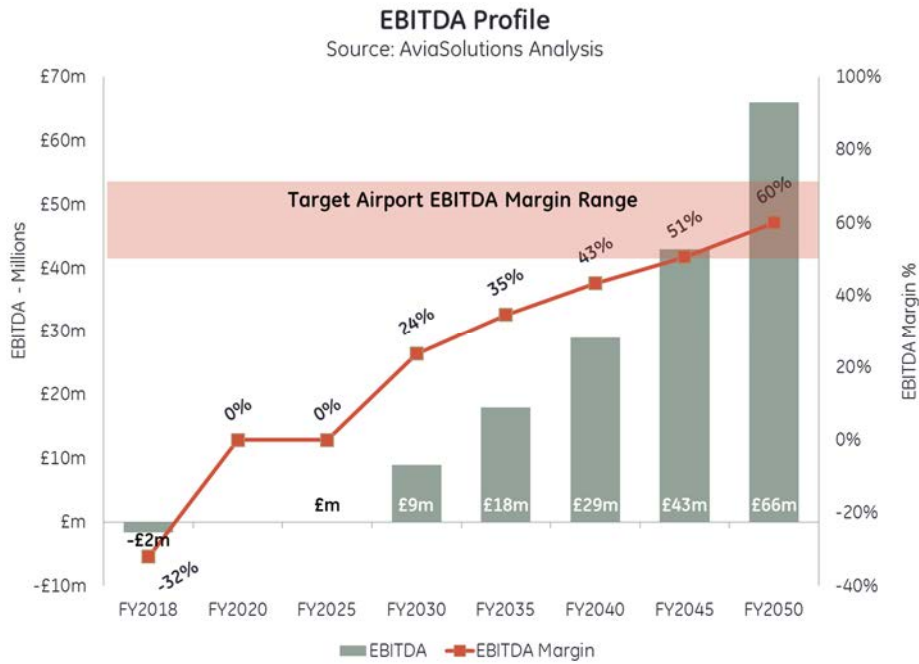
| | FY2018 | FY2020 | FY2025 | FY2030 | FY2035 | FY2040 | FY2045 | FY2050 |
|------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Total Cost | £7m | £12m | £19m | £29m | £34m | £38m | £42m | £44m |



11.1.4. EBITDA Profile

EBITDA is initially forecast to be negative, indicating that the airport would be loss making in the early years at an operational level. It first turns an operating profit in FY2030, generating £9m of operating income and an EBITDA margin of 24%. The EBITDA margin in the long term is forecast to reach 60%, generating £66m of EBITDA in FY2050. This level of EBITDA is much more akin to a typical airport which requires sufficiently high EBITDA margins to cover the ongoing costs and CAPEX of a large asset base.

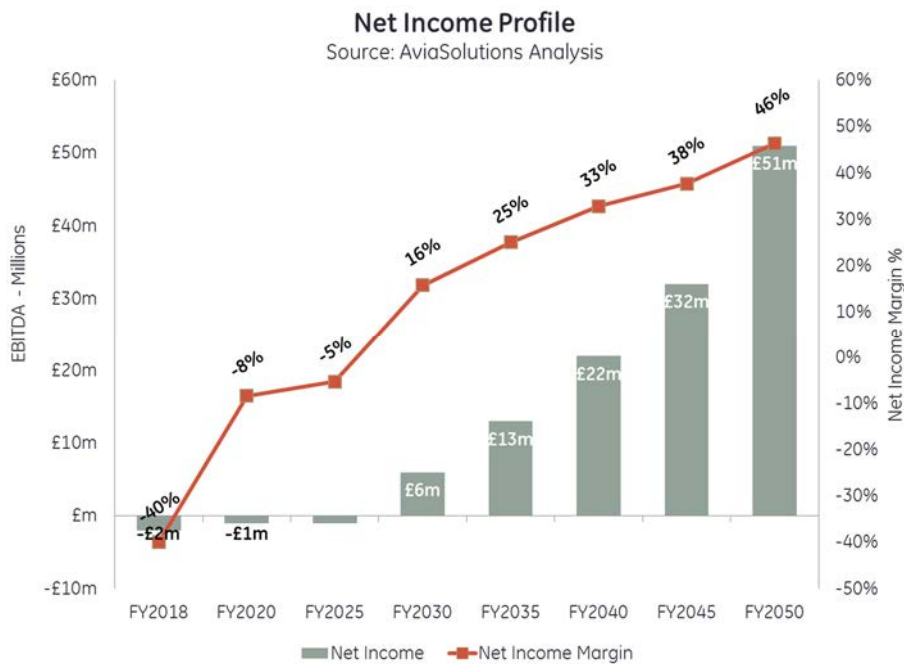
| | FY2018 | FY2020 | FY2025 | FY2030 | FY2035 | FY2040 | FY2045 | FY2050 |
|---------------|--------|--------|--------|--------|--------|--------|--------|--------|
| EBITDA | -£2m | £m | £m | £9m | £18m | £29m | £43m | £66m |
| EBITDA Margin | -32% | 0% | 0% | 24% | 35% | 43% | 51% | 60% |



11.1.5. Net Income Profile

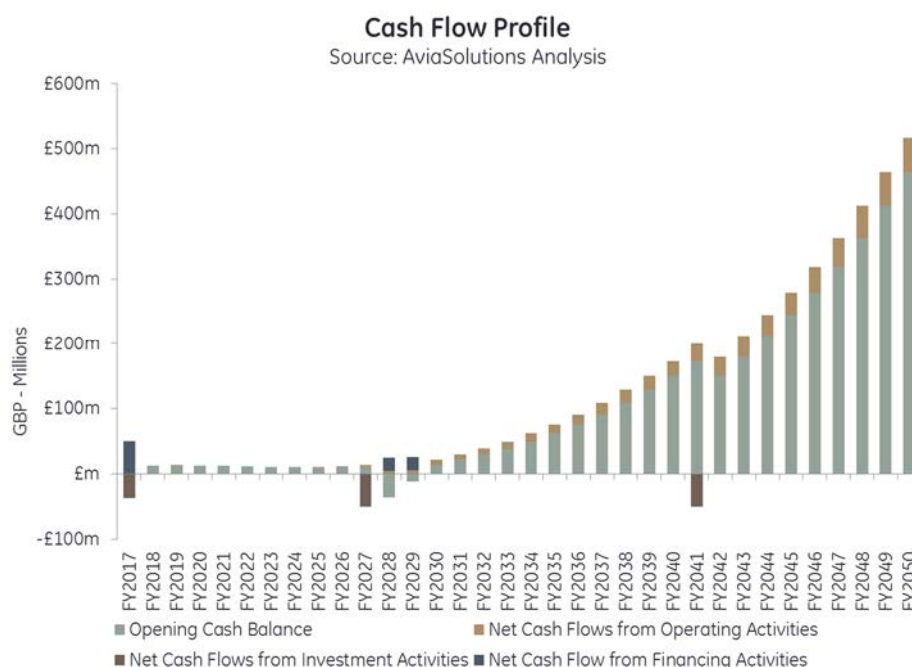
Net income, the profit left after all deductions, is forecast to be negative until FY2025. The first positive results fall circa FY2030 when the airport is expected to generate net income of £6m. This income stream steadily increases through to FY2050 at which point it is expected to be circa £51m per annum.

| | FY2018 | FY2020 | FY2025 | FY2030 | FY2035 | FY2040 | FY2045 | FY2050 |
|-------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Net Income | -£2m | -£1m | -£1m | £6m | £13m | £22m | £32m | £51m |
| Net Income Margin | -40% | -8% | -5% | 16% | 25% | 33% | 38% | 46% |



11.1.6. Cash Flow

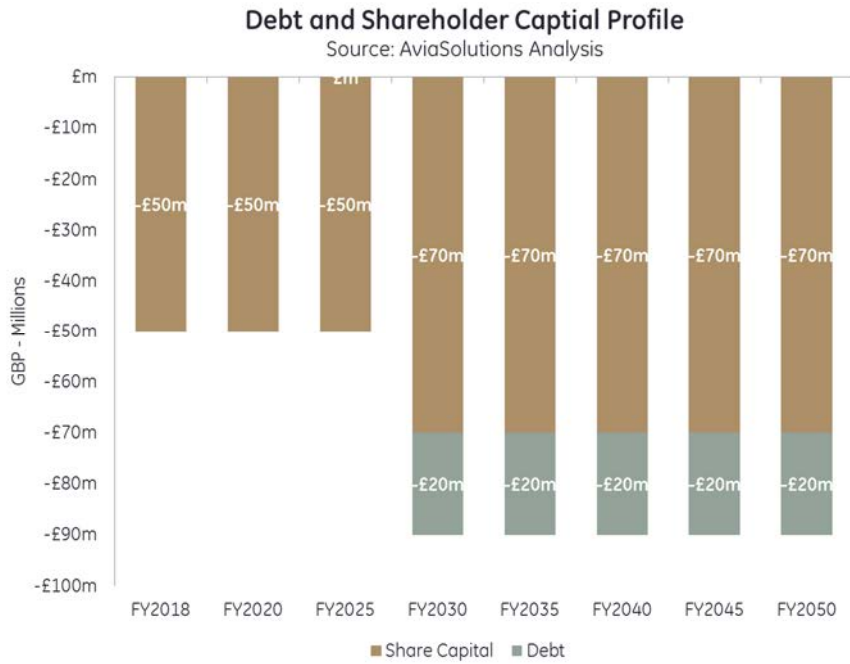
The airport is forecast to develop its cash position with limited additional capital requirements except those required to expand the terminal in FY2027. The position shown below is excludes any dividend payments that the owner may wish to extract from the asset: such payments would reduce its cash position.



11.1.7. Debt and Shareholder Capital

Whilst the exact nature and mixture of debt and shareholder capital would be subject to complex financial optimisation, we have illustrated below a simple capital structure used in the analysis to illustrate the need for additional capital throughout the period. To maintain the business it would be necessary to acquire circa £40m in additional capital around FY2027. For the purposes of modelling this additional capital has been split between debt and equity.

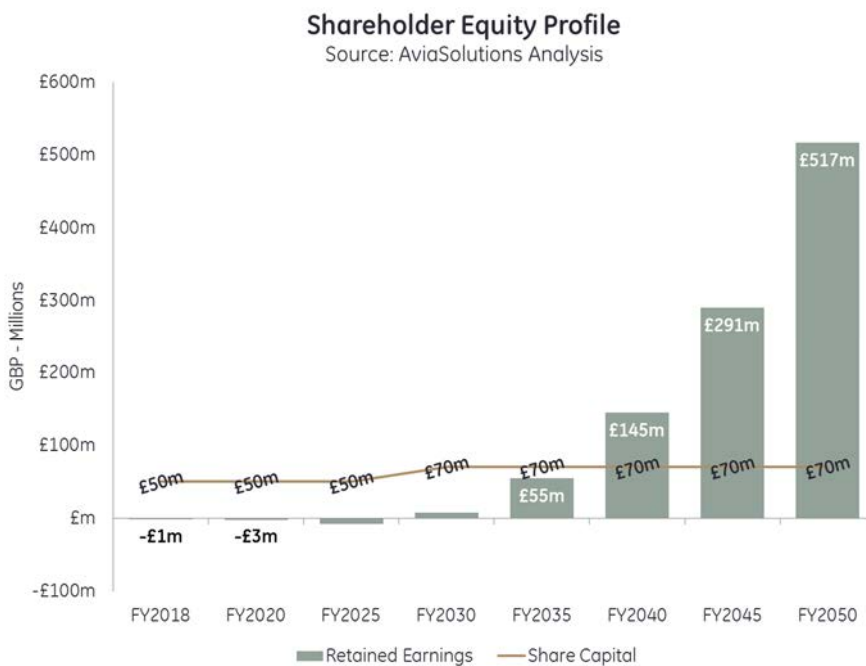
| | FY2018 | FY2020 | FY2025 | FY2030 | FY2035 | FY2040 | FY2045 | FY2050 |
|---------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Debt | £m | £m | £m | £20m | £20m | £20m | £20m | £20m |
| Share Capital | £50m | £50m | £50m | £70m | £70m | £70m | £70m | £70m |



11.1.8. Shareholder Equity

Considering the effects of earnings on shareholder equity, the business does not post positive retained earnings until circa FY2030. This in effect limits the business's ability to pay dividends to shareholders until this point at the earliest.

| | FY2018 | FY2020 | FY2025 | FY2030 | FY2035 | FY2040 | FY2045 | FY2050 |
|-------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Retained Earnings | -£1m | -£3m | -£8m | £8m | £55m | £145m | £291m | £517m |
| Share Capital | £50m | £50m | £50m | £70m | £70m | £70m | £70m | £70m |



11.1.9. Conclusion

Given the parameters of this specific scenario it could be feasible to operate a commercially viable airport on the site. However, the risks in doing so are high and many of the elements that cause the proposal to payback can be reversed (such as a new runway being authorised) and are out of the control of the asset manager.

Whilst we believe an airport on the site may be feasible in this scenario, the probability of there being no new runway in the South East is very low, even if a decision is delayed, it is still expected that a new runway will be required at some point. If Manston were to become an established airport it would need many years to reach a point of maturity where it would be able to withstand a new runway becoming operational. The probability of this occurring, given the Government's current position on runway capacity, is uncertain at best. Therefore we conclude that whilst potentially feasible, this scenario is improbable.

11.2. Outputs for LGW Second Runway Scenario

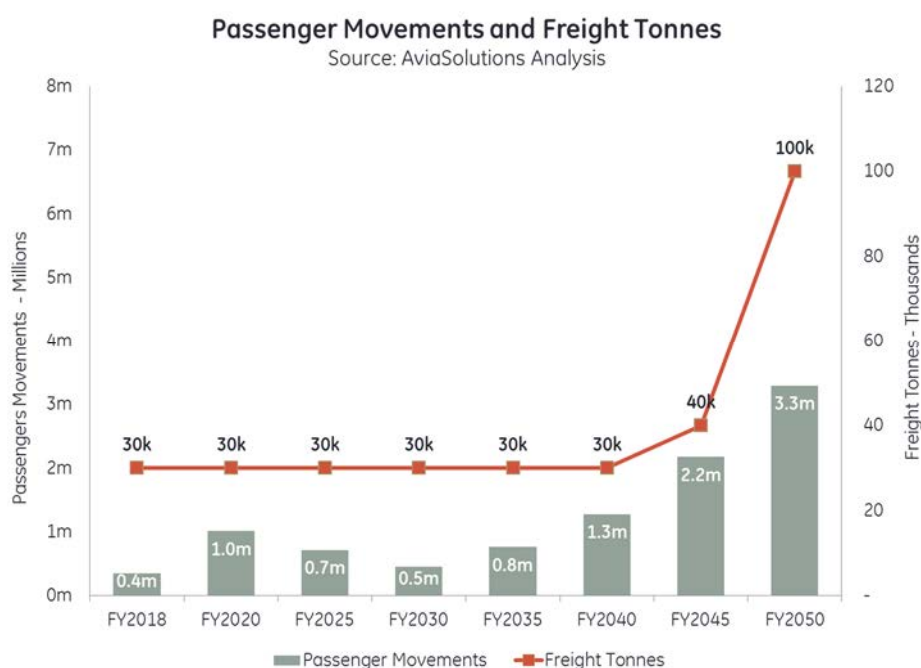
In the following paragraphs, we explore the financial viability of Manston Airport based upon there being a second runway at Gatwick. This was an option short-listed by the Davies Commission and while not finally recommend has a body of support based on its lower environmental impacts and the consequent ability to be delivered earlier (assumed here to be 2025). Manston may have a short initial boost to traffic before the second runway becomes available but then traffic falls before growing again. This scenario takes spill from the London system in addition to a base level of activity generated from the presumed small LCC operation and freighters. This scenario is less favourable for Manston Airport than would be a development at Heathrow.

11.2.1. Volume Profile

Passenger numbers are forecast to grow to more than 1.5 million in 2024, the year before the assumed opening of the second runway, but immediately fall back starting in 2025 and declines to a low of 0.5 million in 2033. From this low point, it grows as a result of the resumption of overflow, reaching 3.5 million passengers in 2050. Overall growth between FY2018 and FY2050 averages 7% per annum.

Freight is not forecast to grow beyond the 30,000 tonnes of the core freighter operations until FY2040, but at that point, freight is assumed to spill from the London Area taking it to some 100,000 tonnes by FY2050.

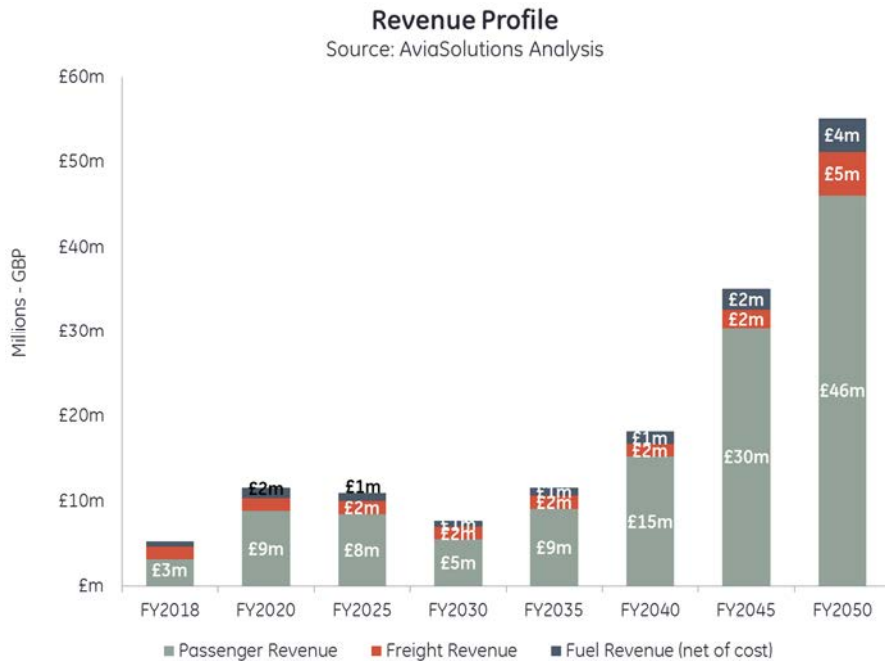
| | FY2018 | FY2020 | FY2025 | FY2030 | FY2035 | FY2040 | FY2045 | FY2050 |
|---------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Passenger Movements | 350k | 1,010k | 710k | 450k | 760k | 1,270k | 2,170k | 3,290k |
| Freight Tonnes | 30k | 30k | 30k | 30k | 30k | 30k | 40k | 100k |
| Total ATMs | 1,100 | 2,900 | 5,000 | 3,200 | 5,300 | 8,900 | 15,900 | 26,000 |



11.2.2. Revenue Profile

Revenue generation is forecast to grow at a CAGR of 4% between FY2018 and FY2030, driving revenues to £8m by FY2030, and at a CAGR of 8% between FY2018 and FY2050 to reach total annual revenues of some £55m by FY2050.

| | FY2018 | FY2020 | FY2025 | FY2030 | FY2035 | FY2040 | FY2045 | FY2050 |
|---------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Total Revenue | £5m | £12m | £11m | £8m | £12m | £18m | £35m | £55m |

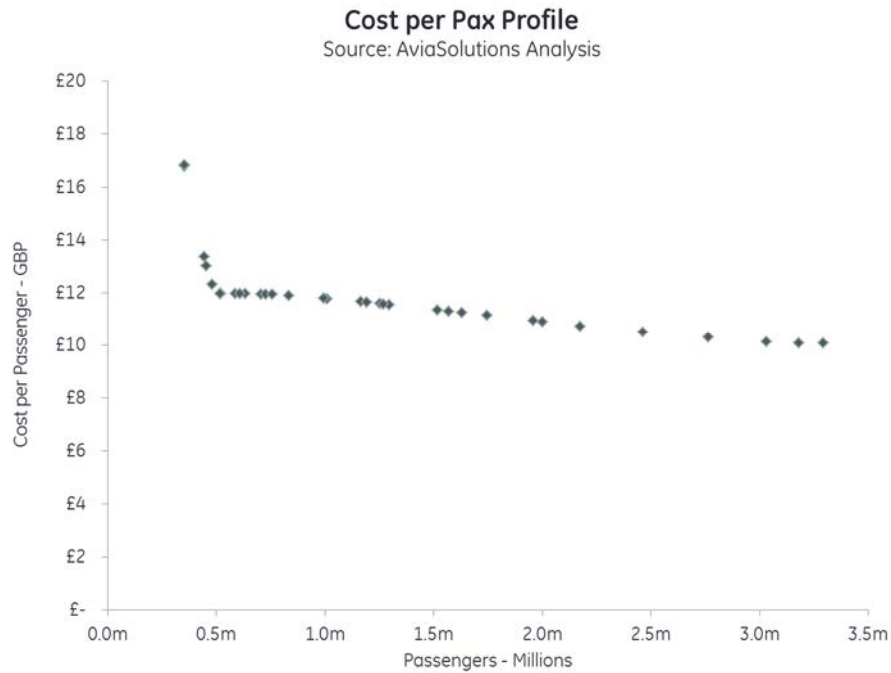


11.2.3. Cost Profile

Total Costs rise prior to the opening of the second runway, but then fall back to £7 million in FY 2030. Thereafter, they increase to nearly £35 million in 2050, representing an average increase between FY2018 and FY2050 of 5% per annum. Cost per passenger falls over the period of the projections.

| | FY2018 | FY2020 | FY2025 | FY2030 | FY2035 | FY2040 | FY2045 | FY2050 |
|-------------------|------------|-------------|------------|------------|-------------|-------------|-------------|-------------|
| Total Cost | £7m | £12m | £9m | £7m | £10m | £15m | £24m | £33m |

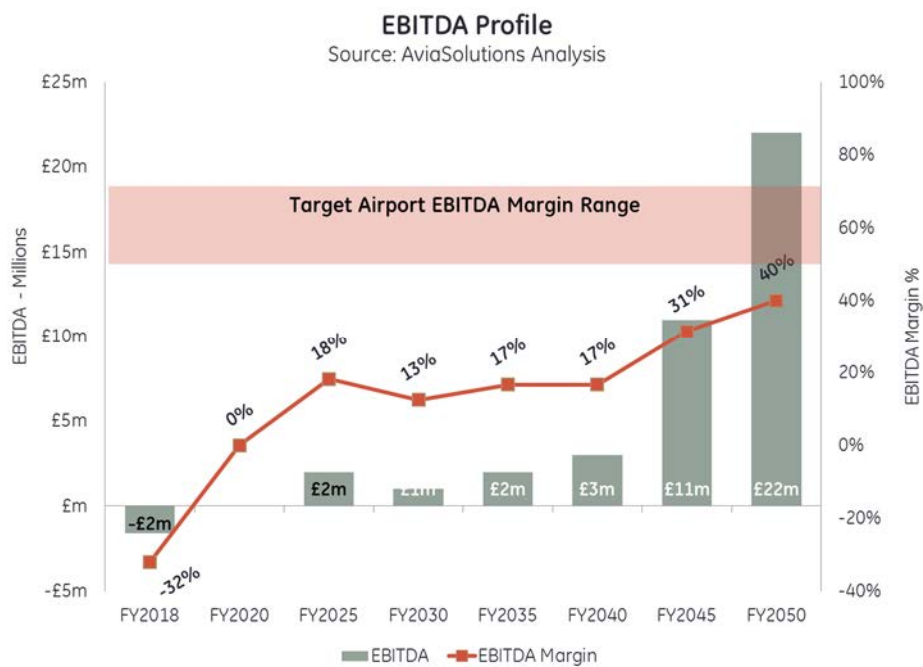




11.2.4. EBITDA Profile

EBITDA is initially forecast to be negative, indicating that the airport would be loss making in the early years at an operational level. It first returns an operating profit in FY2025, generating £2m of operating income and an EBITDA margin of 18%. As the second runway at Gatwick comes on-stream, EBITDA at Manston would stagnate due to the lack of available traffic volumes. The EBITDA margin in the long term is forecast to reach 40%, with an EBITDA of £22m in FY2050. This level of EBITDA is significantly below that which we would typically expect for an airport to be attractive to the investment community.

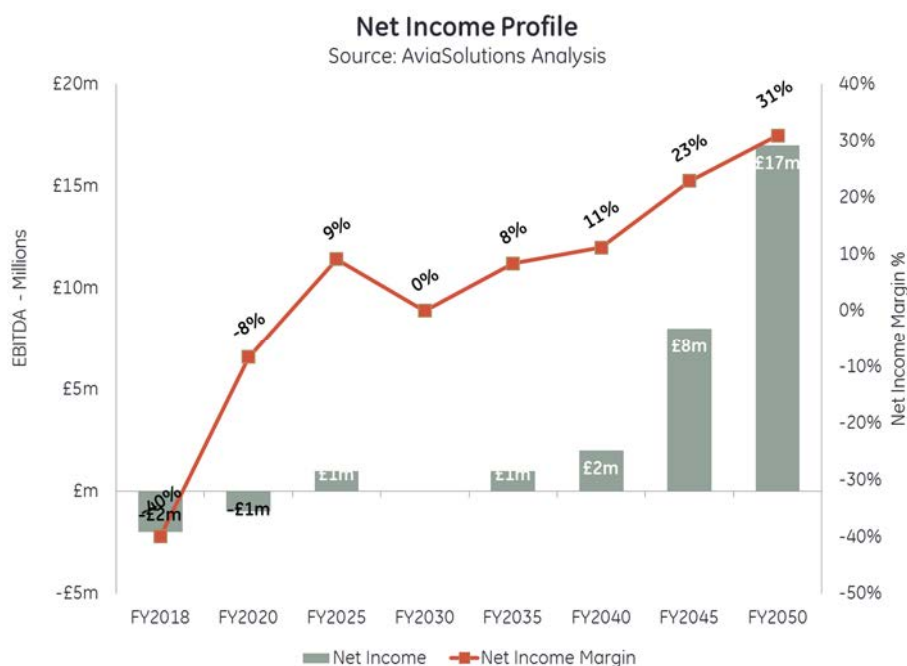
| | FY2018 | FY2020 | FY2025 | FY2030 | FY2035 | FY2040 | FY2045 | FY2050 |
|---------------|--------|--------|--------|--------|--------|--------|--------|--------|
| EBITDA | -£2m | £m | £2m | £1m | £2m | £3m | £11m | £22m |
| EBITDA Margin | -32% | 0% | 18% | 13% | 17% | 17% | 31% | 40% |



11.2.5. Net Income Profile

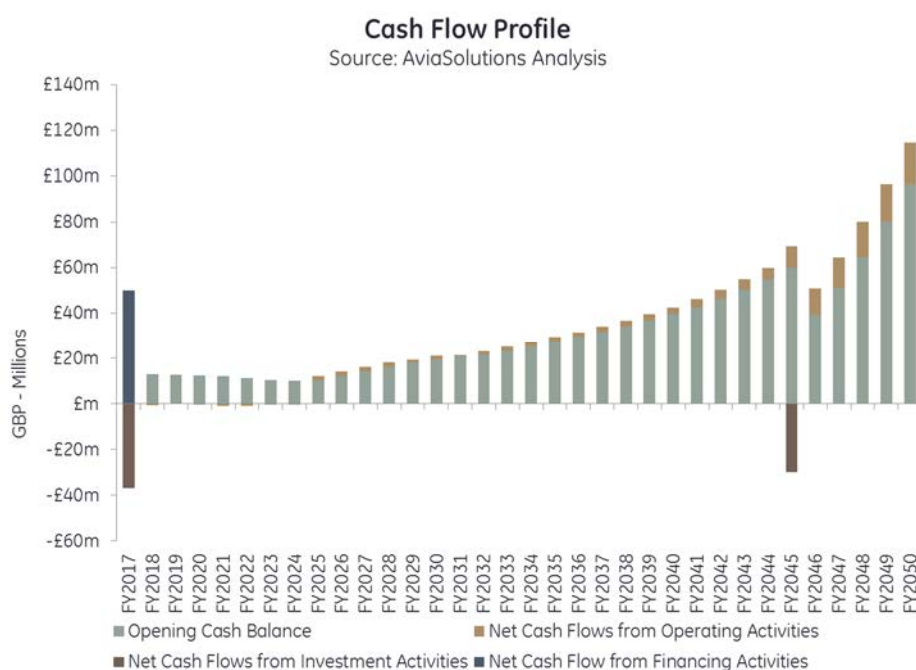
Net income, the profit left after all deductions, is forecast to be negative until after FY2020. The first positive results are generated around FY2025 when the airport is expected to generate net income of £2m, although it falls slightly thereafter as Gatwick's new runway absorbs traffic. The income stream then remains broadly constant for the following 15 years before increasing as capacity becomes constrained once more in the London system. It reaches £17m in FY2050.

| | FY2018 | FY2020 | FY2025 | FY2030 | FY2035 | FY2040 | FY2045 | FY2050 |
|-------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Net Income | -£2m | -£1m | £1m | £m | £1m | £2m | £8m | £17m |
| Net Income Margin | -40% | -8% | 9% | 0% | 8% | 11% | 23% | 31% |



11.2.6. Cash Flow

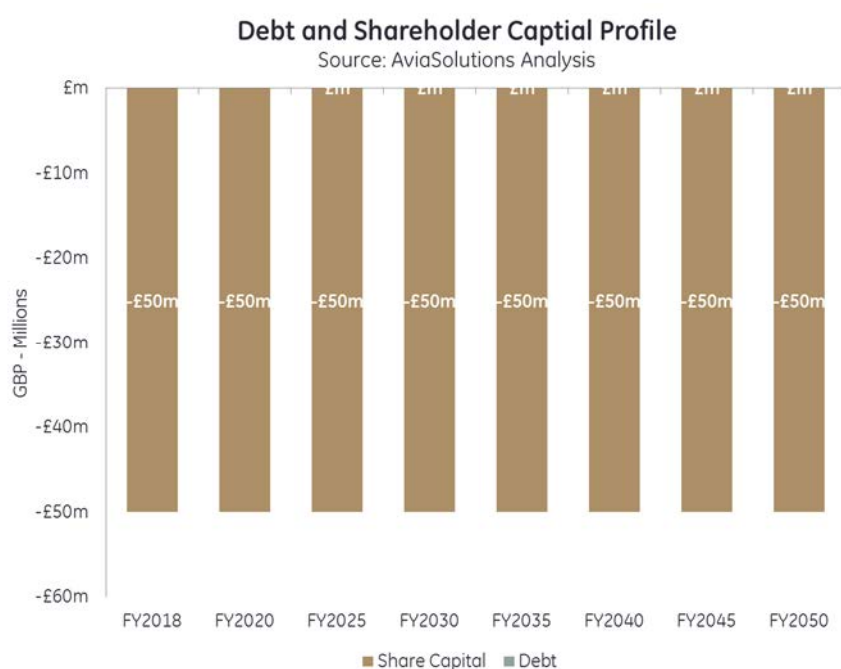
The airport is forecast to develop its cash position with limited additional capital requirements until FY2045 when there would be a requirement to expand the terminal, by which time the company could have built up sufficient cash to be able to finance the CAPEX from reserves. The position shown below excludes any dividend payments that the owner may wish to extract from the asset: such payments would reduce its cash position.



11.2.7. Debt and Shareholder Capital

Whilst the exact nature and mixture of debt and shareholder capital would be subject to complex financial optimisation, we have illustrated below a simple capital structure used in the analysis to illustrate the need for additional capital throughout the period. To maintain the business no further financing would be required. Whilst the business does not generate significant revenues or income, there is little requirement for significant CAPEX investments, thereby eliminating the requirements for additional financing

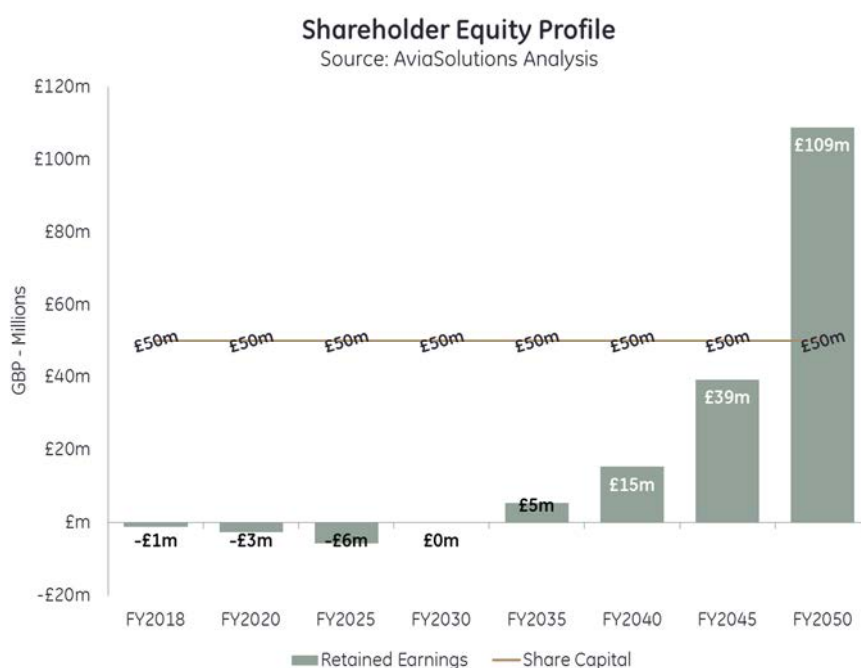
| | FY2018 | FY2020 | FY2025 | FY2030 | FY2035 | FY2040 | FY2045 | FY2050 |
|---------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Debt | £m | £m | £m | £m | £m | £m | £m | £m |
| Share Capital | £50m | £50m | £50m | £50m | £50m | £50m | £50m | £50m |



11.2.8. Shareholder Equity

Considering the effects of earnings on shareholder equity, the business does not post positive retained earnings until nearly FY2035. This in effect limits the business's ability to pay dividends to shareholders until this point at the earliest.

| | FY2018 | FY2020 | FY2025 | FY2030 | FY2035 | FY2040 | FY2045 | FY2050 |
|-------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Retained Earnings | -£1m | -£3m | -£6m | £m | £5m | £15m | £39m | £109m |
| Share Capital | £50m | £50m | £50m | £50m | £50m | £50m | £50m | £50m |



11.2.9. Conclusion

The asset would require significant long term investment but would only generate a marginal return. These returns are also predicated on a large number of external variables over which the owner of Manston Airport has very little influence. It is AviaSolutions' view that based on this scenario there is no viable long term prospect of an economically viable airport being established on the site.

11.3. Outputs for Both Runways Scenario

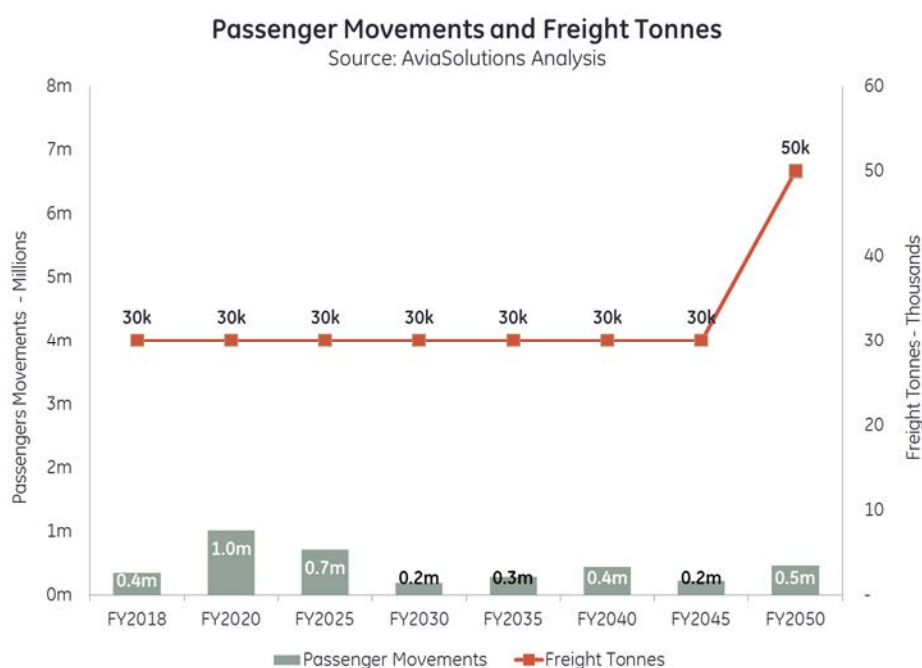
In the following paragraphs, we explore the financial viability of Manston Airport based upon there being two runways constructed in the South East, one at Gatwick and the other at Heathrow. It is clear from this assessment that in the longer term there is forecast to be sufficient demand to require two additional runways. In our assessment, we have assumed that the runway at Gatwick would be opened first, followed later by that at Heathrow. It is though possible that Gatwick might decide to postpone its second runway given its likely loss of traffic Manston would have a short initial boost to traffic before the first of the runways becomes available but then traffic falls and only resumes growth towards the end of the forecasting period. This scenario is the least favourable for Manston Airport.

11.3.1. Volume Profile

Passenger numbers are forecast to grow to more than 1.5 million in 2024, the year before the assumed opening of the first of the runways, but immediately fall back starting in 2025. Passenger traffic remains minimal for the remainder of the forecasting period.

Freight is not forecast to grow beyond the 30,000 tonnes of the core freighter operations until after FY2045, but might reach some 50,000 tonnes by FY2050.

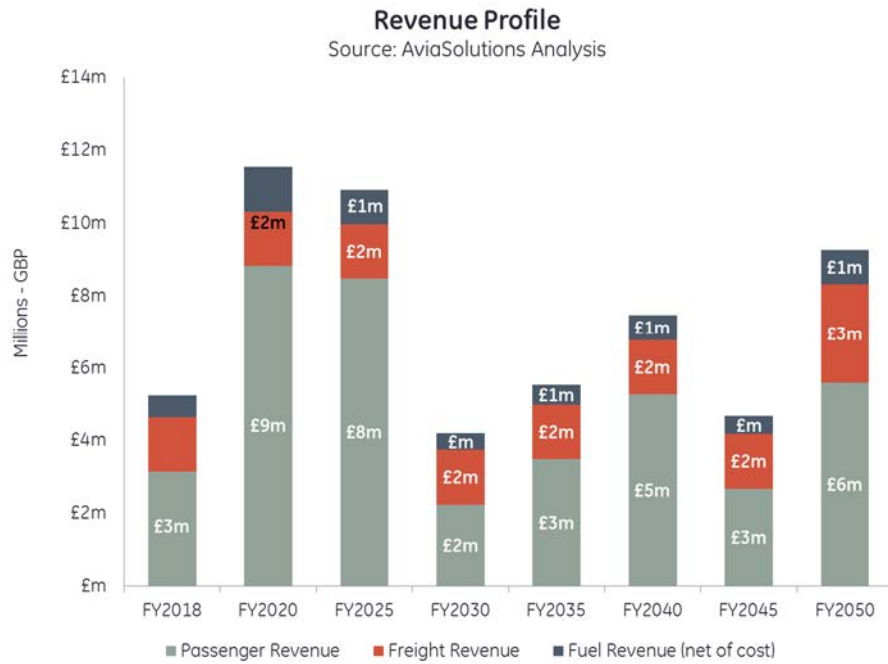
| | FY2018 | FY2020 | FY2025 | FY2030 | FY2035 | FY2040 | FY2045 | FY2050 |
|---------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Passenger Movements | 350k | 1,010k | 710k | 190k | 290k | 440k | 220k | 460k |
| Freight Tonnes | 30k | 30k | 30k | 30k | 30k | 30k | 30k | 50k |
| Total ATMs | 1,100 | 2,900 | 5,000 | 1,300 | 2,000 | 3,100 | 1,600 | 4,300 |



11.3.2. Revenue Profile

Revenue generation reflects the lack of traffic volume and peaks in the period up to FY2025.

| | FY2018 | FY2020 | FY2025 | FY2030 | FY2035 | FY2040 | FY2045 | FY2050 |
|---------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Total Revenue | £5m | £12m | £11m | £4m | £6m | £7m | £5m | £9m |

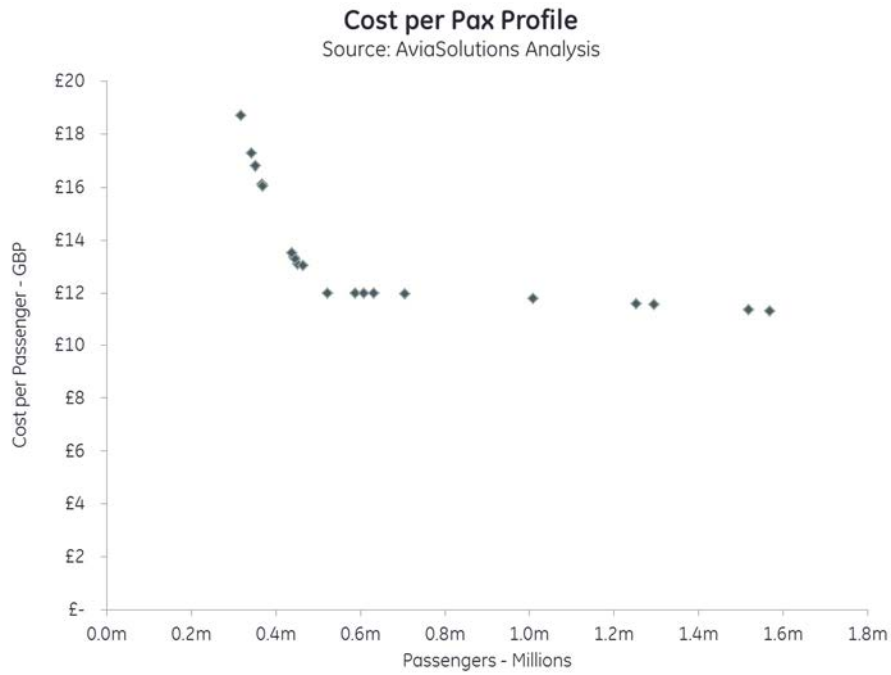


11.3.3. Cost Profile

Total Costs rise a little before the opening of the first of the runways, but then fall back to the core essential fixed costs associated with having the airport open

| | FY2018 | FY2020 | FY2025 | FY2030 | FY2035 | FY2040 | FY2045 | FY2050 |
|------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Total Cost | £7m | £12m | £9m | £7m | £7m | £7m | £7m | £7m |

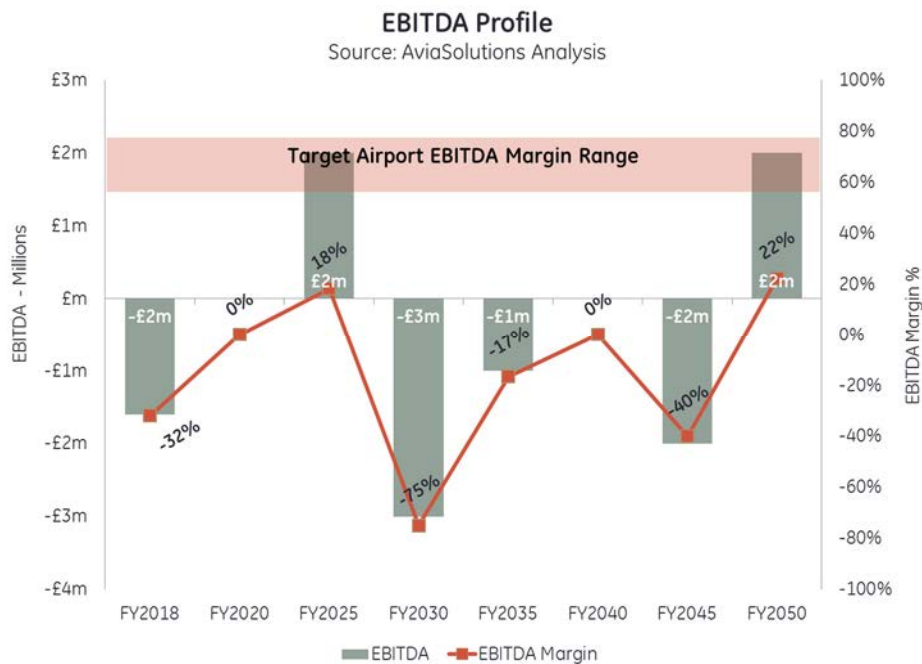




11.3.4. EBITDA Profile

EBITDA is forecast to be negative for the majority of the forecast period, except for the period up to FY2025 and at the very end

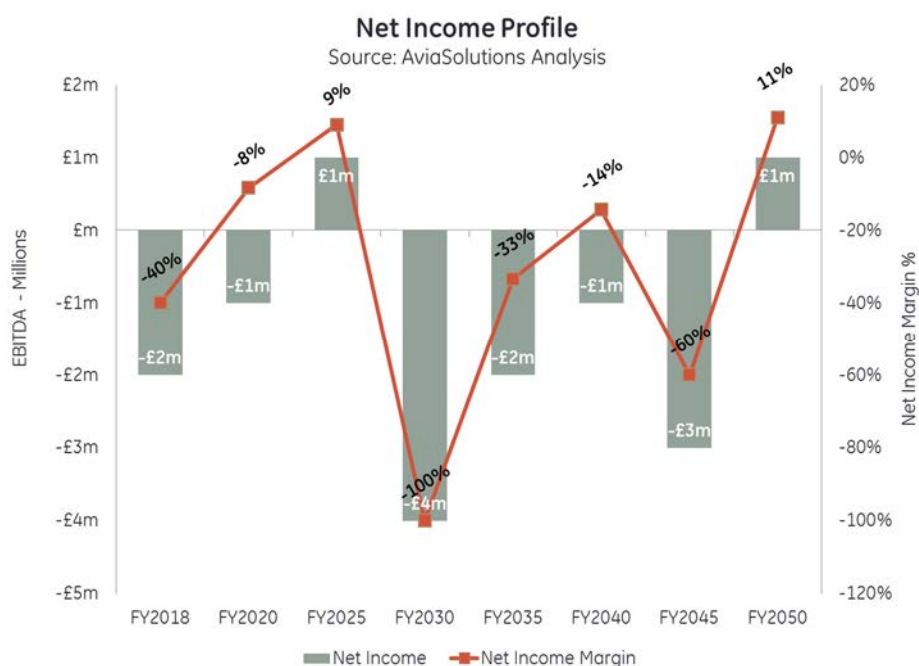
| | FY2018 | FY2020 | FY2025 | FY2030 | FY2035 | FY2040 | FY2045 | FY2050 |
|---------------|--------|--------|--------|--------|--------|--------|--------|--------|
| EBITDA | -£2m | £m | £2m | -£3m | -£1m | £m | -£2m | £2m |
| EBITDA Margin | -32% | 0% | 18% | -75% | -17% | 0% | -40% | 22% |



11.3.5. Net Income Profile

Net income, the profit left after all deductions, is forecast to be negative for almost the entire period.

| | FY2018 | FY2020 | FY2025 | FY2030 | FY2035 | FY2040 | FY2045 | FY2050 |
|-------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Net Income | -£2m | -£1m | £1m | -£4m | -£2m | -£1m | -£3m | £1m |
| Net Income Margin | -40% | -8% | 9% | -100% | -33% | -14% | -60% | 11% |



11.3.6. Conclusion

If two runways were to be constructed in the South East, then it is clear that there is no realistic prospect of long term viability for a re-opened Manton Airport. The potential profits in the period to FY2025 would not be adequate to justify the costs of acquiring and re-commissioning the airport, and prospects thereafter would be exceptionally poor.

COMMUNITY SERVICES

Please ask for: Iain Livingstone
Direct Line: 01843 577140
Date: 20/07/17



Mr G Yerrall
Riveroak Strategic Partners
Audley House
9 North Audley Street
Mayfair, London
W1K 6WF

Dear Mr Yerrall,

Application by RiverOak Investment Corp LLC for an Order Granting Development Consent for Manston Airport

Statutory Consultation on Proposed Project

Thank you for your consulting Thanet District Council under the provisions of Section 42 of the Planning Act 2008.

We will outline our specific comments on the information provided at this pre-application consultation stage of the process.

Principle and Policy Conflict

The proposed redevelopment of the Manston Airport site as a dedicated freight airport with additional uses would be directly contrary to the emerging Local Plan (to 2031) policy SP05, which allocates the site for a mixed use development with the capacity to deliver at least 2,500 new dwellings and up to 85,000sqm employment and leisure floorspace. It is considered on the basis of the Council's empirical evidence that airport operations at Manston are very unlikely to be financially viable in the longer term, and not possible in the period to 2031, and this has informed the proposed allocation within the preferred options revisions consulted upon in January 2017.

Basis of Project and Business Case

We have reviewed the 'Outline Business Case' submitted as part of your public consultation. This provides a high-level overview of the perceived benefits of the project, rather than as a business case for how the project will be funded and delivered. For example, at a basic level it does not include any breakdown of the cost of the proposed work (6a-m). There is a severe lack of detail about where additional investment, to develop the airport to the point where the development would be capable of providing services to handle 10,000 air transport movements of cargo aircraft a year, will come from, and what the actual amount of investment required to achieve 10,000 air transport movements is. It is also the case that there is a lack of information or evidence about how these 10,000 flights will occur without any operators identified or secured for the site, and only limited interest has been outlined in the background documentation from two smaller operators.

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Margate
Kent
CT9 1XZ

The resource implications of both acquiring the land and implementing the project will need to be provided in the full submission, including outlining the degree to which other bodies have agreed to make financial contributions or to underwrite the scheme to fill any shortfall, and on what basis such contribution or underwriting has been made. Without this information there is significant uncertainty about the delivery of the project.

Putting aside what the Planning Inspectorate might want to see we would expect additional financial information to provide certainty about the delivery of the project, at the same level as the requirements on public-funded bodies under 'The Green Book' appraisal approach to provide certainty to the local community and the Inspectorate about the delivery of the project.

Economic impacts

The 'Overview Report' states that by year two of operation, you expect 850 people to be directly employed on the site, with a further 5,000 people employed within the region in the supply chain, in associated industries or businesses or as a result of the airport's presence in the economy. By year 20 these figures are expected to rise to over 4,200 people at the airport site and a further 26,000 in the wider regional economy. The 'wider regional economy' is not defined in any of the consultation documentation, and we would expect this to be defined clearly in the full submission, linked to empirical evidence of regional economic impacts from airports so that its impact can be assessed independently.

The job numbers have been derived from the estimates from the Azimuth Associates documentation to create a formulae linking freight tonnage to job numbers on a theoretical basis. No optimism bias has been allowed for in these estimates, nor has the growth in automation been considered in this academic study. Without any information about who is going to deliver the freight tonnage and therefore create the job numbers stated we question whether the economic benefits of the airport in terms of job creation can be considered deliverable.

In turn this uncertainty makes us question the significance of the beneficial socio-economic impacts from the development within your Preliminary Environmental Information Report (PEIR).

On the critical point of economic impact we would want to see greater use of different sources of data to reduce the dependence on this academic study.

Housing Requirements

Notwithstanding these concerns, the implications of proposed job creation on the amount of housing required in both Thanet and East Kent is a significant concern. This is briefly mentioned at point 13.9.8 of the PEIR, characterised as a major adverse – significant (impact). The emerging Local Plan's stated housing need to 2031 (17,140 homes) is predicated upon the expected addition of 5000 jobs in the same period. The development of your airport, by virtue of the estimated job numbers created both directly and within the supply chain, has the potential to significantly affect the objectively assessed need (OAN) for housing within the East Kent region.

The impact is a likely significant increase in housing land requirements. This may result in indirect effects, such as additional loss of countryside through housing development, which has not been assessed in the PEIR and significant new infrastructure demands. An assessment must be carried out within the full submission reviewing job creation in your project and the relevant plan documents in Thanet, Dover and Canterbury (phased over respective plan periods), reviewing the labour supply with existing studies available in all three areas, assessing where the projected workforce will be drawn from to the airport, modelling migration adjustment from this information therefore deriving implications on housing need in the district and the region.

The loss of the site as an allocation in the emerging Local Plan, for at least 2,500 dwellings, does not appear to have been considered in your submission. The proposal would also result in the loss of 56 open market units and 56no. extra care units approved on the Jentex site, meaning the total housing

shortfall resulting from this development would be at least 2,612. This would be a direct impact from your project, and the ramifications for this on Thanet's countryside must be adequately assessed within your submission (including within the socio-economic and landscape visual impact sections of the Environment Statement (ES)).

Other socio-economic impacts

Additional burdens on local services are considered to be major adverse impact during operation in the PEIR, which would result from the increase in residence of operational workers in the district. This effect should be linked to the work to be carried out around the increase housing requirement in the district and neighbouring authorities (above in Housing Requirement section), to quantify the impact on local services as accurately as possible.

No mention is provided about an on-site education/training facility, as referenced in the Azimuth Associates report within the masterplan, overview report or PEIR, and therefore it is assumed that this will not form part of the submission. In terms of learning and development opportunities, these are broadly mentioned in the Azimuth Associates report, however not outlined in the Socio-Economic impacts section of the PEIR. It would therefore appear that there is limited weight that can be attributed to any beneficial impacts on learning and development from the project given this lack of detail about discussions with any providers and how any measures will be integrated into the project. Paragraph 13.9.7 indicates that specific surveys of the location and character of vulnerable groups and community facilities will be undertaken, with more details to be provided in the ES. We will await this information, and request that the potential for local employment and training during construction and operational phase be outlined in full in the ES and subsequently secured via appropriate obligations.

The tourism profile of the district provided within the PEIR should be updated to reflect available data on visitors from the 2015 Cambridge Economic Impact Model, further information can be found via: <https://www.visitthanetbusiness.co.uk/>. The Council has adopted its Economic Growth Strategy, which is referenced at PEIR section 13.4.27, however the Experian report from 2012 was not adopted and is not considered up-to-date. We welcome the acknowledgement of the potential significant impact on businesses from noise and traffic and transportation however this should be elaborated upon in the ES. The impact on tourism is characterised at operational stage as moderate adverse, and we await information on how the likely effects on local amenity, businesses, the destination and the experience of visitors will be mitigated by environmental measures. It is stated that this could be through limiting night flights and aircraft flightpaths, however all indicative flight paths would travel over Ramsgate, and night flight mitigation would not impact on the multiple flights during the day that could adversely affect local business and tourism and the destination.

Noise and impact on living conditions

We are significantly concerned about the potential impact from your proposed development on the living conditions of those residential occupiers within close proximity of the airport, those residents living under the (indicative) flight paths, especially in relation to night flights, as well as disruption to multiple schools within Ramsgate. This impact has been characterised as major adverse – significant in the PEIR, and it is noted that further detailed assessment work is being carried out regarding construction and operational noise, including aircraft air noise which is pending further work on routes, aircraft type and specification. It will be necessary to consider the cumulative impact of existing aircraft operations in the vicinity, proposed airside operations as well as all training flights at the airport, and that this information should be submitted within the ES.

We would expect the final submission to include the full details of the proposed noise mitigation strategy as well as the noise insulation scheme (include those properties that you believe would be covered by the scheme on the basis of the information available at the time). It is noted that the document states that the noise contour map for the project will extend daytime and nighttime contours in comparison to the previously produced contour map for the previous use of the airport, but this is not being consulted on at this stage.

We would advise that an additional noise baseline observation location should be included within the Nethercourt residential estate, given its proximity to the airport and the anticipated landing/take off routes, as well as the approved Manston Green development location, with consideration of a permanent noise monitoring station on the site if any Development Consent Order (DCO) is approved.

Until the further assessment work has been completed and data made available we are unable to comment on whether the impacts have been adequately quantified and mitigated. We will therefore await this information before commenting in detail within the Council's Local Impact Report.

Notwithstanding the above concerns, if approved by the Planning Inspectorate we would expect that a Section 106 agreement would be formulated to cover all monitoring and mitigation for the use of the airport, with controls on noise levels, as well as controls on the number of night flights (capped at 8 movements as an absolute maximum given that this is the level to be assessed in the ES).

On a detailed layout point, the masterplan shows industrial buildings directly adjacent to residential properties on Manston Court road. The layout of this area should maximise the distance between industrial development and residential properties, with appropriate proposed use/heights/lighting to avoid harm to living conditions of those occupiers.

It is noted that the Secretary of State has required consideration of Vortex Strike arising from plane movements, but this has not been included in the noise assessment. We would welcome information on where this has been considered within the submission.

Landscape and Visual Impact

The development would result in a highly urbanising effect of the landscape, due to the amount and height of the buildings proposed. Particular impacts will result from the new Air Traffic Control Centre building, 28metres above ground level, and hanger buildings and cargo facilities at 29m and 21m above ground level. The impact on residential and recreational visual receptors is acknowledged in the PEIR as significant. The number of viewpoints in Figure 11.2 appears to be limited for a development which could have a significant effect on Thanet's landscape, with no separate between short, medium or long range viewpoints. We would advise a number of additional viewpoints are added, at a minimum in the following locations:

- A viewpoint on Shottendane Road close to Minster Road, to show the landscape impact from Westgate
- A viewpoint (a256) on Haine Road (adjacent to eastern extent of the site), just south of the approved Manston Green layout.
- A viewpoint from Grinsell Road looking north.
- A viewpoint from Canterbury Road West adjacent to Jentex site (western side).
- A viewpoint on Manston Road between the two Museums,
- A viewpoint on Manston Road adjacent to Charles River site.

We are happy to provide further detail about the proposed locations above if necessary. In additional, the following points are made about the proposed viewpoint locations:

- Viewpoint 3 should be assessed at nighttime to visualise extent of light intrusion into landscape when viewed from the north on Vincent Road.
- Viewpoint 6 and new viewpoint above should include nighttime assessment.
- A viewpoint (a256) on Haine Road (adjacent to eastern extent of the site) should be selected, just south of the approved Manston Green layout.

The above should be included within the baseline of data utilised for the further assessments in the DCO. There is also a general lack of viewpoints to the south of the site, where the impact from the development on the designated landscape character areas in Thanet are defined as significant by the

PEIR. Whilst this partial relates to noise and aircraft movements affecting the character and tranquility of the area, there will be a visual impact from the structures proposed. Whilst the impact on visual receptors using the transport network has been considered to be “not significant”, we would suggest that a day/night viewpoint is selected on the A256 north bound when approaching the brow of the hill before descending to the roundabout with the A299. Some structures appear visible on the airport site from this road and therefore this should be assessed to ensure that the assessment currently provided in the PEIR is adequate and impact on this view quantified in the ES.

Whilst a baseline from the assessment of landscape has been produced for the PEIR, the results of this work at this stage does not appear to have informed the masterplan of the site, or this has not been explicitly outlined in the information, nor whether the further work in the ES will alter this layout at all. No mitigation measures are outlined, and we await the “Manston Airport Design Principles” document to assess the adequacy of the measures proposed.

The PEIR mentions a “Masterplan narrative” (RPS, February 2017) document, but this is not included and does not appear to be in the public domain as part of this consultation. It is assumed that this will form part of the “Manston Airport Design Principles” document.

It is noted that no assessment of the effects of lighting from the proposed development has occurred according to the PEIR, and we await further information on the impact on visual receptors from this element of the development.

Air Quality

Aircraft emissions have been assessed within the PEIR, and indicate there will be no exceedance of the air quality objective for nitrogen dioxide or pm10 in the vicinity of the airport where existing background levels are low (taken from extensive Council baseline monitoring). However, by year 20 a rise of around 5ug/m3 is predicted at the nearest residential receptors and this is yet to include transport related emissions as these data are as yet unavailable. Therefore an emissions mitigation assessment must be provided in accordance with Thanet District Council Air Quality Technical Planning guidance 2016. The air quality assessment should also include flight training school operations, fire training (plume dispersal) and airside aircraft maintenance emissions. The assessment methodology was passed to Defra’s air quality helpdesk for comment as guided to by the LAQM TG16 Technical Guidance and their recommendation was for a full technical peer review.

The applicant should also consider installation of a permanent air quality monitoring station on approval.

A qualitative assessment of aircraft odour emissions given the history of odour complaints from the former airport use should also be provided in the ES.

Land Quality and Freshwater

A draft Phase 1 Geo-environmental report has been completed (appendix 10.1) outlining the potential contaminants of concern based on the historic site uses. It is noted that breaking of aircraft at the former airport is not included and should also be added as a potential contaminant source within the conceptual model.

Additional reports referenced in the PEIR highlight complete pollutant linkages at the adjacent Jentex site and former airport bulk fuel installation. Accordingly, the Planning Inspectorate advised that ground investigation is required; with the scope and methodology to be agreed by the Environment Agency (including appropriate mitigation measures during any borehole construction to safeguard the Southern Water public abstraction) and the Council. The Phase 1 investigation states that a phased approach will be taken when considering the use of direct groundwater monitoring to minimise disturbance to the aquifer. In addition to EA requirements in relation to groundwater, the Council should be consulted regarding the scope of the proposed intrusive investigations, and any subsequent remediation requirements, as these are material planning considerations.

Within the PEIR significance evaluation for land quality, negligible magnitude of the adverse effects on human health and groundwater has been considered for the application site itself, with the proviso that appropriate investigation and mitigation will be undertaken to safeguard sensitive receptors. However, a number of 'site specific measures' will be required to address effective identification, protection, containment, attenuation, management and recovery of potential contaminants at the site during the construction and operational phases. These are yet to be agreed by the regulators.

Accurate assessment of the adverse effects on identified receptors is contingent upon appropriate containment and management measures being introduced at the site. With regard to the operational phase, it is stated that the project will use 'in-built (embedded design) mitigation' which will require sign-off by relevant regulators. An updated assessment based on these specific measures is therefore required.

Although the likelihood is low, impacts of a plane crash outside contained areas must also be considered as part of the PEIR. This has not been looked at in the preliminary significance evaluation and it is understood that further work is currently being undertaken by Amec Foster Wheeler to address this. Manston airport benefits from a particularly wide (and long) runway. However, the adverse effects for this scenario should be considered in conjunction with appropriate emergency and pollution response plans. These must have capacity to prevent potential spread of contamination (e.g. fuels and fire retardant foams), which could impact the public water supply or SSSI at Pegwell Bay following an incident; including possible damage to impermeable hardstandings.

Likewise, the magnitude of effects on human health from UXOs are described as negligible provided detailed threat and risk assessments are completed prior to groundworks. Additional precautions may need to be considered as part of the CEMP however as effects may be significant should unsuspected munitions be encountered during any digging operations. Further specialist advice is required regarding the UXO assessment and any necessary precautions.

We are aware that the location and design of fuel tanks for the proposed freight hub is still under discussion with the Environment Agency and Southern Water, including possible use of the Jentex site. This option will require redevelopment of the existing facility. EA Groundwater Protection Policies (March 2017) do not support the siting of bulk fuel farms within Groundwater Source Protection Zone 1. Therefore, the requirements for siting and options for above ground tanks must be explored with Environment Agency. A relevant Bristol airport case study is referenced in the PEIR and further details should be provided.

It is noted that a Construction Environmental Management Plan (CEMP) is to be submitted as part of the DCO to reduce effects of pollution from the construction phase. The CEMP must be informed by the findings of intrusive investigation work. Please note that any works must be carried in a strictly controlled manner to ensure that contaminants are not exposed and releases allowed to air, land or controlled waters, which could cause pollution, harm or nuisance. Construction works must also comply with the Control of Pollution Act 1974 (e.g. any works likely to cause nuisance to neighbouring properties must not commence prior to 8:00am with stated weekday working hours are 07:30-17:30hrs).

Historical Environment

Kent County Council (KCC) and Historical England have been consulted on the proposal, and these bodies are key consultees and their expertise should be relied upon.

In relation to the impact on heritage assets, there may be non-designated heritage assets not identified in the Kent County Council Historic Environment Record which could be affected by the proposal, and the assessment criteria should make provision for these potentially being identified through the DCO process.

Any harm arising from new buildings or building increasing in scale should consider the potential alteration of design, form or siting of the proposed development to mitigate any impacts, as additional planting or screening as suggested is unlikely to be effective.

The approach to the use of photomontages for the visual representations of the levels of possible harm should be agreed with the Council as well as Historic England.

From the PEIR, it appears that you seek to rely upon information from trial trenching carried out in support of the current planning application for the redevelopment of the airport site to assess future studies. It is important to note the agreed trial trenching was connected to the proposed layout of that scheme, with no trial trenching on the northern grass area. Given the extent of development on the section of land within your proposal, it is considered highly likely that you will be required to carry out your own trial trenching in this location to support your DCO submission, however we defer to KCC to comment.

Traffic and Transportation

KCC will comment on the impact from the development on the highway network, and their expertise should be relied upon.

We are concerned about the potential impacts on the network surrounding the site from both construction and operational phase given the likely level of traffic generated by the proposed development, especially regarding Spitfire Way, Spitfire Junction and Manston Court Road. At this stage in the process there is insufficient information to consider these impacts. We therefore await further information about the scope of the transport assessment, which should include any additional housing requirement (see Economic impacts section), the methodology for distributing trips on the network and physical improvements to the network as well as mitigation measures in due course.

We request that we are directly involved in coordinating the list of committed development to be included within the future baselines with KCC. An assessment of the impact from the proposed development on the Thanet Transport Strategy must also be included within the submission, which should also be taken into account when agreeing modelling scenarios with KCC.

As previously stated, we believe that operational and junction capacity assessment should be included within the ES.

Biodiversity

KCC, Natural England and Environment Agency will comment as key consultees on the impact from the proposal on biodiversity and their expertise should be relied upon.

Other matters

The summary of the proposal includes an Aircraft Teardown facility as a “key component” of the project, however this does not appear to be mentioned at all in any of the documentation, including the site masterplan and the PEIR, and therefore it appears that you are not consulting on it at this stage. Despite that it is worth noting our concern with this proposal given the historic use of the site and enforcement action taken against similar operations previously due to potential contamination. It is imperative that more information is provided at the earliest stage to the local community about this facility, how it will operate. This should include but not be restricted to how fuels and other harmful or toxic materials will be removed from airplanes during breaking. We advise early discussions with the Environment Agency on this element of the project. On the basis of no information being provided about the facility, we are concerned about the need, viability and operation of such a facility within a Groundwater Source Protection Zone.

Within the PEIR, the assessment of cumulative impact is based upon a list of committed development which does not include the outline planning permission under reference OL/TH/11/0910, for the site known as Eurokent (approval for up to 550 houses and up to 63,000 sqm commercial floorspace with retail and community facilities) nor does it include the approval under reference OL/TH/14/0040 for up to 785 houses, primary school and community hall on the site known as Manston Green, which is directly adjacent to the eastern boundary of the airport site. Both of these must be included and taken into account within the PEIR, especially when considering the impact on the transportation network and on living conditions of future residents from the proposed development. Additional sites may be required for inclusion when the ES is finalised.

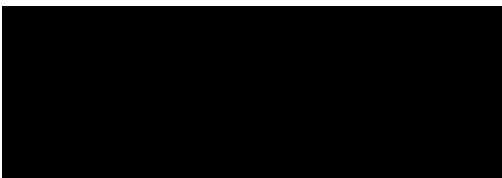
Conclusion

There are potentially significant detrimental environmental and amenity impacts on Thanet and its local community from the development. Therefore with regard to the public consultation we await further information following the completion of the required survey and investigatory work. However, particular concern is raised that the ramifications for the emerging Thanet Local Plan have not been adequately quantified, and there is a lack of information relating to delivery of the project.

If the DCO and compulsory acquisition is successful, you will be required to work with the Council as the host authority, when dealing with detailed matters for the project. We are extremely disappointed that you have been unwilling to enter into a Planning Performance Agreement (PPA) with Thanet District Council, our neighbouring authorities Dover District Council and Canterbury City Council in East Kent and KCC, to allow us to ensure that adequate resources for handling the NSIP process are available and to encourage joint working between the applicant and statutory consultees. We would welcome the opportunity to do this through a PPA.

The above comments are made without prejudice to the Council's written representation submission, adequacy of consultation and local impact report on the Development Consent Order application.

Yours sincerely



Iain Livingstone
Planning Applications Manager